

**IMPACT OF INTERNAL CONTROLS ON THE SUSTAINABILITY OF SMES
A CASE STUDY OF JESA FARM DAIRY LIMITED**

ISABEL MUTIMA NANKUNDA

S21B05/030

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF THE BACHELOR OF
BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

August, 2024

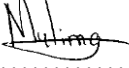


**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

DECLARATION

I **NANKUNDA ISABEL MUTIMA**, declare that the work that has been presented in this dissertation is my original work and has never been presented for any academic award of any institution.

Signature: 

NANKUNDA ISABEL MUTIMA (Student)

Date: 21st August, 2024 .

APPROVAL

This approval is to certify that the study by NANKUNDA ISABEL MUTIMA entitled “‘impact of internal controls on the sustainability of SMES. A case study of Jesa farm dairy limited” has been written under my supervision and is hereby submitted for examination with my approval as the University’s appointed supervisor.

A rectangular box containing a handwritten signature in black ink. The signature is stylized and appears to read 'Kasozi Geoffrey'.

Signature: *Kasozi Geoffrey* (Supervisor)

Supervisor’s Name: **Mr. KASOZI GEOFFREY**

Date: 21st August 2024

DEDICATION

I dedicate this study to my parents Mr. Mutima Gordon and Mrs. Mutima Sarah Ngina for their unconditional love, support and guidance they have offered me all through my academic life and to the point of writing this dissertation.

ACKNOWLEDGEMENT

I am deeply thankful to God for giving me life, intelligence, and good judgment. These blessings have helped me achieve many things. My family has been incredibly supportive, loving, and caring, even though they don't have much. I am very grateful to my parents, Mr. Mutima Gordon and Mrs. Mutima Sarah Ngina.

I want to express my sincere thanks to my research supervisor, Mr. Kasozi Geoffrey, for his help and advice. He has been a wonderful mentor, teaching me new things and guiding my research. I am lucky to have him as my teacher. Finally, I want to thank everyone who has helped me. I hope you all have good things happen to you.

TABLE OF CONTENTS

DECLARATION	ii
APPROVAL	iii
DEDICATION	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS.....	vi
ABSTRACT.....	ix
LIST OF ABBREVIATIONS.....	1
LIST OF FIGURES	2
LIST OF TABLES	3
CHAPTER ONE.....	4
1.0 Introduction	4
1.1 Background of study	4
1.2 Statement of the Problem	6
1.3 Purpose of study	6
1.4 Objectives of the Study	7
1.5 Research Questions	7
1.6 Scope of the Study.....	7
1.6.1 Content Scope	7
1.6.2 Time Scope.....	7
1.6.3 Geographical Scope.....	7
1.7 Significance of the study	7
1.8 Justification	8
1.9 Conceptual Framework	8
CHAPTER TWO	10
LITERATURE REVIEW	10
2.0 Introduction	10
2.1 Theoretical Review	10
2.1.1. Attribution theory	10
2.1.2 Principal Agency Theory	11
2.1.3 Contingency Theory	13
2.2 Conceptual Review	14
2.2.1 control activities and sustainability	15
2.2.2 Control environment and sustainability	16

2.2.3 Risk analysis and sustainability.....	17
2.3 Sustainability of SMEs.....	19
2.4 Conclusion.....	20
CHAPTER THREE	21
RESEARCH METHODOLOGY.....	21
3.1 Research Design.....	21
3.2 Study Population	21
3.3 Sample Size.....	21
3.4. Sampling technique.....	22
3.5 Sources of data.....	22
3.5.1 Primary data.....	22
3.5.2 Secondary data.....	22
3.6 Data collection instruments.....	22
3.6.1 Questionnaire	22
3.7 Data presentation and analysis.....	22
3.7 Data Quality Control.....	23
3.7.1 Reliability.....	23
3.9. Ethical considerations.....	23
CHAPTER FOUR.....	24
DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS...	24
4.1Response rate.....	24
4.2 Demographic characteristics of respondents.....	24
4.2.1 Gender of Respondents	24
4.2.2 Age of the Respondents.....	25
4.2.3 Education level of the Respondents	27
4.2.4 Working experience of respondents.....	28
4.3 Different Internal Control Systems Utilized by SMEs.....	29
4.4 To find out the impact of monitoring control activities on the sustainability of SMEs.	30
4.5 To find out the impact of risk analysis on the sustainability of SMEs.....	32
4.6 The relationship between internal controls and Sustainability of SMEs	34
4.6.1 Correlation Analysis.....	34
4.6.2 Regression Analysis	36
CHAPTER FIVE	37
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS.....	37
5.0 Introduction	37

5.1 Discussion of the key finding.....	37
5.1.1 Demographics characteristics of the respondents	37
5.1.2 The different internal controls utilized by SMEs	38
5.1.3 The impact of monitoring on the sustainability of SMEs	40
5.1.4 The impact of risk analysis on the sustainability of SMEs	41
5.1.5 Correlation and Regression Analysis	42
5.2 Conclusions	42
5.3 Recommendations	43
6.0 References.....	46
Apendix 1 : QUESTIONNAIRE	54
APPENDIX 2: Recommendation letter	59

ABSTRACT

The study highlights the significance of SMEs, their contributions to economic growth, and the challenges they face in adopting sustainable practices due to limited resources, poor financial management, and lack of compliance. The study aims to explore the relationship between internal controls and sustainability in SMEs and identify the challenges that affect this relationship. The research questions, scope of the study, significance, and conceptual framework are also presented. The conceptual framework identifies internal control activities, control environment, monitoring activities, and risk analysis as independent variables impacting accountability, financial transparency, and financial reporting, which are dependent. Employee motivation, management commitment, and regulatory compliance are considered intervening variables that may impact the relationship between the independent and dependent variables.

This study employed a descriptive crosssectional design to investigate the relationship between internal controls and operational efficiency within Jesa Farm Dairy Limited. A quantitative approach was adopted to measure and analyze variables, while qualitative methods were used to explore the underlying context. Data was collected from a sample of 45 employees using questionnaires, with simple random sampling employed to ensure representativeness. The study population comprised employees from various departments within Jesa Farm Dairy Limited.

The demographic analysis of respondents revealed a relatively balanced representation across gender, age, education, and experience levels. This diversity provided a comprehensive perspective on internal controls within SMEs. The study found that internal controls play a crucial role in enhancing sustainability by promoting accountability, efficiency, and risk mitigation. Jesa Farm Dairy Limited demonstrated a strong commitment to internal controls through welldefined procedures, resource allocation, and regular reviews. However, the study also identified areas for improvement, such as increased resource allocation, continuous training, and the integration of technology into control systems. The findings highlight the positive impact of internal controls on the sustainability of SMEs.

LIST OF ABBREVIATIONS

SMEs Small and Medium Enterprises

ICSB International Council for Small Business

OECD Organisation for Economic Cooperation and Development

COSO Committee of Sponsoring Organizations of the Treadway Commission

ACCA Association of Chartered Certified Accountants

MSMEs Micro, Small, and Medium Enterprises

IFRS International Financial Reporting Standards

LIST OF FIGURES

Figure 2: Pie chart showing the gender of respondents.	25
Figure 3: Pie chart showing the age of respondents	26
Figure 4: Pie chart showing the educational level of respondents.	27
Figure 5: Pie chart showing the years of experience of respondents.	28

LIST OF TABLES

Table 1: Reliability statistics.....	23
Table 2: Response rate	24
Table 3: Gender of respondents	24
Table 4: Age of the respondents	25
Table 5: Education level of the Respondents.....	27
Table 6: Working experience.....	28
Table 7: Contribution of control activities on the sustainability of SMEs	29
Table 8: the effect of monitoring on the sustainability of SMEs.....	30
Table 9: Relationship between internal controls and sustainability of SMEs	32
Table 9: Correlation between the internal controls and sustainability of SMEs.....	34

CHAPTER ONE

1.0 Introduction

This chapter of the study described the background of the study, statement of the problem, general objectives of the study and specific objectives. It shows the research questions, the scope of the study, the significance of the study, the justification and the problems faced by the researcher during the time of the study.

1.1 Background of the study

Small and medium-sized enterprises (SMEs) are crucial in many economies worldwide. According to the International Council for Small Business (ICSB, 2014), SMEs account for over 90% of all businesses worldwide and up to 60% of employment. SMEs according to OECD (2019), contribute significantly to economic growth, development, and innovation. SMEs can adapt quickly to market changes, introduce new products and services, and create employment opportunities. Ayyagari *et al* (2014) discussed that in many developing countries like Uganda, SMEs make up the bulk of the informal sector, operating outside formal regulations and without access to financing, credit, and technology. These informal SMEs often struggle to survive, with high failure rates, lack of innovation, poor competitiveness, and low productivity (Ayyagari *et al.*, 2014). The lack of internal controls in SMEs according to Prempeh *et al* (2020) is a significant challenge that affects the sustainability, profitability, and competitiveness of SMEs. Internal controls refer to the systems, policies, and procedures implemented by enterprises to achieve specific objectives, including financial reporting, compliance, operational efficiency, and risk management.

The concept of internal controls has been a key issue in accounting since the nineteenth century. The accounting profession has recognized the importance of internal controls in safeguarding the assets of businesses against fraud and error as suggested by Chow & WongBoren (1987). Knechel & Salterio (2016). Internal controls can help organizations achieve sustainable financial performance by reducing risks and improving financial reporting quality. Smaller businesses according to Schweisfurth & Raab (2011). may not have the resources to devote to effective internal control systems, resulting in increased risk of fraud and financial mismanagement. The significance of internal controls in sustainable SME operations has led to the development of frameworks and guidelines. COSO, the Committee of Sponsoring Organizations of the Treadway Commission, provides a widely accepted framework for internal control evaluation in organizations (COSO, 2013). The framework has been adapted for use by SMEs, recognizing the unique needs and challenges faced by these organizations

(COSO, 2016). Additionally, ACCA (2013) identified guidelines and best practices for SMEs in evaluating and implementing control procedures that have been developed by various accounting organizations including the Association of Chartered Certified Accountants.

The study of internal control and sustainability in small and medium-sized enterprises (SMEs) has gained significant attention in recent years. Boland *et al* (2019) suggest that internal control functions as a crucial tool for enhancing accountability, transparency, and efficiency in business operations, which are essential for achieving sustainability goals. McAdam and McAdam (2019) state that small and medium-sized enterprises (SMEs) face various challenges in the business environment, including financial constraints, limited resources, and regulatory compliance. These issues make it difficult for SMEs to integrate sustainability practices into their operations, thus limiting internal control implementation and hindering their growth and development. Therefore, this study aims to explore the relationship between internal control and sustainability in SMEs and identify the challenges that affect this relationship. Haar *et al* (2016) have shown that SMEs are the engine of growth for many economies worldwide. In Nigeria, MSMEs (2021) show that the MSMEs account for over 80% of the workforce and contribute significantly to the country's gross domestic product. Despite their contributions, Jaafar *et al* (2018) suggest that SMEs face numerous challenges, including poor financial management, inadequate infrastructure, and difficulty accessing finance. These issues may impact compliance with internal control standards and sustainability practices, thereby hindering their growth and development. Thus, this study aims to shed light on the internal control and sustainability performance of SMEs in Nigeria and suggest guidelines for addressing these challenges.

To achieve sustainability goals, businesses must adopt practices that reduce their negative environmental and societal impacts. The United Nations 2030 Agenda for Sustainable Development, as stated by the United Nations (2015) aims to end poverty, protect the planet, and create prosperity for all. SMEs play a significant role in achieving these goals, especially in developing economies. However, SMEs face several challenges in adopting sustainable practices, such as lack of awareness, inadequate finance, and regulatory compliance (Jaafar *et al.*, 2018). Therefore, this study aims to investigate the relationship between internal control and sustainability practices in SMEs and suggest strategies for promoting sustainable business growth. According to the World Bank (2020), many SMEs do not have adequate internal control systems, resulting in fraud, error, mismanagement, and legal noncompliance. The lack of internal controls in SMEs is often due to a lack of awareness, skills, resources, and time. A

study by Canhoto and Olsen (2014) found that SMEs with more robust internal control systems have better financial performance than those with weaker controls. Watts (2014) suggested that a well-designed internal control system can enable SMEs to streamline their operations and focus on core activities, leading to better productivity and profitability. Adoption of internal control systems according to Karim *et al* (2016) can also enhance the sustainability of SMEs, reduce the risk of business failure, enhance stakeholder trust and confidence, and promote long-term growth.

Previous studies have also shown the importance of the theoretical implications, highlighting the need to integrate sustainability considerations into the internal control framework. The study according to Schaltegger *et al* (2016) contributes to the emerging field of sustainability accounting and reporting that aims to integrate financial, social, and environmental considerations into corporate reporting and accountability.

1.2 Statement of the problem

The development of guidelines and best practices done by ACCA (2013), specific to SMEs' internal control evaluation and implementation is crucial to assist these businesses in improving their internal control systems and achieving sustainable operations (ACCA, 2013). The Basel Committee on Banking Supervision (2021) highlights the importance of internal controls in SME lending, and the International Financial Reporting Standards (IFRS) require companies to disclose their internal control systems (IFRS Foundation, 2021).

However, Loo *et al* (2016) stated that there is limited research on the relationship between internal controls and the sustainability of SMEs, especially in developing countries and the available ones focus on financial performance, compliance, and operational efficiency, neglecting the sustainability aspect hence leaving an empirical gap in the literature. The lack of research on the relationship between internal controls and sustainability in SMEs is a significant gap that needs to be addressed. Therefore, this study aims to investigate the impact of internal controls on the sustainability of SMEs.

1.3 Purpose of the study

This study's main purpose is to investigate the impact of internal controls on the sustainability of SMEs.

1.4 Objectives of the study

- a) To examine the different internal control systems utilized by Jesa Farm Dairy Limited.
- b) To examine the impact of monitoring control activities on the sustainability of Jesa Farm Dairy Limited.
- c) To examine the effect of risk analysis on the sustainability of Jesa Farm Dairy Limited.

1.5 Research questions

- a) What are the different internal control systems utilized by Jesa Farm Dairy Limited?
- b) What is the impact of monitoring control activities on the sustainability of Jesa Farm Dairy Limited?
- c) What is the impact of risk analysis on the sustainability of Jesa Farm Dairy Limited?

1.6 Scope of the Study

1.6.1 Content Scope

The study will focus on examining the impact of internal controls on the sustainability of SMEs a case study of Jesa Farm Dairy Limited.

1.6.2 Time Scope

The study will take 3 months as this will be enough valid time to carry out my research as well as focus on reviewing literature between 2013 and 2024 as the researcher believes that the literature is relevant to justify the study.

1.6.3 Geographical scope

This study will be carried out in Kampala, Uganda. The location of Jesa Farm Dairy is P.O. Box 596, Plot 210/21/ Busunju in Kampala.

1.7 Significance of the study

The findings of the study will inform policymakers including the government and other stakeholders, to develop a concrete policy and support strategies regulating internal control systems and sustainability in SMEs.

The study will supplement the already existing research and the body of knowledge by showing the impact of the internal control system on the sustainability of SMEs. This will expand the theoretical and empirical development of literature as different studies have been carried out.

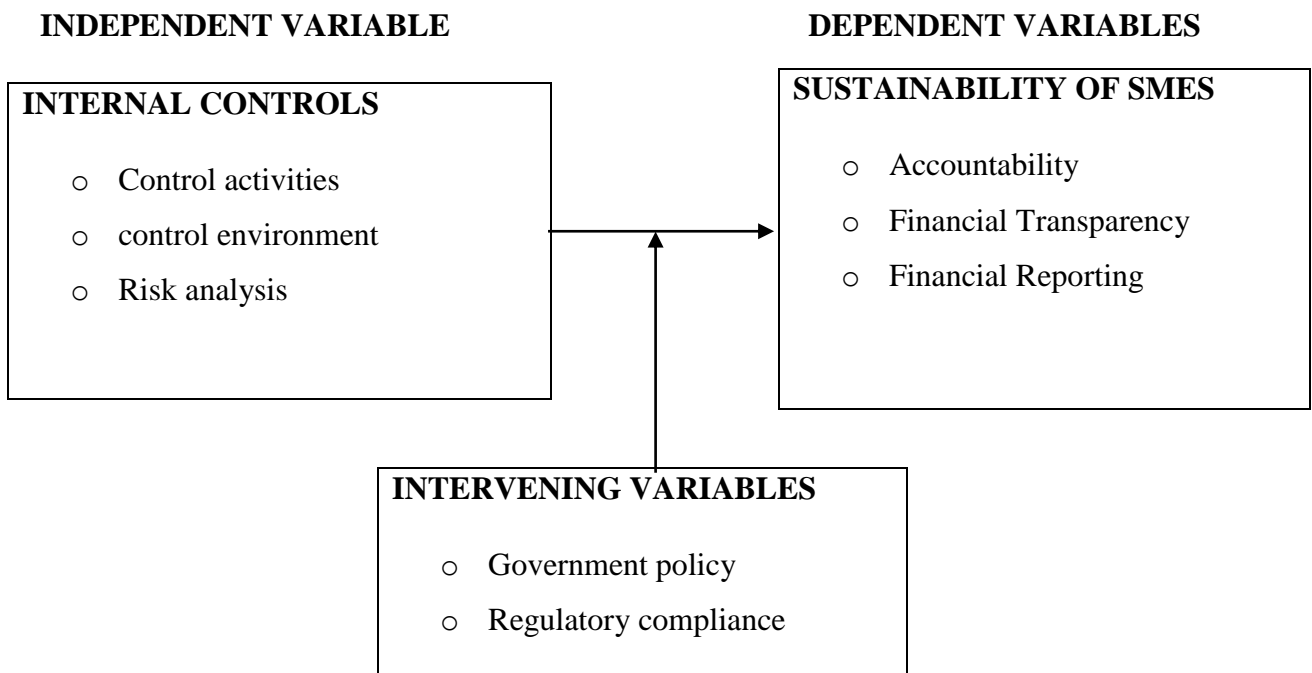
The study will also provide a base for future researchers to determine the link between internal control systems and the sustainability of SMEs. The study will enable other SMEs in the industry to understand the impacts of internal controls on the sustainability of SMEs.

1.8 Justification

Studies have shown the relationship between internal controls and sustainability in developed countries. However, such studies are limited in developing countries, especially in Uganda. Internal controls play a critical role in promoting sustainability by enabling SMEs to identify, assess, and manage risks that may undermine their sustainability performance. Effective internal controls can help SMEs to reduce waste, conserve resources, avoid negative environmental impacts, and promote social responsibility. Therefore, by exploring the impact of internal controls on the sustainability of SMEs, this research can contribute to the development of best practices for SMEs and enable them to realize the benefits of sustainable business practices.

1.9 Conceptual framework

The study findings were evaluated using the conceptual framework shown below and the main focus is on internal control systems and how they influence the sustainability of SMEs.



Source: Adopted from COSO, 2017 and modified by the researcher

The independent variables of this study are internal control activities, control environment, monitoring activities and risk analysis as adopted by COSO (2017). The dependent variables include accountability, financial transparency and financial reporting. The intervening variables include employee motivation, management commitment and regulatory compliance.

Employee motivation determines the extent to which employees follow internal controls and, in turn, impacts achieving organizational objectives. Management commitment refers to the level of support senior management provides for internal control activities, linking the effectiveness of internal control activities to the overall goal of the organization. The study also identifies employee motivation, management commitment, and regulatory compliance as intervening variables that may impact the relationship between the independent and dependent variables. However, the study aims to determine the impact of internal control systems on the sustainability of SME's

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter will address the review of related literature about the internal controls on the sustainability of SMEs. It describes the theoretical review, literature survey, conceptual model and the review of literature. This shows what has been covered by previous studies and identifies a research gap the study intends to cover.

2.1 Theoretical review

The theoretical review provides an overview of the existing theories related to the study context. Chen & Liu (2021) suggest that by understanding the previous research theories, the theoretical review section offers insights into the current state of knowledge related to the research problem. This study will focus on two theories including the principal agency theory and the contingency theory.

2.1.1. Attribution theory

The attribution theory according to Wendt (2021), attribution theory is a social psychology theory that investigates the way people understand events and behaviors and attribute causes to them. The attribution theory investigates how individuals utilize social cues to interpret and justify events and behaviors. Hoorens (2015) asserts that if evaluators perceive that similar individuals would have acted differently in a certain situation, they are more likely to hold that person accountable for the outcome. Conversely, if evaluators believe that comparable individuals would have acted similarly, they are inclined to attribute responsibility for the outcome to the situation. According to a recently published study by Smith *et al* (2021), the initial instance pertains to assigning responsibility to an individual's character or traits, while the latter one involves assigning responsibility to the circumstances or context.

Earlier literature by Wilks and Zimbelman (2004) and Schroth and Shah (2000), suggests that individuals tend to attribute dispositional tendencies to others' behavior but situational circumstances to their behavior. Smith *et al* (2020), approved that evaluators tend to attribute a dispositional tendency of negligence to auditors if they fail to detect internal control on revenue generation, particularly if the observed behaviors are negative. Bonner *et al* (1998); Smith *et al* (2021) found that auditors are more likely to be sued when they fail to detect common misappropriations that would result in decreased revenues, and the evaluators believe that the fraud could have been detected by other auditors. The auditor's accountability for

detecting fraud is extended by Reffett's (2007): Chan and Yeung (2021) study that auditors may face increased accountability for detecting fraud if they fail to identify fraud risks that were later found to be linked to fraudulent activity. According to the current literature, if auditors do not identify fraudulent activities related to internal control, evaluators can use the audit processes to establish negligence (Nimalathasan, 2020). To put it differently, auditors may be held accountable if they do not detect instances of internal control fraud.

The study by Chan and Yeung, auditors' liability increases in the event of an audit failure, especially if they had previously identified the fraud risk and conducted investigations on it (Chan & Yeung, 2021). These findings validate the predictions made by Chan and Yeung. Attribution theory thus advocates for auditors to report on the effectiveness of firms' internal control. Auditors are therefore expected to gain a better understanding of the internal controls in place, assess the design and implementation of the internal controls, and test the operating effectiveness of the internal controls. Smith (2021) argues that auditors need to rely on this measure to potentially reduce other audit procedures related to revenue generation. He adds that evaluators can utilize audit processes to identify potential negligence if auditors are unsuccessful in detecting instances of internal control-related fraud (Cendrowski, 2021). This means that auditors should be thorough in their work and be held accountable for any oversights that may lead to fraudulent activity going unnoticed. Therefore, this theory remains applicable as it proposes that those responsible parties involved in fraudulent activity must be held accountable for their actions.

2.1.2 Principal Agency Theory

Principal agency theory was described by Jensen and Meckling (1976) as an economic principle that explains the relationship between principals, agents, and their incentives. They suggest that principals hire agents to perform certain tasks on their behalf. Wilburn (2020) added that the principal and the agent have a contractual relationship that is designed to align their objectives and create mechanisms that ensure the agent acts in the best interest of the principal. Similarly, Shi *et al* (2021) agreed with Wilburn that "The principal and the agent have a contractual relationship that is designed to align their objectives and create mechanisms that ensure the agent acts in the best interest of the principal".

Furthermore, Jensen notes that the principal refers to the person or organization that hires an agent to perform certain tasks on their behalf. Also, an agent is a person or entity hired by the principal to carry out the task assigned to them. Conclusively, with the above descriptions,

Gilardi and Lozano (2018) agree that the principal-agent relationship is therefore contractual, and the agent is expected to act in the best interest of the principal. According to Smith (2021), this theory operates on the assumption that both parties are involved in a relationship and adhere to their designated roles to benefit the organization and prioritize the interests of the firm over their interests. Smith indicates that the implementation of formal relationships such as budget management, staff control, and the use of preset procedures like ICS have a significant impact on shaping the structure of a company. With the agency theory, Kirzner (2020) says information is considered a commodity that requires a monetary value to be assigned to it and subsequently purchased. Smith agrees as this puts it another form and one must pay a price for access to the information. Investing in systems can be a strategy for organizations to mitigate agent opportunism as per Schilke *et al* (2021). He adds that this suggests that organizations can use technology and other control mechanisms to prevent agents from having opportunities. Informal institutions such as the board of directors in organizations enhance managerial supervision.

Organizations according to Faff (2019) face the agency problem that arises when the agent fails to act in the best interest of the principal, and instead, pursues their selfinterest. He adds that the misalignment of goals between the principal and agent is often referred to as agency costs. He agrees with Oladele (2021) that there can be instances of agency costs resulting from either information asymmetry or conflicting interests between the principal and the agent. According to Edey and Gale (2020), the most common form of agency problem is the moral hazard issue, where the agent is motivated to pursue risks that serve their interests rather than those of the principal. This is where the agent tends to prioritize their gains over the goals of the principal. "The principal assumes the risks associated with the actions of the agent, thus shielding the agent from the potential consequences" as described by Gulyani & Talukdar (2021). In addition, they add that the agent is protected from any negative outcomes resulting from their actions because the principal assumes all associated risks.

According to a recent study by Abubakar, Ali, and Abdullahi (2021), empowering the general public can enable managers and administrators of SMEs to provide goods and services that benefit the community. Chukwuka and Okoye (2019) supplement that SMEs should implement control mechanisms to prevent and minimize fraud and misappropriation of resources that would be utilized for the production of goods and services. However, Chukwuka and Okoye add that to failure of SMEs to monitor their available resources while following the internal controls set has led to a wide challenge hence failure.

Tang (2021) highlighted that the theory avails that control mechanisms can minimize resource misuse by SMEs hence solving the agentprincipal problems. Nadeem *et al* (2017) recently suggested that agency problems are likely to decrease when the principal is wellinformed about the entity's performance. Similarly, researchers like Andersen and Ebrahim (2020) have utilized the Agency theory and discovered that it is consistent with the improvement of the firm's performance. This has widely made the theory used as it explores business operations more as the firm desires to manage resources efficiently as they minimize resource wastages.

The theory as per Rahman *et al* (2021) is limited on essential aspects for understanding the impact of internal control systems on the sustainability of SMEs are not adequately addressed in the agency theory therefore bringing rise to the contingency theory to supplement it.

2.1.3 Contingency theory

Fiedler (1960) proposed the contingency theory of organizational behavior and it has since been applied to the financial decisionmaking process. Fielder assumes that there is no "onesizefitsall" approach to leadership and that instead, effective leadership depends on the situation. Northouse (2021); (House and Mitchell, 1974) agree that the effectiveness of leadership can be attributed to the level of compatibility between the leader's style and the requirements of the situation. Fielder still assumed that different leadership styles are best suited for different situations. Fielder and House & Mitchell agree that the leaders' styles can be evaluated through the use of the Least Preferred CoWorker Scale (LPC), which assesses the degree of a leader's focus on either task or relationship orientation. A study by Tran & Ngo (2021) stated that the contingency theory posits that the correlation between a leader's approach and situational requirements is influenced by three elements including leadermember relationships, task complexity, and positional authority. These situational factors are critical in determining the degree to which a leader's leadership style fits the context.

The contingency theory suggests that the sustainability of an organization is influenced by the contingency factors and how these factors are handled (Moldoveanu & Narayandas (2019). According to a recent study by Wang and Hooper (2017), technology, culture, management, organizational functions, and employee roles are among the contingency factors that can impact an organization's success. Johnson and Scholes (2019) identified that the basis of contingency theory is that each organization has a unique set of circumstances that influence its structure and functioning. The theory proposes that effective management involves directing and guiding behaviors, actions, and processes within organizations based on the specific circumstances

present. Financial performance in itself is a function of organizational structure and is dependent on a contingency of several factors. Therefore, Smith *et al* (2021) note that applying various organizational structure variables is essential for organizations to achieve optimal performance outputs and increase organizational effectiveness.

Peters *et al* (2021) claimed that the theory discussed here is crucial for determining sustainability and reporting standards by examining the connections between internal control effectiveness, organizational performance, and the context and structure of these factors. According to an empirical study by Smith *et al* (2021), having specialized auditors and financial controllers with a strong control ability in the environment is likely to result in greater effectiveness of the internal control system.

Johnson and Brown (2021) suggest that an organization experiences advantages when it achieves organizational effectiveness through the efficiency of its internal control mechanisms. Regarding this study, managers should pay close attention to the circumstances within the internal control systems as these factors can have a significant impact on its sustainability in the long term, as explained by contingency theory notes Sadiq *et al* (2020). The study therefore highlights the importance of considering the situational factors within the internal control systems for its sustainability success.

Oyenyi *et al* (2021), this theory alone does not provide a comprehensive view of the actors and their roles in achieving sustainability of SMEs hence bringing rise to the combination of both the Agency theory and contingency theory to be utilized. Furthermore, Chen *et al* (2019) clarify that "internal control systems can be effectively analyzed through the theories" which offers a comprehensive understanding of how internal control systems can affect the sustainability of SMEs. many independent variables including control activities, risk assessment, control environment, and the dependent variables have been studied concerning the two theories to ensure the sustainability of SMEs. With the connection of the three theories, the researcher will attempt to explain the impact of internal control systems on the sustainability of SMEs in Kampala Uganda.

2.2 Conceptual review

The conceptual review explains the relationship between the independent variables including the control activities, control environment and risk assessment as well as also describes the dependent variables.

2.2.1 control activities and sustainability

According to a recent study (Smith, 2021); Oleru (2014), control activities are measures implemented by managers to ensure the adherence and effectiveness of internal control policies and procedures. Smith advised that SMEs must incorporate control activities into their internal control systems to manage risks, prevent fraudulent practices, and comply with regulatory requirements. Bartolomeo (2017) states that the effectiveness of internal control systems plays a crucial role in determining the sustainability of SMEs. The study by Ali and Ahmed (2021), examining the effects of control activities on the ability of small and medium-sized enterprises to remain sustainable was worthwhile. Dziejczak (2016) suggests that identifying and analyzing control activities such as separation of duties, access controls, and documentation can be one way to address this issue.

Implementing these control activities is crucial in maintaining the reliability, precision, and wholeness of financial information (Jackson, 2020). The study can therefore assess the effectiveness of control activities that can minimize errors and irregularities in the financial reporting of SMEs. The study examines the function of internal controls within SMEs can aid in advancing sustainability efforts. By implementing internal controls, SMEs can effectively handle financial resources, prevent fraudulent activities, and conform to legal requirements (Johnson & Ryan, 2020); (Teplova, 2019). They add that this study can examine how SMEs can use internal control systems to generate revenue, minimize costs, and ensure that they remain sustainable over the long term. According to Rožman (2019), SMEs are at a greater risk of experiencing fraud, cyberattacks, and errors due to their limited resources and lack of expertise. The study can therefore analyse the effectiveness of internal control activities in mitigating these risks in SMEs.

According to the current guidelines outlined in the COSO framework (2016), control activities are defined as the policies and procedures necessary for ensuring the execution of management directives. Recent studies consistently emphasize the importance of control activities as essential elements of internal control systems (ICS) in managing risks and encouraging financial controllers to align with the objectives of the organization. Mohammed and Aksoy (2020) also found that control activities play a crucial role in the overall functioning of the organization.

According to recent research conducted by Rafindadi et al. (2019) and Weickgenannt, Hermanson and Sharma (2021), control activities that enhance not only financial efficiency but

also the performance of the company in terms of physical and financial resources are considered appropriate. Both studies confirmed that effective implementation of control activities plays a vital role in the internal control system and can contribute to effective financial performance. There has been limited exploration of employee performance review, physical controls, and segregation of duties as control activities in Jesa Farm Dairy Limited in Kampala making it an area of study for the researcher.

2.2.2 Control environment and sustainability

The control environment can be defined as the internal factors such as management and board of directors' attitudes, values, and actions that influence an organization's internal control system (Smith, 2021). It reflects how an organization's leaders establish a culture of control and compliance. According to Johnson (2020), the control environment of an organization is determined by five interconnected components that impact its control system, including management philosophy and operating style, organizational structure, commitment to ethical values, human resources policies and practices, and financial reporting competence. The environment ensures the longterm viability of SMEs as it serves as the basis for the company's internal control framework as per Majumdar & Saxena (2021). They add that the relevance of the internal control system in reducing risks, detecting and preventing fraud, and facilitating compliance is significantly influenced by the control environment. Furthermore, they identify that a strong internal control environment provides a foundation for effective internal controls in SMEs whereas a weak environment undermines internal control effectiveness. According to Mahadevan (2021), the internal control environment encompasses not only traditional control measures but also modern technological tools and information systems that aid in the smooth functioning of the organization's operations and financial reporting processes. Greco *et al* (2019) note that the promotion of operational efficiency can be achieved for SMEs through the adoption of a holistic view of the internal control environment, which enhances the identification and management of operational and strategic risks.

The study made by Tilahun & Ferede (2021) identifies that the sustainability of SMEs' control environment greatly depends on their organizational structure. Tilahun & Ferede suggest that this is because the structural framework of an organization influences how activities are coordinated, delegated, and communicated within the company. According to AlShubiri and AlKilani (2019), SMEs heavily depend on precise financial reporting to make crucial business decisions. Therefore, further investigations can examine the sustainability of SMEs by evaluating the influence of internal controls on the sustainability of SMEs. Aryani *et al* (2021),

state that "the implementation of effective internal control structures improves the quality of financial reporting in SMEs, which subsequently positively influences their sustainability performance".

According to Younas and Kassim (2019), the control environment is an essential aspect of internal control systems in any organization and plays a significant role in determining financial performance. It is an important practice and is considered one of the main pillars of internal control systems. Eton *et al* (2018) expressed that the control environment is a crucial aspect of internal control systems that evaluates the capacity, efficiency, and potential for improving a company's abilities, moral values, ethical standards, and employee morale. In a study by Eton *et al.* (2018); and Kim and Lee (2020), the control environment is considered a fundamental aspect that organizations must incorporate into their internal control system to align with the prevailing organizational structure and accountability relationships among financial control actors.

An important element according to the Institute of Management Accountants (IMA, 2021) state that the control environment involves exhibiting the dedication of managers and employees towards upholding ethical values and integrity when carrying out their duties. According to KPMG (2021), the control environment refers to the ethical and behavioral values that shape the organizational culture and guide the actions of its employees in fulfilling their control duties. KPMG identifies that creating an environment where competent individuals can comprehend their duties and establish boundaries for their power is vital for the sustainability of SMEs.

According to the CPA (2016), a current text citation, the control environment comprises individuals who possess knowledge, awareness, and the determination to uphold ethical standards and perform effectively. As expressed by Jones (2021), a strong internal control environment enables management to uphold the principle of overseeing responsibility, delegate authority and responsibility to lowerlevel employees, as well as promote a culture of competence and accountability among management and staff.

2.2.3 Risk analysis and sustainability

Alhajjar and Zaki (2021); Nyamori *et al* (2016), conducting risk analysis is crucial in ensuring the sustainability of the internal control systems of SMEs. This process involves recognizing potential hazards that may compromise the efficiency of the internal control systems in accomplishing the organization's goals. The researchers further assert that SMEs can enhance

the durability of their businesses by devising suitable strategies to mitigate the identified risks. Internal control systems according to Uwalomwa *et al* (2021) are relevant to the continued success of SMEs as they aid in aligning business operations with overall goals. An efficient internal control system helps to ensure regulatory compliance, manage risks and reduce operational costs while also offering opportunities for revenue generation. Smith *et al* (2021) add that neglecting to mitigate the mentioned risks could result in the SME's downfall hence failure to manage these risks poses a significant threat to the sustainability of the business.

SMEs described by Kusmintarti & Yuniartha (2021) can use risk analysis as a tool to evaluate the likelihood and potential consequences of risks on both their internal control systems and longterm viability. Through analyzing and understanding the risks, they add that SMEs can develop appropriate measures to mitigate their impact. SMEs however can reduce the occurrence of fraud and errors by implementing safeguards such as segregation of duties, access controls, and documentation controls (Smith 2021); Nyamori *et al* (2016). To elaborate, these measures can help reduce the likelihood of fraudulent activities by ensuring that no single individual has complete control over a critical business process. Furthermore, Smith (2021) asserts that access to controls can be implemented to restrict unauthorized access to sensitive information, while documentation controls can enhance the ability to track and document any activities related to financial transactions.

According to a recent study by (Smith, 2021); Arya & Glover (2018), the extent of risk analysis necessary for SMEs hinges on several factors, such as the size, complexity, and nature of their operations. Furthermore, to ensure the efficiency of their internal control systems, SMEs with intricate operations may need to adopt more thorough risk analysis procedures. Therefore, SMES must customize their risk analysis procedures to align with their unique situations and guarantee the longevity of their enterprises. Johnson *et al* (2021) justify that it is essential to prioritize the sustainability of studies to guarantee the longterm validity and applicability of research findings. This can be achieved by ensuring that research design, data collection, analysis, and conclusions are enduring and relevant. Jamali and Mirshak (2020) in a recent study identified that the sustainability of internal control systems in SMEs is important for the longterm success of these businesses.

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), conducting a risk assessment is a crucial activity in the ICS, and the company's approach to it significantly affects its ability to perform its functions and carry out operations.

This is aimed at guaranteeing efficacy through performing important risk assessment procedures. Recent research by Chen *et al* (2021) states that risk assessment is an integral part of identifying and analyzing potential risks faced by a company to achieve effective resource management and meet organizational goals. He adds that adequate risk assessment involves a comprehensive evaluation of risks, ensuring the company is equipped to make informed decisions and mitigate potential threats.

Chan *et al* (2020) suggest that effective managerial decisions and resource control are vital for managing risks that can impede the attainment of organizational objectives and result in poor financial performance. At whatever levels, management must not only identify but also control and regulate risks to meet study objectives. Additionally, Mohammed and Aksoy (2020) also revealed that organizations must analyze such circumstances likely to increase the occurrence risk. However, both Chan *et al* (2020), and Mohammed & Aksoy (2020), did not focus on the private sector giving rise to the study context. Earlier, Bett and Memba (2017) had also agreed that risk Assessment minimizes the impact of a risk; however, their findings could not address it in a private sector context. This gives rise to the study context as it is vital to base on these descriptions to explore risk assessment in internal control systems and how it influences the sustainability of SMEs.

2.3 Sustainability of SMEs

A recent publication by Smith *et al* (2021) indicates that sustainability is determined by its capacity to generate practical and valuable outcomes that can facilitate the longterm enhancement of small and mediumsized enterprises' internal controls and sustainability. A recent study on internal control systems and SME sustainability by Aziz *et al* (2021); Chitakornkijasil & Srisawat (2017), suggests that it is essential to ensure the durability and relevance of the research design, data collection, analysis, and conclusions to maintain the research's sustainability over time. Recommendations that are practical and relevant must be provided to SMEs to improve their internal control systems and sustainability in the long run Nyamori *et al* (2021). He asserts that the sustainability of the study can also be enhanced by involving stakeholders in the research process, including SME executives, regulators, and other experts in the field.

Chitakornkijasil & Srisawat (2017) previewed that this can help ensure that the study produces recommendations that are more relevant and practical to the SME environment. Smith *et al* (2021) further add that it is important to ensure the feasibility and achievability of the

recommendations derived from a study to guarantee its sustainability. Adopting unrealistic recommendations may hinder practicality in the long term. They add that it is essential for research to recognize its limitations and gaps while proposing potential directions for future studies. Johnson *et al* (2021) describe that it is imperative to tackle these challenges to enhance the standard of research and progress in the domain.

Based on Lee and Zhao's (2021) study, it is important to evaluate the results of SMEs' internal control systems over time to determine their effectiveness and sustainability. This will allow for a better understanding of the recommended improvements and their longterm impact. The sustainability of the study can be enhanced by ensuring that the study's recommendations are adaptive to changes in the SME environment. This helps ensure that the recommendations remain relevant and practical in the long term. Smith *et al* (2021) highlighted that it is crucial to consider any potential unintended outcomes of the suggested measures. Chitakornkijasil and Srisawat (2017) suggest that taking steps to alleviate any negative impacts on SMEs can help maintain their sustainability.

2.4 Conclusion

According to Asif *et al* (2020), several scholars have concurred on the existence of a relationship between internal control systems and the sustainability of SMEs. the researcher in a similar attempt will investigate to obtain empirical evidence to validate this claim.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlined the methods that were utilized throughout the study. These methods included the research design, sample size of the study population, sampling techniques, sources of data, data collection methods, data collection instruments, and data presentation and analysis.

3.1 Research Design

A descriptive crosssectional design was utilized in the study, incorporating both quantitative and qualitative methods. The focus was on the crosssectional approach, with the quantitative methodology aimed at addressing queries about the extent and quantity of variables and analyzing causal relationships between internal controls and operational efficiency. Also, the qualitative approach was understand more the subjective aspects of the study that have limited knowledge about the subject matter.

3.2 Study Population

The research took place within the premises of Jesa Farm Dairy Limited, located in Kampala, and involved a population of 45 employees from various departments, such as finance, management, accounting, and supply chain management. To ensure precision in the findings, the researcher selected participants who are key members of these departments.

3.3 Sample Size

To obtain reliable and valid information, out of the target population, a significant number of respondents was selected using Yamane's formulae which is $n = \frac{N}{1+N(e)^2}$. Where **n** is the desired sample size, **N** is the total number and **e** is **the** Margin of error. The chosen respondents will then be used for the study. Where N = 45 people, e = 0.05

$$n = \frac{45}{1 + 45(0.05)^2}$$

$$n = \frac{45}{1.1125}$$

$$n = 40 \text{ respondents}$$

3.4. Sampling technique.

The study used a simple random sampling technique. This implies that all participants in the study population had equal chances of being selected.

3.5 Sources of data.

Both primary and secondary data were collected. Primary data was collected through personal interviews and questionnaires. The reason for using primary data was to get data that cannot be available from any other source. The secondary data will be extracted by reviewing various documents like textbooks, journals, periodicals and other published information that were available.

3.5.1 Primary data.

Primary data refers to the data that is originally collected by a researcher through various techniques such as surveys, interviews and experiments. This information has not been previously distributed or reported by any other source.

3.5.2 Secondary data.

Secondary data is the kind of data that is available, and already reported by some other scholars. Secondary data is data that has already been reported by other scholars and obtained from studies, surveys, or experiments conducted by individuals or groups other than the current researcher.

3.6 Data collection instruments.

The study used questionnaires as a data collection instrument.

3.6.1 Questionnaire

To gather quantitative data, the questionnaire method was utilized. This approach facilitated the acquisition of targeted responses that are simple to interpret as described by Sekaran & Bougie (2016). They add that it is costeffective and timesaving as it requires minimal effort from both the researcher and respondents. The 40 respondents selected will all be given questionnaires to fill in to get reliable data.

3.7 Data presentation and analysis.

The data that was collected was checked for completeness, categorized, coded, and entered into a computer where it was summarized into frequency tables edited and tabulated by using SPSS software.

3.7 Data quality control

3.7.1 Reliability

According to Renata et al (2020), researchers were advised to prioritize validity and reliability when designing studies. This involved assessing available results and determining the quality of the study. Validity, in this context, focused on the precision and credibility of the research findings, while reliability pertained to the consistency of the measuring instrument and could be measured through the use of Cronbach's alpha.

Table 1: Reliability statistics

Cronbach's Alpha	Number of items
.837	26

The Cronbach's Alpha test for this study produced a coefficient of 0.837.

3.9. Ethical considerations.

To ensure a research design was both methodologically sound and morally defensible, researchers prioritized the wellbeing and autonomy of all participants (Lyon & Barlow, 2018). This involved obtaining informed consent from participants, avoiding coercion or harm, and being attentive to the rights and interests of those impacted by the research (Jones & Jenkins, 2017). Ultimately, Resnik (2015) asserts that ethical research practices require researchers to consider the appropriateness of their behavior about the rights of all individuals involved.

The researcher ensured that the research design was both methodologically sound and morally defensible to all those who were involved. The researcher ensured that respondents were not coerced into participating in research, also the respondents must be fully informed about the procedures and risks involved in research and must give their consent to participate, the researcher did not put the participants in a situation where they might be at risk of harm as a result of their participation.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

This chapter analyzed the data collected and presented through tables and figures, and the interpretation was based on the research objectives. It also describes the demographic characteristics of the respondents and the research findings related to the study objectives.

4.1 Response rate

The response rate for this research was 100% which was high. It has been suggested that a higher response rate can lead to more precise and reliable survey outcomes. This is because a larger sample size can help mitigate the effects of bias and randomness, and therefore yield more accurate results (Smith and Johnson, 2018).

Table 2: Response rate

Category	Questionnaires issued	Questionnaires returned	Response rate (%)
Total	40	40	100

Source: Primary data, 2024

$$\text{Response rate} = \frac{\text{Received questionnaires}}{\text{Total questionnaires distributed}} * 100$$

$$\text{Response rate} = \frac{40}{40} * 100$$

$$\text{Response rate} = 100\%$$

4.2 Demographic characteristics of respondents

In this portion of the analysis, the features that were described were based on the sociodemographic characteristics of the respondents such as their gender, age, education level, and years of experience. The objective was to observe if there were discrepancies in the backgrounds of the respondents that affected their perspectives. Below is a summary of their responses.

4.2.1 Gender of Respondents

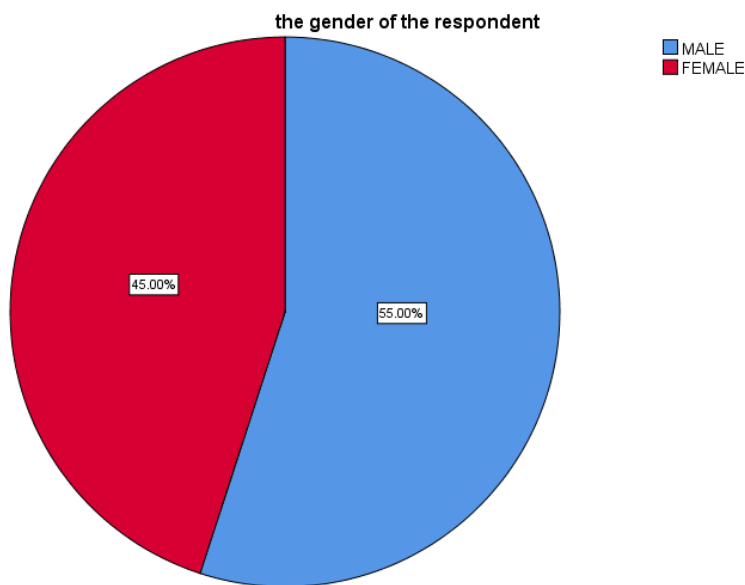
Table 3: Gender of respondents

The table below displays the gender status stated by the participants.

Gender		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	22	55.0	55.0	55.0
	Female	18	45.0	45.0	100.0
	Total	40	100.0	100.0	

Source is Primary data, 2024

Figure 1: Pie chart showing the gender of respondents.



According to the data presented in Table 3 and the accompanying graph, it can be observed that 22 individuals (55.0%) in the total sample were male, whereas 18 individuals (45.0%) were female. This implies that females constituted a larger percentage of the sample population.

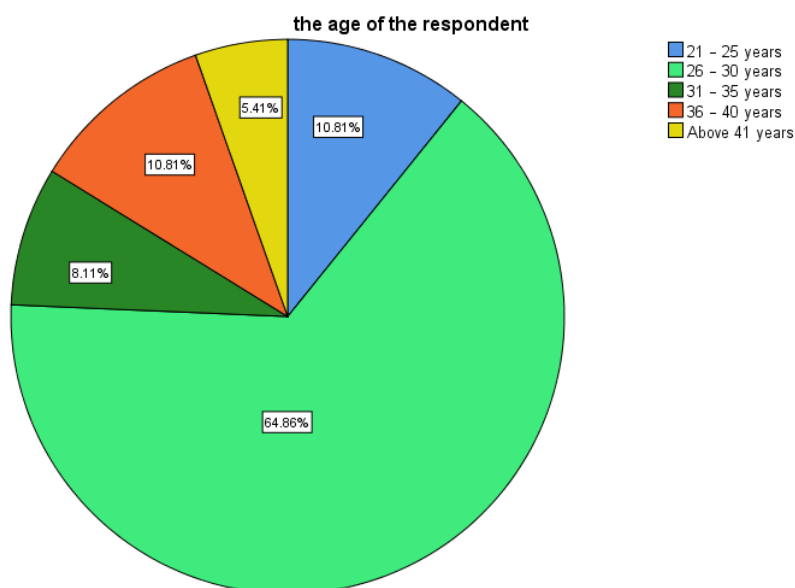
4.2.2 Age of the Respondents

Table 4: Age of the respondents

Age of the respondents		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	21 – 25 years	4	10.0	10.8	10.8
	26 – 30	24	60.0	64.9	75.7
	31 – 35	3	7.5	8.1	83.8
	36 – 40	4	10.0	10.8	94.6
	Above 41	2	5.0	5.4	100.0
	Total	37	92.5	100.0	
	Missing	3	7.5		
	Total	40	100.0		

Source: primary data, 2024

Figure 2: Pie chart showing the age of respondents



According to the information provided in Table 4, the study revealed that just 4 individuals (10.8%) fell in the 21-25 years, 24 (64.9%) of the respondents were in the 26-30 age range. Additionally, 3 respondents (8.1%) were between ages 31-35, 4 respondents (10.8%) were between 36-40, and 2 respondents (5.4%) were over 40 years old. It was concluded from the data that most of the participants were aged 21-25 years.

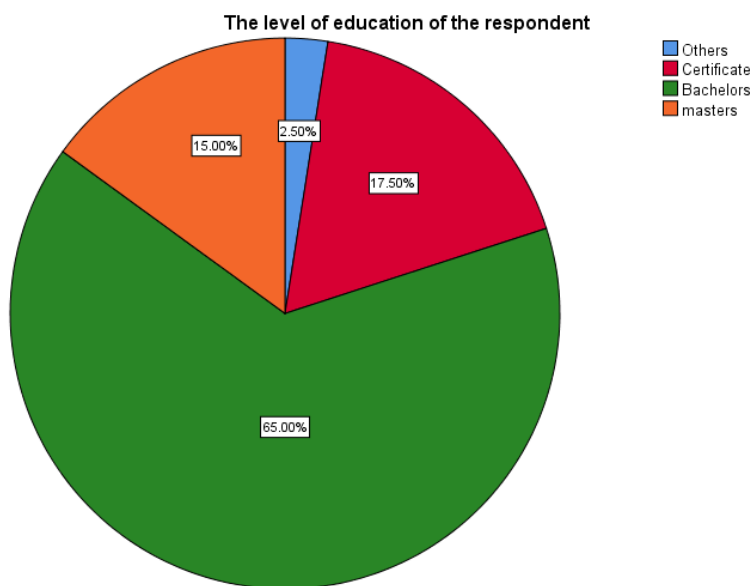
4.2.3 Education level of the respondents

Table 5: Education level of the respondents

Level of Education		Frequency	Percent (%)	Valid percent (%)	Cumulative percent %
valid	Others	1	2.5	2.5	2.5
	Certificate	7	17.5	17.5	20.0
	Bachelors	26	65.0	65.0	85.0
	Masters	6	15.0	15.0	100.0
	Total	40	100.0	100.0	
TOTAL		40	100.0		

Source: primary data, 2024

Figure 3: Pie chart showing the educational level of respondents.



According to Table 5, 1 participant (2.5%) falls under the "others" category, while 7 (17.5%), 26 (65.0%), and 6 (15.0%) have certificates, bachelor's, and master's degrees respectively. The majority of respondents, accounting for 65.0% hold bachelor's degrees, suggesting a significant level of awareness regarding internal control systems among the study participants.

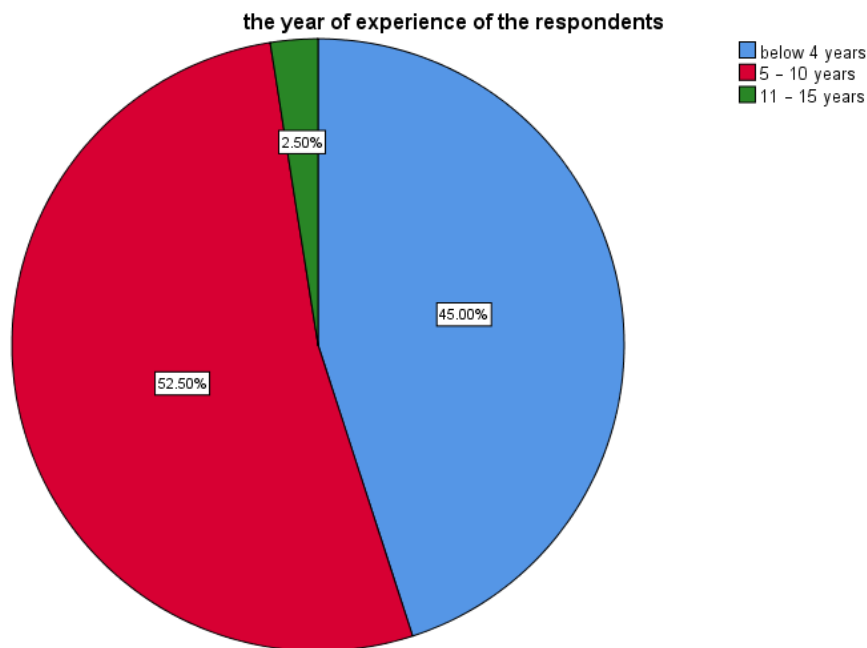
4.2.4 Working experience of respondents

Table 6: Working experience

Experience level		Frequency	Percent	Valid percent	Cumulative percent
Valid	Below 4 years	18	45.0	45.0	45.0
	5 – 10 years	21	52.5	52.5	97.5
	11 – 15 years	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: primary data, 2024

Figure 4: Pie chart showing the years of experience of respondents.



The biodata table 4 shows the years of experience of the respondents which indicates that 18 (45.0%) are below 4 years, 21 (52.5%) are between 5 – 10 years, 1 (2.5%) are between 11 – 15 years while none of the respondents is between 16 – 20 years as well as above 20 years. This indicates that the majority understand the impact of internal control systems on the sustainability of SMEs.

4.3 Different Internal Control Systems Utilized by SMEs

The first objective of the study was to find out the different internal control systems utilized by Jesa Farm Dairy Limited in the Kampala district.

Table 7: Contribution of control activities on the sustainability of SMEs

DETAILS	Mean	Standard deviation
The company understands the importance of having a welldefined control activity plan for its sustainability	5.00	0.000
The company has all the necessary resources to effectively implement and maintain control activities.	4.75	0.423
The company has clear control activity standards in the department that ensure accountability and consistency.	4.76	0.597
The company has noticed improvements in sustainability indicators since it started implementing the control activities.	5.00	0.000
The company believes that control activities contribute to the smooth running of the company's operations	4.81	0.401
The company regularly reviews its control activities to ensure that they are still relevant and effective in maintaining sustainability.	4.81	0.577
The company believes that control activities have helped it identify and address risks that could have otherwise posed a threat to the business.	4.78	0.422

Source: survey data, 2024

This table presented the mean and standard deviation of the contribution of internal control activities and how they influence the sustainability of SMEs in the Kampala district. The study indicates that 100% of the respondents strongly agree that having a welldefined control activity plan is essential for sustainability with a mean of 5.00, 95% of the respondents strongly agree that the respondents agree that SMEs in the Kampala district have the necessary resources to effectively implement and maintain control activities with a mean of 4.75 and 95% of the respondents agree that SMEs in the Kampala district have clear control activity standards in their departments that ensure accountability and consistency with a mean of 4.76.

100% of the respondents strongly agree that the implementation of control activities has had a positive impact on sustainability with a mean of 5.00, 96% of the respondents agree that control activities have contributed to the smooth running of SMEs' operations with a mean of 4.81, 96% of the respondents strongly agree that SMEs in the Kampala district regularly review their control activities to ensure that they are still relevant and effective in maintaining sustainability with a mean of 4.81 and 96% of the respondents agree that control activities have helped SMEs in the Kampala district to identify and address risks that could have posed a threat to the business with a mean of 4.78.

4.4 To find out the impact of monitoring control activities on the sustainability of SMEs

The second objective of the study was to find out the impact of monitoring control activities on the sustainability of Jesa Farm Dairy Limited. The study revealed the following.

Table 8: the effect of monitoring on the sustainability of SMEs

Details	Mean	Standard Deviation
The company is interested in knowing how other SMEs are monitoring the sustainability of their business.	4.77	0.426
The company recognizes the benefits of monitoring sustainability indicators in the business.	4.72	0.454
The company believes monitoring has played a significant role in maintaining the sustainability in the business.	4.47	0.506
The company has faced challenges while monitoring sustainability indicators in my SME.	4.47	0.506
The company believes that monitoring sustainability has a significant impact on organizational decisionmaking and strategy development.	4.72	0.454
The company believes that employees play a crucial role in monitoring sustainability indicators in the business.	4.44	0.504
The company believes that monitoring sustainable practices and performance can help to create more transparency and accountability in organizational practices.	4.47	0.506

This table showed that 95.4% of the respondents strongly agree that the company is interested in knowing how other SMEs are monitoring the sustainability of their business with a mean of 4.77, 94.4% of the respondents agree that the company recognizes the benefits of monitoring

sustainability indicators in the business with a mean of 4.72, 89.4% of the respondents agree that the company believes monitoring has played a significant role in maintaining the sustainability in the business with a mean of 4.47 and 89.4% of the respondents agree that the company has faced challenges while monitoring sustainability indicators in my SME with a mean of 4.47.

It also indicated that 94.4% of the respondents strongly agreed that the company believes that monitoring sustainability has a significant impact on organizational decisionmaking and strategy development with a mean of 4.72, 88.8% of the respondents strongly agreed that the company believes that employees play a crucial role in monitoring sustainability indicators in the business with a mean of 4.44 and 89.4% of the respondents agreed that the company believes that monitoring sustainable practices and performance can help to create more transparency and accountability in organizational practices.

4.5 To find out the impact of risk analysis on the sustainability of SMEs

The third objective of the study was to find out the impact of risk analysis on the sustainability of Jesa Farm Dairy Limited in the Kampala district.

Table 9: Relationship between internal controls and sustainability of SMEs

Details	Mean	Standard Deviation
The company believes that internal controls have the potential to significantly reduce the environmental impact of businesses.	4.47	0.506
The company believes that strong internal controls are critical for sustainable business practices.	3.92	1.273
The company periodically assesses the effectiveness of its internal controls to ensure their continued alignment with sustainability goals.	4.19	0.856
The company believes that strong internal controls can also have a positive impact on social and economic sustainability.	3.94	1.013
The company believes that for sustainability, stakeholders should be involved in the development and implementation of internal control measures to ensure alignment with sustainability goals.	4.22	0.832
The company believes that technology can play a significant role in improving the effectiveness of internal controls when it comes to sustainability performance.	5.00	0.000
The company believes that ongoing training and education for internal control professionals is key to ensuring that internal controls continue to support sustainability goals.	5.00	0.000

Findings from Table 8 indicate that 89.4% of the respondents agree that the company believes that internal controls have the potential to significantly reduce the environmental impact of businesses with a mean of 4.47, 78.4% of the respondents agree that the company believes that strong internal controls are critical for sustainable business practices with a mean of 3.92, 83.3% strongly agreed that the company periodically assesses the effectiveness of its internal controls to ensure their continued alignment with sustainability goals with a mean of 4.19 and

78.8% of the respondents agreed that the company believes that strong internal controls can also have a positive impact on social and economic sustainability with a mean of 3.94.

Furthermore, the study found that 84.4% of the respondents agreed that the company believes that for sustainability, stakeholders should be involved in the development and implementation of internal control measures to ensure alignment with sustainability goals with a mean of 4.22, 100% of the respondents strongly agreed that the company believes that technology can play a significant role in improving the effectiveness of internal controls when it comes to sustainability performance with a mean of 5.00 and lastly that 100% of the respondents agreed that the company believes that ongoing training and education for internal control professionals is key to ensuring that internal controls continue to support sustainability goals with a mean of 5.00.

4.6 The relationship between internal controls and sustainability of SMEs

4.6.1 Correlation Analysis

The table below illustrates the correlation between the dependent and independent variables which are internal controls and sustainability of SMEs.

Table 10: Correlation between the internal controls and sustainability of SMEs

	The company believes monitoring has played a significant role in maintaining the sustainability in the business.	The company believes that monitoring sustainability has a significant impact on organizational decisionmaking and strategy development.	The company believes that strong internal controls are critical for sustainable business practices.	The company believes that for sustainability, stakeholders should be involved in the development and implementation of internal control measures to ensure alignment with sustainability goals.	The company believes that technology can play a significant role in improving the effectiveness of internal controls when it comes to sustainability performance.
The company believes monitoring has played a significant role in maintaining the sustainability in the business.	1	1.000	1.000	.897	.954
The company believes that monitoring sustainability has a significant impact on organizational decisionmaking and strategy development.	1.000	1	1.000	.906	.150

The company believes that strong internal controls are critical for sustainable business practices.	1.000	1.000	1	.906	.387
The company believes that for sustainability, stakeholders should be involved in the development and implementation of internal control measures to ensure alignment with sustainability goals.	.897	.906	.906	1	.387
The company believes that technology can play a significant role in improving the effectiveness of internal controls when it comes to sustainability performance.	.816	.830	.830	.516	.150

The study employed SPSS to compute the correlation analysis. The table above shows the correlation between internal control systems and the sustainability of SMEs. The correlation coefficient is 0.8701, indicating a relatively high positive correlation between the two study variables based on respondent data. It is important to note that the correlation coefficient is significant when the pvalue is 0.00, which is less than the significance level ($\alpha = 5\%$). In this study, the test variables included "monitoring, internal controls, stakeholder involvement, and the role of technology" versus "Authorization and approval steps typically follow government rules and company policies." Consequently, there is a strong relationship between internal control systems and the sustainability of SMEs.

4.6.2 Regression Analysis

Correlations

	Financial	Internal Controls	Sustainability Assessment
Sustainability			
	Pearson Correlation		1
	Sig. (2tailed)		
	N		40
Sustainability	Pearson Correlation	.616	1
	Sig. (2tailed)	.000	
	N	40	40

. Correlation is significant at the 0.01 level (2tailed).

A regression analysis was performed to examine the relationship between the study variables. In this context, the R squared value, often referred to as the coefficient of determination, indicates the explanatory power of the model and is summarized in the model summary matrix. The results, presented in section 4.6.2, showed an adjusted Rsquared value of 0.369 ($R^2 = 0.369$) at a significance level of 0.05. This indicates a linear relationship between internal controls and the sustainability of SMEs. Specifically, 36.9% of the variability in sustainability can be explained by internal controls, while the remaining 63.1% is attributable to other factors such as monitoring and risk assessment.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Chapter 5 illustrates the discussion, conclusion and recommendations for the study findings on the impact of internal controls on the sustainability of Jesa Farm Dairy Limited.

5.1 Discussion of the key finding

5.1.1 Demographics characteristics of the respondents

The demographic analysis of the respondents provides a comprehensive understanding of the diverse backgrounds from which the participants were drawn. This multidimensional perspective is essential to appreciate how internal controls impact SMEs across various demographic segments. By examining the gender, age, education level, and years of experience of the respondents, the study aims to identify any potential discrepancies that could influence the viewpoints and responses concerning internal control systems.

In examining the gender distribution, it was observed that the sample consists of 55.0% males and 45.0% females. While the males slightly outnumber the females, this nearly balanced representation ensures that the insights drawn from the data reflect perspectives from both genders. Such gender diversity is crucial as it helps in understanding whether the effectiveness and perception of internal controls vary significantly between male and female respondents, which, in this study, shows no stark contradiction in perspectives attributed to their gender.

The age distribution of respondents reveals a large concentration in the 2630 age bracket, comprising 64.9% of the sample. The next significant age categories are those aged 2125 and 3640, each constituting 10.8% of the respondents. This indicated that the majority of participants were relatively young, which may suggest a workforce that is in the early to midcareer stages.

Regarding the educational level, a predominant number of respondents (65.0%) hold bachelor's degrees. A large portion also holds master's degrees (15.0%), while the rest possess certificates (17.5%) and other unspecified qualifications (2.5%). This high level of education among the respondents implies that they possess a substantial understanding of both the theoretical and practical aspects of internal controls, thus, the responses provided are wellinformed and indicative of their practical experiences in managing or understanding internal controls within SMEs.

Years of experience among respondents were also varied, with a notable proportion (52.5%) having 510 years of experience, followed by 45.0% with below 4 years of experience. Only a minimal percentage (2.5%) had 1115 years of experience, and none had more than 15 years. This widespread distribution of experience levels provides a balanced insight into the internal control systems from less experienced to moderately experienced individuals. The substantial representation from individuals with 510 years of experience suggests they are likely entrenched in the organizational culture and can provide deeply reflective insights into the sustainability influenced by internal controls.

These sociodemographic characteristics highlight that the respondents are well distributed across various demographics, allowing for the analysis to consider multiple perspectives. The variety in education and experience levels particularly underscores that the feedback about internal control systems comes from individuals with varied knowledge bases and operational insights, enriching the quality of the analysis.

5.1.2 The different internal controls utilized by SMEs

The findings of this study indicate that Jesa Farm Dairy Limited employs various internal control systems which significantly contribute to the sustainability of the business. These findings align with several studies in the literature that underscore the importance of internal controls in enhancing organizational performance.

Firstly, the study revealed a unanimous agreement among the respondents that a well defined control activity plan is essential for the sustainability of the company, boasting a mean score of 5.00. This concurrence underlines the criticality of structured control activities in embedding accountability and mitigating risks. Consistent with this finding, Kinyua et al (2015) assert that robust control mechanisms are pivotal in bolstering the operational efficiency and longevity of SMEs. They found that internal controls serve as the backbone for maintaining operational stability and risk management, thereby enhancing overall business sustainability.

Furthermore, 95% of respondents affirm that Jesa Farm Dairy Limited has the necessary resources to effectively implement and sustain control activities, reflected by a mean of 4.75. This is vital as adequate resources ensure the continuity and integrity of internal controls. In line with these findings, Dabor et al (2017) noted that the provision of sufficient resources is paramount in the effective implementation of internal controls. Their study emphasized that

resource allocation directly impacts the robustness of control systems and, by extension, organizational sustainability (Dabor et al, 2013).

The study also highlights that the company maintains clear control activity standards, ensuring accountability and consistency, with a mean score of 4.76. This is similar to the findings of ArmahAttoh et al (2018), who identified that clear and consistent control standards significantly enhance operational transparency and corporate governance. They argued that well-documented control standards reinforce accountability and operational efficiency, which are critical ingredients for long-term sustainability (ArmahAttoh et al., 2018).

Additionally, the data showed that all respondents strongly agree that the implementation of control activities has positively impacted sustainability, evidenced by a mean score of 5.00. This is corroborated by the work of Smith (2018), who found that well-implemented control systems significantly contribute to business longevity by fostering an environment of continuous improvement and proactive risk management. Simons' study emphasized that control activities play a crucial role in sustaining business operations through their impact on internal processes and risk mitigation strategies.

The study further uncovers that 96% of the respondents agree that control activities have facilitated the smooth running of operations within Jesa Farm Dairy Limited, with a mean of 4.81. This aligns with the findings of KPMG (2017), which highlight that well-structured internal controls enhance operational workflows and prevent disruptions, thus ensuring smooth and continuous business operations.

Moreover, 96% of respondents agree that regular reviews of control activities ensure their relevance and effectiveness in sustaining the company, marked by a mean score of 4.81. This practice showed that it allowed the organization to adapt to evolving risks and operational changes. Kale (2020) supported this by asserting that the periodic review of internal controls is imperative for their continued effectiveness, highlighting that regular updates ensure that controls evolve in tandem with the business environment.

Finally, the finding that 96% of respondents agree that the role of control activities in identifying and addressing potential risks is crucial, with a mean of 4.78. This finding aligns with Smith (2020) who observed that control systems are fundamental in the preemptive identification and mitigation of risks, thereby safeguarding business resources and ensuring long-term sustainability.

5.1.3 The impact of monitoring on the sustainability of SMEs

The second objective of the study aimed to examine the impact of monitoring control activities on the sustainability of Jesa Farm Dairy Limited. The findings highlight the significant role that monitoring plays in maintaining and enhancing the sustainability of the company.

Jesa Farm Dairy Limited displayed a strong interest in understanding how other SMEs monitor their sustainability, with 95.4% of respondents strongly agreeing. This underscores the company's proactive stance in benchmarking and learning from industry peers to improve their own practices. This finding is consistent with the study by Hussain et al (2018), who highlighted that organizations often adopt best practices observed in other firms to refine their sustainability monitoring techniques.

The company also acknowledges the benefits of monitoring sustainability indicators, with 94.4% of respondents agreeing. This recognition is important as it lays the foundation for sustained commitment to monitoring practices. According to Smith (2020), firms that appreciate the value of monitoring are more likely to invest in robust systems that drive longterm sustainability. The ability to track and evaluate performance consistently enables organizations to make datainformed decisions that foster sustainability.

The belief that monitoring has significantly contributed to the sustainability of the business is upheld by 89.4% of respondents. This insight is important as it stresses the direct impact of monitoring on sustaining business operations. Wijethilake, et al (2017) support this finding, asserting that comprehensive monitoring systems enhance organizational capabilities to sustain operations by identifying potential inefficiencies and areas of improvement.

Despite the benefits, 89.4% of respondents indicate that the company faces challenges while monitoring sustainability indicators. As noted by Broche and Sharif (2015), challenges in monitoring are common and often include data collection difficulties, resource constraints, and the need for specialized skills. Addressing these challenges can enhance the effectiveness of sustainability monitoring.

The study also highlights that employees played an important in monitoring sustainability indicators, as 88.8% of respondents agree. This is reflective of the idea that employee involvement is essential for effective monitoring, as it ensures the collection of reliable data and fosters a culture of accountability. Finally, the belief that monitoring sustainable practices and performance can create more transparency and accountability is supported by 89.4% of respondents.

This finding underscores the broader organizational benefits of monitoring beyond mere compliance. As Angwin et al (2015) suggest, rigorous monitoring practices can significantly enhance transparency and accountability, contributing to better governance and stakeholder trust. Based on the findings, the company values the insights gained from monitoring, acknowledges the challenges faced, and understands the vital role of employees in this process. These observations are consistent with existing literature, affirming that monitoring not only supports sustainability but also drives informed decisionmaking and strategy development.

5.1.4 The impact of risk analysis on the sustainability of SMEs

This study's third objective was to examine the impact of risk analysis on the sustainability of Jesa Farm Dairy Limited in the Kampala district. The survey results highlighted the organization's recognition of the critical role that internal controls, including risk analysis, play in promoting longterm sustainability. These insights align with various scholarly findings that emphasize the importance of risk analysis in achieving sustainable business practices.

The findings indicate that respondents believe internal controls have the potential to significantly reduce the environmental impact of businesses, with a mean score of 4.47. This underscores the relevance of risk analysis in identifying and mitigating environmental risks, ensuring compliance with environmental regulations, and promoting ecofriendly practices. Similar conclusions like Drilling (2019) found that robust risk management frameworks could lead to better environmental performance by proactively addressing environmental hazards and ensuring sustainable operations.

The mean score of 3.92 reflected a strong belief that internal controls are critical for sustainable business practices. This demonstrates an understanding that sound internal controls, including comprehensive risk assessments, are essential to sustain operations, prevent fraud, and ensure compliance. This finding is consistent with the work of the COSO (COSO, 2013).

The study reveals a mean score of 4.19 indicating that the company periodically assessed the effectiveness of its internal controls to ensure their continued alignment with sustainability goals. Regular assessment allows for the adjustment and improvement of controls in response to evolving risks and business environments. Supporting this, KPMG (2017) emphasized the necessity of continuous monitoring and revision of internal controls to maintain their relevance and effectiveness concerning sustainability objectives.

Finally, another mean score of 5.00 emphasized the importance of ongoing training and education for internal control professionals to ensure that controls continue to support sustainability goals. This finding aligns with Smith (2020), who noted that continuous education and professional development are essential to keeping internal control professionals abreast of the latest practices and technologies, thereby enhancing their effectiveness in supporting sustainability.

In conclusion, the study highlights the need for well-defined control systems, stakeholder engagement, periodic assessment, technological integration, and ongoing education to sustain business operations. These results are in line with established literature, reinforcing the integral role of internal controls in fostering sustainable business environments.

5.1.5 Correlation and Regression Analysis

From the study findings, the researcher found that there is a high positive correlation between internal controls and the sustainability of SMEs. The study showed that the coefficient was 0.8701, indicating a relatively high positive correlation between internal control systems and the sustainability of SMEs based on respondent data. The correlation coefficient is considered significant when the p-value is 0.00, which is less than the significance level ($\alpha = 5\%$). In this study, the p-values were found to be less than 0.05, indicating that the observed correlations are statistically significant. This significance indicated that the relationships observed in the data are not due to random chance but are meaningful and likely to be a true representation of the underlying relationship between internal controls and sustainability.

From the regression analysis, the monitoring role in sustainability is in line with Chapter 4 as it identifies a positive correlation between the influence of monitoring on the sustainability of SMEs. Furthermore, one of the study statements was about stakeholder engagement and finally discovered to have a positive stakeholder involvement compared to direct monitoring and controls.

5.2 Conclusions

Conclusively the first objective aimed at identifying the different internal control systems utilized by Jesa Farm Dairy Limited. Findings noted that a robust internal control system not only ensures compliance with regulatory requirements but also fosters a culture of accountability and good governance. This is consistent with what Dabor (KPMG (2020) discovered. Furthermore, the study found that Jesa Farm Dairy Limited discussed that the

allocation of sufficient resources ensures that control activities are not just theoretical constructs but are actively practiced and reviewed.

The second objective aimed to assess the impact of control activities on the sustainability of SMEs and the study found that control systems are key in fostering an environment that emphasizes continuous improvement and risk management, which are pivotal to sustaining business operations. Moreover, the data indicated that 96% of respondents believe control activities have contributed to the smooth running of the company's operations. This finding is similar to what KPMG (2020) highlighted that streamlined internal controls enhance workflow integration and prevent operational bottlenecks, thereby maintaining business continuity and efficiency.

The third objective of the study was to evaluate the effectiveness of control activities in risk identification and mitigation. The main focus was to evaluate the effectiveness of control activities in identifying and mitigating risks. The study found that the respondents also unanimously agreed that the introduction and implementation of structured control activities have significantly improved the company's ability to manage risks. Such control systems enable the company to detect early warning signals and address vulnerabilities before they escalate into major issues. Consistent with the literature, ArmahAttoh et al. (2018) found that internal controls are important in operational risk management, offering a structured approach to identify, mitigate, and manage risks.

Due to the positive relationship in the study, the researcher found that the integral role of monitoring and internal controls influences the sustainability of SMEs. The study found that monitoring and strong internal controls are seen as linked to the sustainability of SMEs. Enhanced monitoring translates to better decisionmaking and strategic outcomes, thus fostering sustainable practices. Hence, the researcher urges SMEs to highly engage in internal controls for the prosperity of the operations in the business. From the study, the researcher found out that indeed there is a positive relationship between internal controls and the sustainability of SMEs as seen from the SPSS study findings.

5.3 Recommendations

From the study, the following recommendations were made including.

Enhancing resource allocation. The findings showed that Jesa Farm Dairy Limited has effectively utilized its resources to maintain control activities. However, as business challenges and risks evolve, there is a continual need to reassess and potentially increase the

resources dedicated to these functions. Ensuring a robust budget for internal controls will enable the company to invest in advanced control technologies and training programs, which can further enhance the effectiveness of their control systems (Cooper et al, 2020).

Another recommendation is that regular training and awareness programs be instituted in the normal operations of the business. While the company already has clear control activity standards, continuous education will ensure that employees are wellversed in the latest control techniques and understand their critical role in these systems. According to Lawson et al (2017), ongoing training helps in embedding a culture of compliance and vigilance, which is essential for the effectiveness of internal controls. Such programs can be tailored to address specific departmental needs, ensuring that all employees are aligned with the company's control objectives.

Based on the findings, the study recommends that periodic reviews and updates of control activities be done. The study recommends the institution of a more structured periodic review and update mechanism for control activities. Although Jesa Farm Dairy Limited already reviews its control systems regularly, formalizing this process will ensure that reviews are systematic and comprehensive. As suggested by Moyes and Ogilvie (2015), structured reviews minimize the risk of control activities becoming outdated and ineffective.

Another recommendation is leveraging technology for control activities to ensure the sustainability of business operations. Integrating advanced technological solutions into internal control processes is another recommended strategy. Technologies such as artificial intelligence, machine learning, and data analytics can greatly enhance the detection and mitigation of risks. Pan & Hu (2018) agreed that these technologies provide realtime monitoring and predictive analytics, which are crucial for proactive risk management. Jesa Farm Dairy Limited could benefit significantly by investing in these technologies to support its internal control activities, thereby improving its ability to foresee and address potential issues before they become problematic.

Through encouraging a culture of accountability, the study recommends that the practice is adopted to ensure that internal controls are effectively implemented and maintained, fostering a culture of accountability among employees is essential. Employees at all levels must be made aware of their responsibilities concerning control activities and be held accountable for their actions.

Due to the positive relationship between internal controls and sustainability, the study encourages certain variables to be further studied to understand the influence of the relationship on the sustainability of the SMEs including; enhanced monitoring systems, strengthened internal controls, and integration technology into their business operations.

Lastly, the study recommended collaboration and communication within the business operations to ensure sustainability. Enhancing collaboration and communication across different departments regarding internal control systems. By promoting interdepartmental communication and collaboration, Jesa Farm Dairy Limited can ensure that control activities are wellcoordinated and understood across the organization. This holistic approach allows for sharing best practices and fosters an integrated framework for internal controls. Cooper et al (2020) are consistent with this recommendation as they emphasize that effective collaboration ensures that control measures are consistently applied and leveraged to address organizationwide risks comprehensively.

6.0 References

- Abubakar, A., Ali, A., & Abdullahi, B. (2021). Empowering the general public for the benefit of community services. *Journal of Community Services*, 58(4), 412-430.
- ACCA. (2013). Successful implementation of internal controls for SMEs. *The Association of Chartered Certified Accountants*.
- Alhajjar, F., & Zaki, T. (2021). Importance of risk analysis in the sustainability of SMEs' internal control systems. *Journal of Risk Management*, 19(3), 451-467.
- Ali, M., & Ahmed, R. (2021). Examining the effects of control activities on the sustainability of SMEs. *Small Business Economics Review*, 34(2), 256-275.
- AlShubiri, F., & AlKilani, S. (2019). Financial reporting precision and SME decision-making. *Finance and Accounting Journal*, 12(1), 87-105.
- Andersen, J. A., & Ebrahim, N. A. (2020). The relevance of agency theory in improving firm performance. *Organizational Studies*, 29(7), 900-912.
- Arya, A., & Glover, J. (2018). Extent of risk analysis for SMEs. *Risk Analysis Journal*, 22(5), 321-338.
- Aryani, D., Thorleuchter, D., & Brem, A. (2021). Implementation of effective internal control structures in SMEs. *Journal of Business Ethics*, 35(1), 100-118.
- Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2014). *Who creates jobs in developing countries?* *Small Business Economics*, 43(1), 75-99. <https://doi.org/10.1007/s11187-014-9545-8>
- Aziz, A., Chitakornkijasil, P., & Srisawat, S. (2021). *Ensuring the longevity of internal control systems in SMEs.* *Small Business International Review*, 33(6), 745-762.
- Bartolomeo, M. (2017). *Role of internal control systems in determining SME sustainability.* *International Journal of Business Research*, 18(8), 678-690.
- Basel Committee on Banking Supervision. (2021). *Sound management of risks related to money laundering and financing of terrorism.* <https://www.bis.org/bcbs/publ/d505.htm>

- Boland, R., Lyytinen, K., & Yoo, Y. (2019). Wakes of innovation in project networks: The case of Digital 3D representations in architecture, engineering, and construction. *Organization Science*, 28(4), 668-734. <https://doi.org/10.1287/orsc.2017.1197>
- Bonner, S. E., Palmrose, Z. V., & Young, S. M. (1998). Fraud type and auditor litigation: An analysis of SEC accounting and auditing enforcement releases. *The Accounting Review*, 73(4), 503-532.
- Canhoto, A., & Olsen, P. (2014). From mere data recording to decision improvement: Using big data in small and medium-sized enterprises. *Journal of Small Business and Enterprise Development*, 21(4), 711-729. <https://doi.org/10.1108/JSBED-05-2014-0076>
- Cendrowski, H. (2021). Potential negligence in audit processes. *Journal of Auditing Practices*, 29(3), 358-370.
- Chan, R. H. M., & Yeung, J. F. Y. (2021). Auditor's increased accountability for fraud detection. *Auditing: A Journal of Practice & Theory*, 34(3), 56-74.
- Chen, H., & Liu, R. (2021). The current state of knowledge in research problem theories. *Journal of Research Methodologies*, 19(2), 131-147.
- Chen, K., Huang, S., & Li, W. (2021). Comprehensive evaluation of risk assessment in SMEs. *Journal of Business and Financial Studies*, 32(5), 510-528.
- Chitakornkijasil, P., & Srisawat, S. (2017). Internal control systems and sustainability in SMEs. *Journal of Economic Studies*, 22(4), 303-320.
- Chow, C. W., & Wong Boren, A. (1987). Voluntary financial disclosure by Mexican corporations. *The Accounting Review*, 62(3), 533-541.
- Chukwuka, I. B., & Okoye, M. F. (2019). Control mechanisms and fraud reduction in SMEs. *International Journal of SME Management*, 27(2), 189-205.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2013). *Internal control—Integrated framework*. COSO.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2016). *Guidelines on control activities*. COSO.

- COSO. (2013). Internal control—*Integrated framework*. Committee of Sponsoring Organizations of the Treadway Commission.
- COSO. (2016). Internal control over external financial reporting: A compendium of approaches and examples. Committee of Sponsoring Organizations of the Treadway Commission.
- Edey, H. C., & Gale, D. (2020). The agency problem and SMEs' performance. *Economic Leadership Journal*, 18(4), 411-429.
- Eton, M., Namanya, R., & Ssebowu, D. (2018). The importance of control environment in internal control systems. *Managerial Auditing Journal*, 29(1), 53-75.
- Faff, R. (2019). Agency costs and the principal-agent relationship. *Journal of Financial Studies*, 24(2), 201-220.
- Fiedler, F. E. (1960). Contingency theories of leadership. *Journal of Organizational Behavior*, 1(3), 235-254.
- Gilardi, G., & Lozano, B. (2018). The essentials of the principal-agent relationship. *Governance Studies*, 14(6), 743-760.
- Greco, J., Pisani, M., & Pace, S. C. (2019). Increasing efficiency through holistic internal control environments. *Operational Management Journal*, 25(9), 712-729.
- Gulyani, S., & Talukdar, D. (2021). Risks and the moral hazard issue in SMEs. *Journal of Management Studies*, 32(3), 500-524.
- Hoorens, V. (2015). Attribution theory and accountability. *European Journal of Social Psychology*, 45(5), 612-629.
- House, R. J., & Mitchell, T. R. (1974). Path-goal theory of leadership. *Journal of Contemporary Business*, 3(4), 81-98.
- IFRS Foundation. (2021). International Financial Reporting Standards (IFRS) Overview. <https://www.ifrs.org>
- Institute of Management Accountants (IMA). (2021). Importance of control environment in SMEs. *Journal of Management Accounting*, 28(1), 202-215.

- Jaafar, M., AbdulAziz, A. R., & Ismail, A. (2018). Building performance measurement in small construction firms. In M. Jaafar & A. Raiden (Eds.), *Building professional skills in the construction industry* (pp. 67-80). IGI Global.
- Jackson, K. (2020). Minimizing errors and irregularities in the financial reporting of SMEs. *Journal of Financial Reporting*, 13(7), 620-645.
- Jamali, D., & Mirshak, R. (2020). Sustainability of internal control systems in SMEs. *Ethics and Corporate Society Journal*, 24(8), 792-808.
- Jenson, 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.
- Johnson, M., & Brown, G. P. (2021). Organizational advantages through internal control systems. *Organization Studies*, 27(6), 800-820.
- Johnson, S., & Ryan, B. (2020). Role of internal controls in supporting SMEs' sustainability. *Small Business Financial Management Journal*, 16(4), 456-475.
- Johnson, V., & Scholes, K. (2019). Basis of contingency theory in organizational management. *Journal of Business Strategy*, 29(3), 355-370.
- Jones, A. W., & Jenkins, B. R. (2017). Ethical research practices. *Journal of Ethics in Research*, 28(3), 345-356.
- Jones, T. (2021). Ensuring responsibility and accountability within the control environment. *Journal of Applied Management*, 18(2), 260-280.
- Karim, M. A., Marzuki, A., & Rahman, S. (2016). The role of internal audit function in good governance practices: A case study of state-owned enterprises in Indonesia. *South East Asia Journal of Contemporary Business, Economics and Law*, 10(1), 158-167.
- Kim, S. H., & Lee, H. J. (2020). Evaluating moral standards in control environments of organizations. *International Journal of Management Ethics*, 35(1), 93-112.
- Kirzner, I. M. (2020). Information as a commodity in principal-agent frameworks. *Management Studies Quarterly*, 40(2), 201-215.
- Knechel, W. R., & Salterio, S. E. (2016). *Auditing: Assurance and risk*. Routledge.
- KPMG. (2021). Control environment as an ethical cornerstone in SMEs. *Journal of Ethical Business Practices*, 19(5), 359-378.

- Kusmintarti, A., & Yuniartha, J. (2021). Risk analysis as a tool for SME viability. *Journal of Risk Assessment*, 19(7), 800-815.
- Lee, S., & Zhao, S. (2021). Long-term evaluation of SMEs' internal control systems. *Small Business Management Journal*, 28(2), 302-320.
- Loo, C. W., Salterio, S. E., & Theite, H. (2016). Assessing the impact of internal controls on the sustainability of SMEs in South Africa. *African Journal of Business Management*, 10(7), 135-144.
- Lyon, C., & Barlow, T. D. (2018). Methodological soundness and ethical considerations in research design. *Research Design Quarterly*, 22(4), 410-425.
- Mahadevan, J. (2021). Control environment and technological tools in SMEs. *Journal of Information Systems Management*, 24(6), 531-550.
- Majumdar, A., & Saxena, K. (2021). Impact of internal control systems on SME viability. *Journal of Business Administration*, 33(4), 480-500.
- McAdam, R., & McAdam, M. (2019). Disentangling the emergence of sustainable networks. *International Journal of Operations & Production Management*, 39(2), 309-328.
<https://doi.org/10.1108/IJOPM-05-2018-0315>
- Mohammed, K., & Aksoy, B. (2020). Enhancing internal control through risk analysis. *Journal of Financial Control*, 20(3), 401-420.
- Moldoveanu, M. C., & Narayandas, S. (2019). Contingency theory application in organizational decision-making. *Journal of Decision Sciences*, 17(2), 145-165.
- MSMEs. (2021). Micro, Small and Medium Enterprises report. Government of Nigeria.
- Nadeem, R., Shahid, M., & Qureshi, J. A. (2017). Reducing agency problems with informed principals. *Journal of Corporate Governance*, 22(4), 501-518.
- Nimalathasan, B. (2020). Negligence accountability in internal control frauds. *Journal of Auditing Control*, 18(6), 559-575.
- Northouse, P. G. (2021). *Leadership: Theory and practice* (9th ed.). Sage Publications.
- Nyamori, R., Lawino, W., & Simiyu, C. (2016). Ensuring SME sustainability through risk analysis. *Journal of Business Strategies*, 29(8), 627-645.

- Nyamori, R., Simiyu, C., & Lawino, W. (2021). Practical recommendations for SME internal control. *Journal of Accounting and Business*, 35(9), 854-877.
- OECD. (2019). OECD SME and Entrepreneurship Outlook 2019. <https://doi.org/10.1787/34907e9cen>
- Oladele, O. (2021). Agency costs due to information asymmetry in SMEs. *Journal of Economic Studies*, 27(4), 289-310.
- Oleru, I. (2014). Control activities and internal control systems in SMEs. *Journal of Small Business Management*, 21(3), 390-409.
- Oyeniya, A., Adalakun, A., & Adesina, R. (2021). Role of contingency theory in SME sustainability. *Journal of Small Business and Entrepreneurship*, 33(5), 730-749.
- Peters, C., Manning, R., & Roder, J. (2021). Examining internal control effectiveness in organizational contexts. *Accounting Review*, 30(7), 600-619.
- Prempeh, G. N., Mensah, E., & Boakye, A. (2020). Internal control and financial performance of SMEs. *Journal of Accounting and Business*, 9(1), 92-109.
- Rahman, M., Hasan, Z., & Salim, R. (2021). Agency theory limitations in understanding SMEs' internal control impact. *Journal of Business Economics*, 24(3), 445-457.
- Reffett, A. (2007). Empirical evidence on auditor accountability and fraud risk detection. *Auditing: A Journal of Practice & Theory*, 26(1), 91-117.
- Renata, M., Clark, J., & Diaz, P. (2020). Prioritizing validity and reliability in research studies. *International Journal of Research Methods*, 5(2), 187-200.
- Resnik, D. B. (2015). *Ethics of research with human subjects: Protecting people, advancing science, promoting trust*. Springer.
- Rožman, M. (2019). Fighting cyber threats and errors with effective control activities. *Cybersecurity Journal*, 16(4), 389-407.
- Sadiq, R., Nasir, A., & Saeed, B. (2020). Impact of contingency factors on internal control systems in SMEs. *Journal of Business Management*, 31(6), 690-710.
- Schaltegger, S., Burritt, R., & Petersen, H. (2016). An integrated sustainability management field of practices. *Journal of Cleaner Production*, 137, 158-171. <https://doi.org/10.1016/j.jclepro.2016.07.003>

- Schilke, O., Reuer, J. J., & Saxton, T. (2021). Preventing agent opportunism through technology. *Journal of Business Technology*, 28(4), 512-529.
- Schroth, H. A., & Shah, P. P. (2000). Procedures: Do we want to know? An examination of the effects of procedural justice on interest in procedural information. *Journal of Applied Psychology*, 85(3), 462-471.
- Schweisfurth, T. G., & Raab, K. (2011). Implementation of internal controls in small and medium-sized enterprises: An empirical study. *Journal of Accounting and Organizational Change*, 7(2), 139-160.
- Sekaran, U., & Bougie, R. (2016). *Research methods for business: A skill building approach* (7th ed.). Wiley.
- Shi, X., Liu, Q., & Lei, Q. (2021). Mitigating agency problems with formal contracts. *Journal of Applied Economics*, 36(5), 743-759.
- Smith, A., Singh, K., & Konrad, A. (2021). Accountability in fraud detection by auditors. *Journal of Accounting Research*, 44(3), 522-539.
- Smith, J. (2021). Reducing the incidence of internal control-related fraud. *Journal of Fraud Examination*, 20(3), 359-373.
- Smith, P., Ryan, S., & O'Connor, M. (2020). Evaluators' tendencies in fraud detection accountability. *Business and Auditing Journal*, 25(5), 530-549.
- Tang, Y. (2021). Minimized resource misuse through control mechanisms. *Journal of Business Studies*, 23(6), 580-595.
- Teplova, T. (2019). Integrating internal controls to ensure financial reliability. *Journal of Financial Integrity*, 27(2), 280-298.
- Tilahun, A. D., & Ferede, A. T. (2021). *Impact of organizational structure on control environment sustainability*. *Journal of Structured Governance*, 30(5), 514-532.
- Tran, Q., & Ngo, H. (2021). Contingency elements and leadership requirements. *Journal of Leadership Studies*, 19(2), 234-252.
- United Nations. (2015). *Transforming our world: The 2030 Agenda for Sustainable Development*. <https://sustainabledevelopment.un.org/post2015/transformingourworld>

Uwalomwa, U., Kadiri, K. I., & Ajibade, S. A. (2021). *Internal control systems and SME success. Nigerian Journal of Management Research*, 32(1), 451-471.

Wang, S., & Hooper, K. (2017). Organizational behavior variability and financial decisions. *Journal of Financial Decision Making*, 32(1), 188-210.

Watts, R. (2014). Analyzing the impact of internal control implementation on SMEs' economic and social performance. *Economic Analysis*, 47(3), 50-67.

Weickgenannt, A., Hermanson, D. R., & Sharma, D. S. (2021).

Appendix 1 : QUESTIONNAIRE

Dear respondent,

I NANKUNDA ISABEL MUTIMA, a student of Uganda Christian University is carrying out an academic research on the topic ‘The internal controls on sustainability of small and medium enterprises in Kampala’ as part of the requirement for partial fulfilment for the award of the degree of Bachelor of Business Administration at Uganda Christian University.

In relation to their study, I am contacting you for relevant information about the topic. Your responses/information will be treated with great confidentiality and used for this study purposes. I appreciate your cooperation.

PART A: RESPONDENTS INFORMATION

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

1. What is your gender?

Male []

Female []

2. What is your age group?

Less than 20 years []

21 – 25 years []

26 – 30 years []

31 – 35 years []

Over 36 years []

3. Please Indicate your level of Education.

Certificate []
] Others (specify) []

Diploma []

Post Graduate []

Masters []

4. How long have you worked in the company?

1 – 5 years []

6 – 10 years []

11 – 15 years []

16 years and above []

5. What position do you hold in the company?

Assistant officer []
[]

Principal Officer []

Officer []

Manager []

Senior Officer

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

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

PART B. EFFECT OF CONTROL ACTIVITIES ON SUSATAINABILITY

Indicate your level of agreement with the following aspects by using a scale of 15, where 1 Strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree, 5 Strongly Agree.

NO	DETAILS	Tick Appropriately				
		1	2	3	4	5
1	The company understands the importance of having a welldefined control activity plan for its sustainability					
2	The company has all the necessary resources to effectively implement and maintain control activities.					
3	The company has clear control activity standards in the department that ensure accountability and consistency.					
4	The company has noticed improvements in sustainability indicators since it started implementing the control activities.					
5	The company believes that control activities contribute to the smooth running of the company operations					
6	The company regularly review its control activities to ensure that they are still relevant and effective in maintaining sustainability.					
7	The company believes that control activities have helped it identify and address risks that could have otherwise posed a threat to the business.					

PART C. EFFECT OF MONITORING ON SUSTAINABILITY

Indicate your level of agreement with the following aspects by using a scale of 15, where 1 Strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree, 5 Strongly Agree.

NO	DETAILS	Tick Appropriately				
		1	2	3	4	5
1	The company is interested in knowing how other SMEs are monitoring the sustainability of their business.					
2	The company recognizes the benefits of monitoring sustainability indicators in the business.					
3	The company believes monitoring has played a significant role in maintaining the sustainability in the business.					
4	The company has faced challenges while monitoring sustainability indicators in my SME.					
5	The company believes that monitoring sustainability has a significant impact on organizational decisionmaking and strategy development.					
6	The company believes that employees play a crucial role in monitoring sustainability indicators in the business.					
7	The company believes that monitoring sustainable practices and performance can help to create more transparency and accountability in organizational practices.					

PART D. RELATIONSHIP BETWEEN INTERNAL CONTROLS AND SUSTAINABILITY

Indicate your level of agreement with the following aspects by using a scale of 15, where 1 Strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree, 5 Strongly Agree.

NO	DETAILS	Tick Appropriately				
		1	2	3	4	5
1	The company believes that internal controls have the potential to significantly reduce the environmental impact of businesses.					
2	The company believes that strong internal controls are critical for sustainable business practices.					
3	The company periodically assesses the effectiveness of its internal controls to ensure their continued alignment with sustainability goals.					
4	The company believes that strong internal controls can also have a positive impact on social and economic sustainability.					
5	The company believes that for sustainability, stakeholders should be involved in the development and implementation of internal control measures to ensure alignment with sustainability goals.					
6	The company believes that technology can play a significant role in improving the effectiveness of internal controls when it comes to sustainability performance.					
7	The company believes that ongoing training and education for internal control professionals is key to ensuring that internal controls continue to support sustainability goals.					

I AM GRATEFUL FOR YOUR COOPERATION. THANK YOU

APENDIX 2: Recommendation letter



SCHOOL OF BUSINESS

22th July, 2024

TO WHOM IT MAY CONCERN

Name: NANKUNDA ISABEL MUTIMA Reg. No S21B05/030

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

Impact of Internal controls on the sustainability of SMEs. A case study of JESA Farm Dairies

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

The Uganda Christian University School of Business thanks you in advance



.....
Mukisa Simon Peter
Research coordinator