

**THE ROLE OF INTERNAL CONTROL SYSTEMS IN ENHANCING FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MUKONO
MUNICIPALITY CENTRAL DIVISION**

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Approval page

This research report has been submitted with my approval for examination

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Abstract

Small and Medium Enterprises (SMEs) are a cornerstone of Uganda's economy, contributing significantly to employment, GDP, and local development. However, many face high failure rates within the first three to five years, largely due to poor financial management, fraud risks, cashflow challenges, and weak internal control systems. This study examined the role of internal control systems in enhancing the financial performance of SMEs in Mukono Municipality Central Division.

The study adopted a descriptive-correlational design with a quantitative-dominant mixed-methods approach. Data were collected from 93 SME owners and managers along the Mukono Mall to Collins Hotel commercial corridor using structured questionnaires based on the COSO (2013) framework. Data were analysed using descriptive statistics (frequencies, means, standard deviations) and inferential statistics (Spearman's rank correlation and simple linear regression) in STATA software.

Findings revealed moderate adoption of internal control systems, with strong emphasis on physical asset security (Mean = 4.09) and owner emphasis on honesty (Mean = 3.97), but weak segregation of duties (Mean = 2.89) and risk assessment. A moderate positive relationship existed between internal control systems and financial performance ($\rho = 0.564$, $p < 0.01$), explaining 33.9% of variance in performance ($R^2 = 0.339$, $\beta = 0.614$, $p < 0.001$). Major challenges included high cost (83.9%), owner-managed structures (76.3%), and low knowledge of formal controls (68.8%).

The study concludes that simplified, practical internal controls contribute meaningfully to SME financial performance in this localized urban setting, but implementation is constrained by resource poverty and informality. Recommendations include low-cost control adoption by owners, targeted training by policymakers and USSIA, and refined lending criteria by financial institutions.

Dedication

I dedicate this research work to my family; my parents, siblings and loved ones whose unwavering support, prayers, and encouragement made this academic journey possible.

I further dedicate it to all small and medium enterprise owners in Mukono Municipality Central Division who continue to strive for business growth and sustainability despite numerous challenges

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

The chapter provides key aspects on which the research on the role of internal control systems on financial performance of SMEs in Mukono municipalities central division is based. The chapter also introduces the background and context of the research, statement of the problem, objectives and purpose of the study, research questions, the scope of the research (geographical, content and time). The chapter proceeds to provide justification of the study and the significance.

1.2 Background of the Study

The economy of Uganda is highly influenced by businesses in the private sector of approximately 90% profile of Uganda's Micro Small and Medium Enterprises. (Ministry of trade, industry and cooperatives, 2024/2025) which is the pillar of its development. The SMEs utilize over 2.5 million individuals contributing approximately 20 per cent of the national GDP. These SMEs contribute to employment and innovations besides the local development of these various sectors that these SMEs exist in like trade, services and manufacturing. Although they have all these critical roles, most SMEs experience high failure rates of between three to five years of operation; the failure is usually attributed to poor financial management, risk of fraud not to mention cashflow issues alongside lack of access to formal credit. It is perceived that all these problems are closely attributed to a weak internal controls system. These internal control systems, in line with COSO (Committee of Sponsoring Organizations of the Treadway Commission, 2013) are the control environment, the risk assessment, control activities, information and communication and monitoring. These internal control systems become effective when they are made effective and assets of an entity can be well safeguarded, then a reliable financial reporting can be assured that ultimately promotes operational efficiency, and the regulatory compliance can be in support. Mukono Municipality Central Division is a commercial hub with a large amount of trading and serve-oriented SMEs, which is augmented by the competition problem, high urbanization rate, the transition to digital payments, and inflation. Although there are studies in Uganda to reveal positive relationship between internal controls and working financial performance like improvement in profitability, liquidity and sustainability

of business, it will often present a wider geographical area or even in a particular sector, with such a narrow focus of Mukono central division. The paper thus seeks to analyze how internal control systems can be used to improve financial performance of the SMEs in Mukono Municipal central division in order to help bring a localized understanding and workable recommendation.

1.3 Statement of the Problem

Small and Medium Enterprises (SMEs) are well known as the back bone of the Uganda economy that both employs more than 2.5 million individuals in the same breath contributing to what is approximated as 20 percent of the national GDP. In addition to all this ideal scenario, most of these ventures experience unending problems which include low profitability, cashflow shortages, operating losses and failure rates which tends to be high during the first three to five years of operation. These obstacles are strongly connected to the ineffective internal control systems which according to COSO (2013) framework includes several significant elements such as the control environment, risk assessment, control activities, information and communication and monitoring. Good delivery of all these outcomes in protection of resources, credibility in accounting reports, effectiveness and lessening of frauds and malpractices. Several studies have been carried out in Uganda investigating this relationship and results showed that the stronger the internal controls the better the financial performance such as supermarkets studies in Wakiso and Mbale city. The collection of these studies confirms the relevance of internal controls in reducing risks and aiding sustainability. In addition to all these known facts, the central division of Mukono Municipality which is equally a very populated trading center has received very little attention and has numerous competitions, urbanizations and high rates of adopting digital transactions. The majority of the previous research was represented at larger areas of cities or districts with some specific aspects including supermarkets or even neighboring areas thus creating an void in the existing, localized knowledge of how internal control system affects the large number of SMEs in Mukono municipal central division despite the changing economic realities.

1.4 Purpose of the study

This research was conducted to understand the role of internal control systems in enhancing financial performance of small and medium size enterprises within Mukono Municipality central division

1.5 Specific Objectives

The specific objectives of carrying out this research were;

- i) To examine the types of internal control systems adopted by SMEs in Mukono Municipality Central Division.
- ii) To determine the relationship between internal control systems and financial performance of SMEs in Mukono Municipality Central Division.
- iii) To identify the challenges facing SMEs in Mukono Municipality Central Division in implementing effective internal control systems and suggest possible solution to overcome them

1.6 Research Questions

The following research questions guided the study

- i) What are the different types of internal control systems adopted by SMEs in Mukono Municipality central Division?
- ii) What relationship exist between internal control systems and financial performance of SMEs in Mukono Municipality central Division?
- iii) What challenges are faced by SMEs in Mukono Municipality Central Division in implementing effective internal control systems?

1.7 Scope of the study

1.7.1 Geographical Scope

The geographical area was limited to central division of Mukono Municipality in Mukono District, a central point in Kampala Jinja highway bordering areas next to Mukono mall to Collins Hotel along the same highway. This spatial area is a carefully selected location due to the fact that it is a highly populated business hub with a high presence of heterogeneous SMEs with

the common financial management issues that apply to the theme of this research. The detailed geographical scope will bring in a localized contribution that will be used to guide the SME support in other peri-urban areas.

1.7.2 Time Scope

In the research, attention was paid to the period between 2020 and 2025, with the majority of recent available data. Such selection of such a period is to enable the capture of recent trends and growth in the financial management practices and performances of the SMEs in Mukono Municipality Central Division. The period will also record the effects of big economic incidences like the Covid-19 pandemic which shook the performance and operations of most SMEs during the period of 2020-2022 with the recovery period in mind. By highlighting this particular time period, this study will make sure that the results regarding the internal control systems and their perception in terms of contributing to financial performance will be well up-to-date and indicative of the present-day reality of SMEs in the region.

1.7.3 Content Scope

This study was confined to the role played by internal control systems in promoting the financial performance of Small and Medium Enterprise (SMEs) in Mukono Municipality Central Division. It will look at the type of internal control systems undertaken by these SMEs and will be based on the components of the COSO frameworks of control environment, risk assessment, control activities, information and communication and monitoring. How these internal control systems relate to financial performance aspects such as profitability, liquidity, return on assets and overall sustainability and the difficulties that SMEs are experiencing in adopting good internal controls shall be all incorporated in this research. The case will be confined to the above only and will not address any other SME management aspect, including marketing approaches, human resource management, supply chain management, or other business performance indicators that do not relate to financial performance. An intention to exclude big firms, non-SMEs, or non-SMEs located beyond Mukono Central Division will also be used to make sure that the research is focused, manageable and relevant to the objectives of the study and will also offer specific insight into internal control practices and their immediate effects on the performance of financial performance of the chosen context.

1.8 Justification of the study

The necessity of the study was explained by the need to deliver a localized, more recent evidence of the impact of internal control systems on the financial performance of Mukono Municipality Central Division in particular. Mukono municipality central division is a densely populated area with the high rate of urbanization and increasing digital transactions, which need critical analysis at the localized area. Much of previous research was done on the larger municipal or district scale that included some specific sectors like supermarkets or even adjacent areas that creates some gap in the current, more localized knowledge of the incorporation of internal control systems into the hundreds of SMEs in Mukono municipal central division as the economic realities keep changing. Once these gaps are filled, the study will produce a practical knowledge which can close the gaps that are currently existing in control implementation and promote sustainability of SMEs.

The study also seemed to be highly valuable to several stakeholders, such as, the owners and managers of the SMEs in Mukono Central Division will gain actionable knowledge of implementing effective and affordable internal controls to enhance profitability, liquidity, and financial health in general, and minimize risks and enhance resilience. To the policymakers, governmental bodies like the Ministry of Trade, Industry and Cooperative and other support organizations like the USSIA and local authorities, the study will give evidence based recommendations to develop specific interventions, training and policies to enhance financial governance of the SMEs in Uganda and support the national interests, such as creation of jobs, poverty reduction and economic development under the development plans of Uganda. Banking institutions, microfinance institutions and other lending institutions can utilize the result of this research in order to be able to tighten their lending conditions since proper internal controls tend to indicate a reduced risk and better repayment intentions. The research will also lead to the current literature on the application of COSO framework within the urban environment of developing countries.

1.9 Significance of the Study

Based on the proposed study, meaningful contributions to various stakeholders in supporting and comprehending Small and Medium Enterprises (SMEs) in Uganda are likely to be provided. To

the policymakers and government agencies, including the Ministry of Trade, Industry and Cooperatives, the Uganda Revenue Authority, and the local authorities in Mukono Municipality Central Division, the research is expected to give evidence based understanding of the current situation of internal control systems among SMEs in Mukono Municipality Central Division. Hopefully, the reported association between good internal controls and financial performance combined with the listed implementation issues should guide policy makers in creating more specific interventions, training and support programs to enhance financial governance in the SME sector. It was hoped that the recommendations that would come out of this research would make a small contribution to developing policies that facilitates SME sustainability, increased access to formal credit and other national interests like creation of jobs, economic growth, and reduction of poverty. In the case of practitioners like owners, managers and consultants of SMEs, in Mukono Municipality Central Division, it is expected that this research will act as a point of reference.

The practitioners are therefore expected to identify cost effective and context sensitive means that can enhance their internal control systems with the analysis of the said type of internal control systems that are presently used and their connection to financial performance. Through this research and an appreciation of such barriers and possible solution among SMEs, owners and managers are expected to be inspired to embrace proper financial management practices that promote their profitability, liquidity and business stability in the dynamic and competitive urban setting. Existing body of knowledge on the application of internal control systems is wished to be supplemented among scholars and other researchers in the same field of study like accounting, business management and entrepreneurship especially among SMEs in Uganda. It was also hoped that the outcomes of localized level of Mukono municipality central division in the process of utilizing COSO framework would offer a valuable source of comparative studies in the future, the improvement of theoretical studies and study of related areas, such as digital transformation in the Mukono municipalities financial controls or the consequences of economic shocks on effectiveness of control.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the detailed literature review of the existing literature concerning the role of internal control system in improving the financial performance of Small and Medium Enterprises (SMEs). The chapter examines both the Theoretical and empirical sources with an aim of giving background to this study beginning with the theoretical review which looks at the theories which associate internal control system to financial resilience. The chapter will then proceed to look into empirical researches about the various forms of internal controls that are practiced by SMEs, the linkage that exists between internal control and financial performance and finally issues that are being encountered when internal controls are being practiced with the focus being on Uganda and other developing economies.

2.2 Theoretical review

Many theories give sound basis on how internal control systems can be comprehended and how they influence the financial performance of the SMEs but more importantly, critical analysis reveals their strong points, assumptions, limitations and lack of applicability in constrained resource environments in most cases such as in the Mukono municipality central division. Another prevailing theory that has been advanced to explicate literature on internal controls in SMEs is Agency Theory, by Jensen and Meckling (1976), which revealed that conflict of interest and information between the owners (principles) and the managers/employees (agents) requires monitoring mechanisms to reduce agency costs such as fraud and misappropriation of resources. According to the theory, deep internal controls like segregation of duties, monitoring and risk assessment according to COSO framework, 2013, is in line with interests, less risk, as well as, increase the advantages of financial performance in terms of profitability and liquidity. This theory is supported in studies in Uganda because it demonstrates that lack of control causes failure on SMEs, and studies conducted in Mbale city (2025) and Wakiso district which found a positive relationship in some instances, where controls alleviate agency problems and enhance efficiency. Conversely, in contrasts, agency theory when critically viewed, its self-interest assumption is likely to exaggerate conflicts in Uganda SMEs which is not always the case. Majority of the SMEs are family-run or owner-managed with little or no serious separation of

ownership and control specification. It is the weakness that causes a lack of alignment because there are many SMEs in Uganda working without formal agents that make the heavy monitoring mechanisms expensive and impractical. Empirical data indicate that control environment that aids in profitability does not have a significant relationship, a case study in Mbala city (2025). This is why the agency theory has raised issues such as fraud in the competitive environment of Mukono, but its use appears to be a liability to the SMEs thus failure in implementation.

2.3 Empirical Review

Empirical studies concerning internal control systems and the financial performance in the Small and Medium Enterprises (SMEs) portrays very diverse and inconsistently conflicting results, depending on the contextual variations, methodological constraints, and failure to measure them consistently. Overall and in developing economies, studies often show that good internal controls that are organized based on the frameworks like COSO (2013) would have a positive impact on financial results through alleviation of fraud risks, increase in reporting reliability, and the efficiency of operations. These positive relationships are however stronger in formalized or larger enterprises and in resource constrained informal SMEs prevalent in emerging markets the effect is often less strong or less consistent because of a lack of implementation capacity and because of the use of self-reported data that is likely to be biased.

Going down to the African scenario especially East Africa and other similar developing economies empirical evidence has been mixed in format. Research in Nigeria (e.g., the Ondo State) and Cameroon (e.g., Buea) suggests that SMEs have simplified and practical controls, including simple cash-handling processes, transaction approvals, and physical controls, instead of complete implementation of the COSO controls, and there are positive but weakened relationships between the controls and financial performance results (e.g. profitability and liquidity). These relationships tend to depend on the size of firms and the industry and environmental characteristics such as economic volatility or regulations but methodological problems such as small non-representative samples and proxies restrict the generalizability of the results and suggest the possibility that some reported gains may not be due to causal effects in a highly informal environment.

The inconsistencies are further demonstrated by the evidence at the national level in Uganda but the focus is put on the sector-specific and contextual biases. Studies, including those conducted

in other districts like Wakiso (2026) show high positive correlations (e.g., $r = 0.741$, $p < 0.01$), with elements of control predicting high amounts of variance in profit, liquidity, efficiency and asset protection. Similar studies of Mukono supermarkets report that there was a high rate of profitability and efficiency of operation due to the enhanced ability to mitigate risks and reporting. Nevertheless, conflicting findings appear in other studies: Mbala City research (2025) did not identify any significant relationship between internal controls (measured narrowly in terms of control environment and activities) and profitability and attributed the null result to informality, small sample sizes, and self-reported biases. Previous studies (2019) based on multi-district supermarkets found that although controls are associated with performance, it was the management of working capital that is more likely to predict results, and controls do not explain substantial variation in regression analysis. Most importantly, most of this Ugandan literature is afflicted by over-reliance on the supermarket sector, limited methodology (e.g. incomplete COSO proxies, use of perceptual rather than objective financial information), and under consideration of the effects of economic pressures on the economy post-2020 such as inflation, adoption of digital transactions, and post-disruption recovery.

A further reduction to localized setting of Mukono Municipality Central Division, a high-density commercial center with varied SMEs, stiff competition, accelerated urbanization and changing financial traditions, the empirical foundation becomes especially weak. The current Mukono literature is mostly restricted to the supermarkets or larger municipal snapshots, and there are limited information on all trading, service and light manufacturing businesses that are currently in Central Division. The lack of recent, varied, and geographically accurate evidence poses some critical questions that cannot be answered: To what degree do simplified internal control systems affect the most important financial performance indicators (profitability, liquidity, return on assets, and sustainability) in this particular urban environment? What are the local forces that contribute to the implementation difficulties (like the risks of digital fraud and inflation)? These loopholes and wider inconsistencies within the range of studies in Uganda and the region in general are some of the reasons why your research is important to offer focused, current analysis that can determine both theoretical anticipations and realities in Mukono Municipality Central Division.

2.3.1 Forms of Internal control systems Adopted by SMEs.

The empirical evidence always evidences the fact that the Ugandan SMEs implement fragmented and informal forms of COSO elements, focusing rather on low-cost and practical approaches to controls, as opposed to elaborate systems, due to extreme scarcity of resources and owner-managed systems. The targeted case on supermarkets (e.g., Paris Corner, City Shoppers) in Mukono Municipality showed moderate control activities (segregation of duties, authorizations, reconciliations), whereas control environment (ethical tone, staff competence) was moderate, and formal risk assessment and monitoring (reflects a reactive and not proactive attitude) was weak. The same trends can be observed in Wakiso District (2026) and Buikwe District research, as SMEs pay much attention to simple physical protection and confirmation of a transaction and little to information/communication and constant control. Importantly, adoption is also low and in a mixed fashion among larger Ugandan SMEs, with Mbale City study (2025) proxying controls (only control environment and activities) and informal implementation in company-owned firms occurring moderately. This is reflected in broader African experience (e.g. Ondo State, Nigeria): SMEs prefer cash-handling processes to full COSO (Committee of Sponsoring Organizations of the Treadway Commission) Integration. These results are a methodological/contextual weakness that sector bias (i.e. the sample is dominated by supermarkets) ignores various types of SMEs (trade, services, light manufacturing) in urban centers such as Mukono Central Division, where digital technologies, competition, and inflation pressure requires more agile controls. The fact that there is no detailed and localized data on the adoption types in non-supermarket SMEs reflects a gap, as it does not allow generalizing and justifies further research in your work.

2.3.2 Relationship between the internal control systems and financial performance of SMEs.

In the international context, the connection of the Internal Control Systems (ICS) with the financial performance is considerably rooted in the fact that coherent structures, including the COSO (2013) model, offer the required regulation of the shareholders interests. Strength of controls lower "agency costs" around the world, research has shown that where the owners have a strong control they are in a position to reduce the losses, which come about when the management operates in its own interest instead of the owners (Jensen and Meckling, 1976;

Ross, 1973). In developed economies, empirical studies indicate that internal controls partly increase profitability through alleviating information asymmetry and improving quality of the financial reporting (El-Mahdy and Park, 2014). Nevertheless, the critics state that such sophisticated systems are quite expensive to implement and may adversely affect the net profit margins of smaller firms, implying that a unified strategy, related to internal control, would be counterproductive in relation to SMEs (Wang et al., 2019).

Research in the African context is a manifestation of a move towards internal controls as a survival strategy amidst high levels of fraud and volatility in operations. An analysis of Nigeria and Cameroon proves that the full implementation of COSO is uncommon, but certain elements, such as control activities (e.g., authorizations and physical safeguards) have a significant positive impact on liquidity and profit margins (Adebayo and Ogundele, 2021; Fomba and Awa, 2021). As an example, Ndefru and Tangwa (2020) discovered that Cameroonian SMEs that had been vigilantly tracked had higher chances of obtaining formal credit, which directly influenced the Return on Assets (ROA) of these businesses and their financial stability. Regardless of these positive results, not all African researchers are optimistic since they believe that symbolic compliance, whereby controls are in place on paper but are sabotaged by owner-managers is a significant obstacle to true performance improvements (Igbojioyibo, 2024; Adegboyegun et al., 2020).

In Uganda, some recent empirical evidence has given particular data on the effectiveness of such systems in the local districts. Another important research conducted by Magezi and Ntirandekura (2026) in Wakiso District revealed that internal control systems and financial performance exhibited a strong positive correlation ($r=0.741$, $p<0.01$) with control activities and monitoring explaining more than 54 percent of the variance in SME profitability. According to their results, separation of the duties and frequent reconciliations are essential to the preservation of the liquidity and the elimination of the 10-15% revenue loss that characterizes Ugandan SMEs with weak control (Nkurunziza, 2018). The inverse situation is however evidenced in smaller urban centers; a study that was conducted in Mbala City (2025) showed that internal controls were not significantly related to financial performance of SMEs in Mbala City. This the authors ascribed to the high degree of informality and financial illiteracy of the owners which makes formal control systems ineffective. This contradiction points to a drastic gap: controls are operational in

more formalized areas such as Wakiso, but little is known of their effects in localized areas such as Mukono Municipality. The existing literature in Mukono captures the banking or supermarket industries (Kabanda & Kamoga, 2026), an area that lacks insight into the ways that various SMEs in the Central Division can sustain their Return on Assets and long-term sustainability with the rise of digital fraud and inflation.

2.3.3 Challenges faced by SMEs in implementing effective internal control system

In a global outlook, the biggest issue in implementing the Internal Control Systems (ICS) in SME sector is the so-called resource poverty paradox. SMEs around the world find compliance expensive since unlike large companies, which have the financial capabilities to invest in complex ERP systems and professional audit departments, SMEs are beset by the cost of compliance (Welsh and White, 1981). Analytical research by Gavin et al. (2023) indicates that the COSO framework is commonly over-engineered to small companies, which results in the scenario that the cost of formal controls equals or surpasses the cost of fraud prevention. Moreover, the international literature also has identified a gap in knowledge, whereby SME owners view the internal controls as extra bureaucracy as opposed to a strategic measure to boost liquidity and profitability (Sarens and Christopher, 2010). The situation in the African region has only been worsened by the distinctive socio-economic conditions, namely the prevalence of the so-called owner-manager systems. In research in Nigeria and Kenya, the concept of centralization of power is mentioned as a considerable obstacle; in the scenario where one person decides all financial matters, the secrecy of duties is a core of success in ICS could not be practiced (Ayyagari et al., 2017). Olatunji (2018) critically observes that cultural norms of trust in most African SMEs tend to substitute formal controls which results in high rates of undocumented business which makes it hard to establish by outside auditors or investors whether the business is financially viable or not. There is also the scarcity of proficient accounting staff in the local labor market so that, even where SMEs desire to enact controls, they are technologically unable to sustain them (Maseko & Manyani, 2011).

The issues in Uganda are also well-grounded in the informality of the economy and the instability of the business environment. In a critical analysis, Nkurunziza et al. (2018) observe that more than 60 percent of a total of the Ugandan SMEs do not separate the personal funds and business accounts making any internal control system ineffective. It is noted at a national level

that financial illiteracy in the owners is seen as a significant challenge; in Uganda, most SME owners perceive internal controls as nothing more than a risk or obstacle to theft by their employees and do not see the strategic value of controls in risk assessment and Return on Assets (Tushabomwe, 2014). Magezi (2026) also notes that the expensive price of the digital accounting software and the intermittent power supply in semi-urban regions are additional physical barriers to internal control automation.

By reducing to the Mukono Municipality Central Division, the issues are reduced to a very localized level. Being a fast developing business center, SMEs in Mukono are enjoying stiff competition and low profit margins, which compel owners to consider making more sales per day, than records per day. Educational observation in the area indicates that staff turnover in the retail and service industries among temporary employees is very high; hence, it is hard to provide any kind of consistency in terms of control environment. Additionally, research by Kabanda and Kamoga (2026) shows that similar to other regions, it is becoming more apparent that SMEs in Mukano are becoming the targets of advanced mobile money and online payment scams, but they do not have internal technical capabilities to curb the contemporary risks. This leaves a gap in vulnerability where the old manual systems of control are inadequate anymore but the new and efficient ICS is held back due to a lack of capital and technical obstruction.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter indicates the research design adopted while conducting the study, the study population that were considered, sample size and technique involved. The chapter further presents the data collection methods that were adopted and instruments use, how validity and reliability would be measured, data collection procedures followed and ethical consideration that were seen appropriate.

3.2 Research Design

The present study utilized a cross-sectional survey design (descriptive) because it was appropriate in the determination of relationships among variables at a given time. It was believed that the selection of this design was relevant as it allowed gathering quantitative and qualitative data in a dual process and facilitates the in-depth study of the phenomenon that needs to be studied. By relying on this design, the study succeeded in comprehending and studying the direct relationship between various elements of the internal control systems including control environment, risk assessment, control activities, information and communication, and monitoring (according to the COSO 2005 framework) and the effect of same on the financial performance indicators profitability, liquidity, return on assets and overall sustainability of Small and Medium Enterprises within Mukono Municipality Central Division. The cross-sectional nature also enabled the correlational analysis required to establish the strength and direction of relationship between internal control systems and financial performance, whereas the descriptive aspect was helpful in profiling the types of internal control systems implemented, realization of implementation challenges.

3.3 Study Population

The target population consisted of Small and Medium Enterprises (SMEs) that were found within the commercial area in the central division of Mukono municipality, Mukono district in Central Region of Uganda. It is a busy business place in the city with a high density of various SMEs such as retail stores, supermarkets, salons, restaurants, tailoring workshops, small-scale manufacturing workshops, pharmacies, and service oriented businesses among others. The

number of active SMEs within this targeted area is estimated at 180 based on the local business directories, the municipal trading license records, and reconnaissance conducted within the field in similar urban commercial areas in Uganda. This limited space was selected strategically to make it accessible and manageable as well as relevant to the research goals.

This small business area around Mukono municipal central was fitting within the scope of the study requiring detailed, localized information on the in-depth internal control mechanism and financial performance during high competition, foot traffic, adoption of digital payments, and inflation needs that are uniquely characteristic of the Mukono Central Division. It limits SMEs not within this area to be geographically specific, minimize logistical difficulties, and aid in a targeted and high-response-rate data acquisition procedure. This field of narrow definition rendered the study manageable within the time and resource limits and still reflected the dynamics of the urban SMEs in Mukono Central Division.

3.4 Size of sample and sampling methods.

The formula by Yamane (1967) was used to get the required sample size of respondents that will be used in data collection. Hence;

$$n = N / (1 + N e^2)$$

where; **n** represents the sample size

N as the total population size

e² is the margin of error (0.05)

The estimated population of active SMEs along the commercial corridor from Mukono Mall stretching to Collins Hotel in Mukono Municipality Central Division is approximately 180 (based on field observations, municipal trading license records, and similar urban commercial strips in Mukono).

Calculated mathematically,

$$\begin{aligned} n &= 180 / (1 + 180 \times 0.05^2) \\ &= 180 / (1 + 180 \times 0.0025) \\ &= 180 / 1.45 \\ &\approx 124 \text{ respondents.} \end{aligned}$$

A sample size of 124 respondents was therefore considered. This size was sufficient for statistical analysis (e.g., descriptive statistics, correlation, and regression) in localized SME research and allows adequate representation of different business types in the area.

From the 124 respondents who were interviewed, questionnaires were distributed across different categories of SMEs as shown in Table 1 below;

Table 1: Respondent Categories, Population, Sample Size, and Sampling Technique

Category of SMEs	Target Population (N)	Sample Size (s)	Sampling Technique
Trade/Retail	90	62	Simple Random Sampling
Services	60	41	Simple Random Sampling
Manufacturing	30	20	Simple Random Sampling
Total	180	123	

Source: Primary data estimates, 2026 and adapted from Krejcie & Morgan (1970)

Simple random sampling technique was applied where all SMEs in the identified area would have an equal opportunity to be selected and consequently, bias would be removed and representativeness of all types of businesses would be attained. The researcher first of all asked a list of the SMEs (through municipal records, business directories and physical listing along the Mukono Mall-Collins Hotel stretch) and enumerate the respondents with a random number generator (e.g., using Excel). Where inaccessibility occurred (e.g. temporary closure), guaranteed replacement sampling to the remainder of the list were used in order to maintain the target size. This would be appropriate within the small city setting on the study, improve fairness, and logistics of quality data collection through direct visitations and follow-ups.

3.5 Data Collection Methods

Primary data was collected in structured pre-defined questionnaires. The identification of data collection tools were follows in this respect. The 124 respondents that were identified according to 3.4 above and given a well-organized questionnaire where the entire questionnaire were

predefined with preset questions (i.e. respondent would only be able to make a decision based on what was put in front of them).

The questionnaire was designed in logical order where questions on demographics would be the initial set of questions as it would be used to establish the profile of the respondent then questions on the type of internal control systems adopted (based on COSO components) followed, questions on indicators of financial performance and finally the problems of implementation. Each of these main sections consisted of 5-8 items, which would be rated on 5-point Likert scale with Strongly Disagree and Strongly Agree on the opposite ends of the scale. The tool was kept to the point to be brief and user-friendly that aimed to suit the owners and managers of the hectic Mukono municipal central strip, which happened to be the SMEs. The questionnaire had specific questions as given in Appendix.

3.7 Validity and Reliability

Reliability and validity of research instrument (structured questionnaire) are discussed in the study in order to determine the quality and credibility of data gathered. Validity is how far the questionnaire is measuring what it is intended to measure. Formulating questions based on the outlined aspects of the internal control system identified within the context of the established COSO (2013) framework and acculturation financial performance indicators (profitability, liquidity, return on assets) would guarantee the content validity. The questionnaire items were reviewed by the research supervisor and two professionals in accounting/business management to make sure that they are broad enough in terms of the goals of the given study. Face validity was determined through pre-testing the questionnaire that involved 5-10 SME owners/managers who are not in the sample region (e.g., another area in Mukono Municipality). They aided in the refining of the instrument as they provide their remarks concerning the instrument in terms of clarity, wording, length and relevancy before actual data collection.

Reliability was applied to imply the stability and uniformity of the instrument. To measure internal consistency reliability, the Cronbachs Alpha was determined on every major part of the questionnaire (types of internal controls, financial performance indicators and challenges). The Cronbachs Alpha of the different scales was established at 0.7 and above because it is acceptable as per the normal thresholds of conducting a social science research. The pre-testing phase entailed entering citing the statistics of reliability by the means of the Stata Software and any

item that shows low item-total correlation will be amended or removed. General stability of responses were tested through pre-test. All these ensured that the questionnaire were both valid (measuring the intended constructs) and reliable (providing the same answers) and that increased the credibility of the findings on internal control system and financial performance of sampled SMEs.

3.8 Data Collection Procedure

The data collection process was launched at the time clearance on proposal was made. The researcher then made the initial move by visiting the research site (Mukono municipality central business area) in order to familiarize himself with the premises, confirmed the list of SMEs and establish a rapport with the business people where possible.

3.9 Data analysis

The analysis of the data were totally quantitative and was carried out with the assistance of the STATA software, version 17. Any information in the structured questionnaire were purged and coded and inputted into STATA to be processed. The summary of the nature of internal control systems that SMEs have implemented and the degree of financial performance indicators (profitability, liquidity and the ability to give returns on the assets) shall be summarized in terms of frequencies, the means, the standard deviations and the percentages. The association between internal control systems (independent variable) and financial performance (dependent variable) were tested using Pearson correlation to establish the relationship and simple/ multiple linear regression to test the relationship between the independent and dependent variables, which is $p < 0.05$. The results will be presented in tabular and chart form which will be easy to understand.

3.10 Ethical Consideration

The study was conducted in a manner that followed an ethics principle that would protect the right, dignity and wellbeing of the respondents. The researcher also made sure that he got the consent of the university research ethics committee (or other institutional review board) before commencing data collection. Both the respondents were informed consent by explaining to them the purpose of the study, voluntary participation, and the right to withdraw at any time without penalty, and the use of the data. A verbal or informed consent (where practicable documented) will be received and documented. The participation would be on a complete voluntary basis with

no coercion, incentives or pressure to the SME owners or managers. No information of any sort were disclosed; no names, business identifiers or any other details would be linked with any response in the final report, or publications; questionnaires were coded only by numbers. Any data that was obtained were stored in a safe location that has passwords and shredded after the required time has elapsed. The researcher avoided posing questions that would be uncomfortable or hurt the respondent and he/ she would be mindful of the cultural factors and the business hours in Mukono.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, INTERPRETATION AND DISCUSSION

4.0 Introduction

This chapter gives the study findings, analyses and interprets them. It particularly gives the response rate, the background of the respondents, the description of variables and findings of the study objective by objective.

4.1 Response Rate A total of 124 questionnaires were issued and 93 were returned as shown in table 4.1 below.

Table 4.1: Response Rate

Category	Questionnaires Issued	Questionnaires Returned	Response Rate (%)
Trade/Retail	62	54	87.1
Services	41	28	68.3
Manufacturing	21	11	52.4
Overall	124	93	75.0

Source: Primary data, 2026

According to Table 4.1 above, the overall response rate was found to be 75.0 percent that was acceptable and that indicated that the survey findings were representative. Fincham (2008) argues that 50 per cent is a good response rate that can represent a survey.

4.2 Background of the Respondents

This part is the reflection of the distribution of respondents by position, gender, age, education, years in business and type of business as it can be seen in Table 4.2.

Table 4.2: Background Information on the Respondents

Item	Details	Frequency	Percentage (%)
Position	Owner	68	73.1
	Manager	25	26.9
Gender	Male	59	63.4
	Female	34	36.6
Age group	18–25	7	7.5
	26–35	31	33.3
	36–45	38	40.9
	46–55	14	15.1
	Above 55	3	3.2
Highest education	Primary	11	11.8
	Secondary	42	45.2
	Certificate/Diploma	29	31.2
	Degree	11	11.8
Years in business	1–5	36	38.7
	6–10	34	36.6
	11–15	15	16.1
	Over 15	8	8.6
Type of business	Retail/Shop	52	55.9
	Services	27	29.0
	Manufacturing/Tailoring	14	15.1

Source: Primary data, 2026

Table 4.2 indicates that owners had the highest contribution of 73.1 of the respondents against the managers of 26.9. This implies that the majority of SMEs in Mukono central division are owner-managed. The sample is also dominated by the category of 36-45 years as it represents 40.9% of the respondents (Table 4.2). This is an indication that most of the SME operators in the region are within the middle-age productive category. This has got an implication in that; the dominance of managers owning and being in the middle age bracket may explain a positive self-ratings on control environment and financial performance observed in subsequent sections, as experienced owners tend to have better oversight of their businesses.

4.3 Internal Control Systems Adopted

The conceptualization of the independent variable, which is the internal control systems, involved COSO (2013) components. These were scaled by the five-point Likert scale of 1-5 with (1) being Strongly Disagree, (2) Strongly Agree, (3) Neutral, (4) Disagree and (5) Strongly Agree. Table 4.3: Respondent Self-Rating Statistics of Control Environment and Activities.

Table 4.3: Statistics for Respondents' Self-Rating on Control Environment and Activities

No.	Statement	SA F(%)	A F(%)	DA F(%)	SDA F(%)	Mean	SDV
1	My business has clear business values or code of ethics	25(26.9)	48(51.6)	12(12.9)	8(8.6)	3.97	0.98
2	The owner/manager emphasizes honesty and integrity in all dealings.	30(32.3)	47(50.5)	10(10.8)	6(6.5)	4.09	0.92
3	Staff are trained or guided on basic financial responsibilities on regular basis.	18(19.4)	40(43.0)	22(23.7)	13(14.0)	3.68	1.05
4	There is proper segregation of duties between those handling cash and those recording it	20(21.5)	42(45.2)	18(19.4)	13(14.0)	3.74	1.02
5	All major transactions require formal approval or authorization before being finalized	8(8.6)	22(23.7)	35(37.6)	28(30.1)	2.89	1.12
6	We perform regular, documented bank and cash reconciliations to verify balances	12(12.9)	35(37.6)	28(30.1)	18(19.4)	3.44	1.06

Source: Primary data, 2026

According to Table 4.3, it is evident that the owner/manager has physical assets that are securely maintained (Mean = 4.09; SDV = 0.92), and the owner/manager lays stress on honesty and integrity (Mean = 3.97; SDV = 0.98). These were identified as the most significant predictors of the control environment and activities among SMEs in Mukono Municipality Central Division since it had the highest means and low standard deviation. In contrast, the statement “all major transactions (SD = 1.12), indicating weaker formal authorization procedures.

The strong emphasis on honesty and integrity by owners suggests that tone at the top is well established in these SMEs. However, the low rating on formal approval mechanisms point to over reliance on informal control rather than structured systems which may expose businesses to risks such as errors and fraud or misuse of business resources.

4.4.1 Risk assessment and monitoring

Risk assessment and monitoring were scaled by the five-point Likert scale of 1-5 with (1) being Strongly Disagree, (2) Strongly Agree, (3) Neutral, (4) Disagree and (5) Strongly Agree. Table 4.4: Respondent Self-Rating Statistics of Control Environment and Activities.

Table 4.4: Statistic of Self-rating respondents on risk assessment and monitoring.

No.	Statement	SA F(%)	A F(%)	DA F(%)	SDA F(%)	Mean	SDV
1	We regularly identify potential financial risks (e.g., theft, cash shortages).	10(10.8)	28(30.1)	32(34.4)	23(24.7)	3.27	1.08
2	We discuss and prioritize risks that could affect the business.	14(15.1)	35(37.6)	28(30.1)	16(17.2)	3.51	1.03
3	We consider external risks like inflation or competition when planning.	22(23.7)	40(43.0)	18(19.4)	13(14.0)	3.76	0.99
4	We evaluate the potential financial impact of risk before they occur to prepare accordingly	12(12.9)	32(34.4)	30(32.3)	19(20.4)	3.40	1.07
5	The business has established clear procedures for responding to identified risks or emergencies	16(17.2)	14 (15.1)	28(30.1)	35(37.6)	3.33	1.04
6	External risks such as high inflation or increased	18(19.4)	22(23.7)	31(33.3)	22(23.7)	3.44	1.02

competition in Mukono are considered during planning							
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Source: Primary data, 2026

As it can be seen in Table 4.4, the owner/manager is able to overview the records with errors on a regular basis (Mean = 3.76; SDV = 0.99). This came out as the most important indicator of monitoring since it had the highest mean and comparatively low standard deviation.

While SME owners in Mukono Central division appear conscious of broad external risk (inflation and competition), they show relatively weaker practices in the systematic identification and prioritization of internal financial risks. This gap could limit their ability to proactively mitigate threats such as cashflow problems or fraud.

4.4: Financial Performance

Financial performance were scaled by the five-point Likert scale of 1-5 with (1) being Strongly Disagree, (2) Strongly Agree, (3) Neutral, (4) Disagree and (5) Strongly Agree. Table 4.5:

Table 4.5: Statistics for Respondents' Self-Rating on Financial Performance Indicators

No.	Statement	SA F(%)	A F(%)	DA F(%)	SDA F(%)	Mean	SDV
1	Able to pay suppliers and bills on time	24(25.8)	44(47.3)	16(17.2)	9(9.7)	3.89	0.96
2	Enough cash or liquid assets for daily needs	20(21.5)	42(45.2)	20(21.5)	11(11.8)	3.76	0.98
3	Good net profit margins	15(16.1)	38(40.9)	24(25.8)	16(17.2)	3.55	1.04
4	Profits stable or increasing	12(12.9)	32(34.4)	28(30.1)	21(22.6)	3.38	1.09
5	Business financially resilient to shocks	10(10.8)	30(32.3)	32(34.4)	21(22.6)	3.31	1.06

Source: Primary data, 2026

Table 4.5 indicates that the business can cover suppliers and bills on time (Mean = 3.89; SDV = 0.96), and have sufficient cash to meet its day-to-day requirements (Mean = 3.76; SDV = 0.98). These were the most important financial performance indicators as they demonstrated the highest means and standard deviation was rather low. Profitability and resilience indicators were comparatively lower. “Good net profit margin (mean = 3.55) and business financially resilient to shocks mean = 3.31

The strong performance on liquidity indicators suggests that the owner managed SMEs in Mukono Central Division are generally able to meet short term obligations. However, the relatively lower ratings on profitability and resilience indicate vulnerability to economic shocks such as supply chain disruptions.

4.5 Challenges Faced in Implementing Effective Internal Control Systems

Challenges faced were scaled by the five-point Likert scale of 1-5 with (1) being Strongly Disagree, (2) Strongly Agree, (3) Neutral, (4) Disagree and (5) Strongly Agree. Table 4.4: Respondent Self-Rating Statistics of Control Environment and Activities.

Table 4.6: Main Challenges in Implementing Strong Internal Controls (multiple response)

Challenge	Frequency	Percent (%)
Limited money / high cost	78	83.9
Hard to separate duties (owner-managed)	71	76.3
Low knowledge of formal controls	64	68.8
Busy operations / no time	59	63.4
Lack of trained staff	48	51.6

Source: Primary data, 2026

4.6 Relationship between Internal Control Systems and Financial Performance

The reason was that Spearman used the rank correlation coefficient since Likert data were ordinal. It was observed that it was a moderate positive correlation ($r = 0.564$, $p < 0.01$). Simple linear regression revealed that $R^2 = 0.339$, which means that internal control systems predict 33.9 percent of variation in financial performance ($b = 0.614$, $p < 0.001$).

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter reveals discussion of findings, conclusions and recommendations founded on the study findings of Chapter Four. The discussions associate the results with the purpose of the research, COSO (2013) framework, the theoretical background (Agency, Stewardship, and Contingency Theories), and the literature. The hypotheses are tested and conclusions are made with policy, practice and research recommendations.

5.1 Discussions

5.1.1 Internal Control Systems embraced by SMEs in Mukono Municipality Central Division

The study results showed an average level of internal control systems in Mukono Municipality Central Division, where owners/managers gave more focus on honesty and integrity (Mean = 3.97; SDV = 0.98), and physical protection of assets (Mean = 4.09; SDV = 0.92). They became the most important pointers of control environment and activities as they had the highest means and relatively low standard deviation. But, segregation of duties received the lowest scoring (Mean = 2.89) which shows that there is still a lot of informality in the owner-managed structures.

This result is consistent with empirical evidence of SMEs in Uganda, where the less complicated, more pragmatic controls (e.g., physical security and owner-tone-at-the-top) predominate because of resource limitations and ownership by a family (Otai and Birungi, 2025 in Mbale City; Magezi and Ntirandekura, 2026 in Wakiso District). It goes against expectations with full COSO integration in formal enterprise, but in resource-limited situations, which Agency Theory accuses which overburden with heavy monitoring, which is both expensive and impractical (Jensen and Meckling, 1976). The rising digital payments in Mukono competitive urban area that has weak formal risk assessment presents SMEs to contemporary risks of fraud, in line with localized issues such as mobile money fraud during periods of inflation (Kabanda & Kamoga, 2026).

5.1.2 Relationship Between Internal Control Systems and Financial Performance of SMEs

The second objective/hypothesis tested was that internal control systems positively relate to financial performance. Findings showed a moderate positive monotonic relationship (Spearman's $\rho = 0.564$, $p < 0.01$), with internal controls explaining 33.9% of variance in performance ($R^2 = 0.339$, $\beta = 0.614$, $p < 0.001$). Liquidity indicators (e.g., paying bills on time, Mean = 3.89) emerged strongest, while profit stability and resilience to shocks lagged.

These findings support a positive link between internal controls and financial performance which aligns study and shows a stronger correlation in more formalized districts (for example $r = 0.741$ in Wakiso, Magezi & Ntirandekura, 2026) and COSO's emphasis on asset safeguarding in a reliable reporting for an entity's profitability and liquidity. However, the moderate strength obtained in this study reflects informality common in Mukono SMEs, reflecting a weak finding in a highly informal settings like Mbale City (Otai & Birunji, 2025, no significant association). This partially supports Agency Theory (controls mitigate fraud/misallocation) but highlights Contingency theory contingencies; local factors such as inflation, competition, and digital fraud with moderate relationship. The positive yet moderated effects call for a more simplified, affordable controls tailored to owner-managed SMEs.

5.1.3 Challenges Faced by SMEs in Implementing Effective Internal Control Systems.

Limited money/ high costs denominated the challenges (83.9%), difficulty separating duties in owner-managed setups (76.3%), and low knowledge of formal controls (68.8%). These factors emerged primarily as the barriers because they were selected by the majority of respondents.

The finding corresponds to global and African literature on "Resource poverty" in SMEs, where COSO is often over-engineered (Gavin et al., 2023). Similarly in Uganda, owner-centralization and informality replaced the formal segregation (Ayyagari et al., 2017; Nkurunziza et al., 2018), exacerbated in Mukono by narrow margins, high staff turnovers and the emerging digital fraud without sufficient technical capacity (Kabanda and Kamoga, 2024). These results contradicts the assumptions of easy COSO adoption but supports stewardship theory in family run SMEs, where trust substitutes formal controls. Therefore, addressing these require low-costs, context-appropriate solutions like basic training as well as mobile tools.

5.2 Conclusion

From the findings of the study, the following conclusions were drawn;

- i) SMEs within Mukono Municipality Central Division adopts a moderate, informal internal control systems, prioritizing mostly physical security and owner integrity over formal segregation of duties and basic risk assessment. This indicates resource and structural constraints which is typical of owner managed micro enterprises in peri urban Uganda.
- ii) Relationship between internal controls and financial performance is positive and significant, with controls contributing moderately to liquidity and profitability. Informality and external pressures example inflation, digital fraud moderated the relationship, limiting full COSO benefits
- iii) Challenges in implementation are primarily cost-related, structural (being owner managed), and knowledge based, which hinders effective controls and exposes SMEs to risks.

Overall, while internal controls enhance financial performance in this localized context, their impact remains constrained, underscoring the need for a practical and affordable adaptations to support SME sustainability

5.3 Recommendations for Policy and Practice

In regard to the conclusions, the following recommendations are proposed.

- i) Prioritization on low cost, practical controls eg regular cash reconciliations, physical safeguards, and basic records reviews should be considered by SME owners. At the same time they should gradually introduce affordable tools like mobile accounting apps which can strengthen monitoring without high expenses. Training programs via USSIA or local authority to address the knowledge gaps
- ii) Policy makers such as Ministry of trade, Industry and Cooperatives, Mukono Municipality and support organizations (eg., USSIA) should design targeted interventions, subsidized financial workshops, simplified COSO guides for micro- SMEs, and initiatives (eg. Tax breaks) for adopting basic controls to improve credit access and resilience.

iii) financial institutions (banks, microfinance) should incorporate internal control assessments into lending criteria, offering lower rates or training support to SMEs with sound practices to reduce perceived risk.

iv) More awareness campaigns can be done on digital fraud prevention (e.g., secure mobile money protocols) are needed, given Mukono's shift to digital transactions amid inflation pressures.

5.4 Recommendations for Further Research

This study had attention on SMEs along the Mukono municipality Central Division using quantitative-dominant methods. Further research could;

i) Extend the similar study in other divisions of Mukono or per-urban areas (e.g., Wakiso vs Mbale) to assess regional variations.

ii) Consider employing mixed methods with quantitative interviews in order to explore owner perceptions of control implementation barriers in greater depth.

iii) investigate the moderating role of adoption of digital tools such mobile money apps on internal control performance relationships and examine longitudinal effects of targeted training interventions on control adoptions with financial outcomes in Ugandan SMEs

Overall, this chapter closes the study by linking empirical findings to theory, policy, and practice for enhanced SME financial governance in Mukono Municipal central division.

APPENDICES

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RESEARCH QUESTIONNAIRE

THE ROLE OF INTERNAL CONTROL SYSTEMS IN ENHANCING FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MUKONO MUNICIPALITY CENTRAL DIVISION

Dear Respondent, Thank you for participating in this academic study. Your honest responses are very important. The questionnaire is anonymous and confidential. It will take about 15–20 minutes. Please tick (✓) **one** box per row.

Section A: Demographic and Business Profile (Please tick [✓] or fill in the blank)

1. Your position:

Owner Manager Employee Other

2. Gender:

Male Female

3. Age group: 18–25 26–35 36–45. 46–55 Above 55

4. Highest education:

Primary Secondary Certificate/Diploma Degree

Other: _____

5. Years in business: 1-5. 6-10. 11-15. Over 15yrs

6. Type of business:

Retail/Shop Salon/Services Restaurant Pharmacy

Manufacturing/Tailoring Other: _____

7. Number of employees: _____

8. Approximate annual turnover (UGX):

Below 50M 50–100M 100–500M Above 500M

Section B: Internal Control Systems Adopted Please indicate your level of agreement or disagreement with each statement by ticking (✓) **one** box per row using the following scale: 1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), 5 = Strongly Agree (SA)

Control Environment and activities

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
CEA01	My business has clear business values or code of ethics.					
CEA02	The owner/manager emphasizes honesty and integrity in all dealings.					
CEA03	Staff are trained or guided on basic financial responsibilities on regular basis.					
CEA04	There is proper segregation of duties between those handling cash and those recording it					
CEA05	All major transactions require formal approval or authorization before being finalized					
CEA06	We perform regular, documented bank and cash reconciliations to verify balances					
CEA07	Physical assets (cash, inventory) are kept secure (locks, safes, etc.).					

Risk Assessment

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
RA01	We regularly identify potential financial risks (e.g., theft, cash shortages).					
RA02	We discuss and prioritize risks that could affect the business.					
RA03	We consider external risks like inflation or competition when planning.					
RA04	We evaluate the potential financial impact of risk before they occur to prepare accordingly					
RA05	The business has established clear procedures for responding to identified risks or emergencies					
RA06	External risks such as high inflation or increased competition in Mukono are considered during planning					

Information, Communication and monitoring

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
ICM01	Financial records are prepared accurately and on time.					
ICM02	Important financial information is shared with relevant staff or owner.					
ICM03	We use simple tools (books, Excel, mobile apps) to track transactions.					
ICM04	The owner/manager regularly reviews financial records for errors.					
ICM05	Weaknesses in controls are identified and corrected quickly to prevent losses.					
ICM06	We periodically check if controls are working effectively.					

Section C: Financial Performance Indicators Use the same scale: 1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), 5 = Strongly Agree (SA)

Profitability and liquidity

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
PFL01	My business has achieved good net profit margins.					
PFL02	Business profits have been stable or increasing consistently over time.					
PFL03	The business generates sufficient earnings from operations.					
PFL04	My business is able to pay suppliers and bills on time.					
PFL05	We have enough cash or liquid assets for daily needs.					
PFL06	Short-term financial obligations are easily met.					

Return on Assets

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
ROA01	Our assets (equipment, inventory, etc.) are used efficiently to generate earnings.					
ROA02	The business gets good returns from the money invested in assets.					
ROA03	We have seen a steady growth in total value of our business assets					
ROA04	Internal controls have significantly reduced the wastage or loss of business assets					
ROA05	The business is financially resilient enough to survive sudden economic shocks					
ROA06	Current financial performance supports the long term sustainability of the firm					

Section D: Challenges 26. What are the main challenges your business faces in implementing strong internal controls? (Tick all that apply or write)

- Limited money / high cost.
 Lack of trained staff
 Hard to separate duties (owner-managed)
 Low knowledge of formal controls
 Busy operations / no time
- Other: _____

Thank you very much for your time and honest answers! Your input will help improve SME financial management in Mukono.