

**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF  
MANUFACTURING FIRMS IN UGANDA: A case of Uganda Clays Limited**

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**UGANDA CHRISTIAN  
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## DECLARATION

I, Mutesi Daniella K., hereby declare that this research report entitled, "internal control systems and financial performance of manufacturing firms in Uganda: a case study of Uganda Clays Limited," is my original work and that it has never been submitted in any institution for any award. I have read the regulations of the university with regard to plagiarism and here declare that I abided by all of them.

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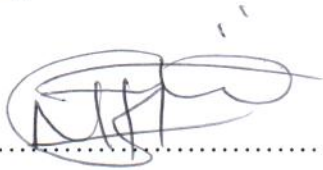
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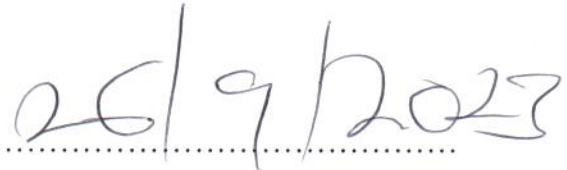
## APPROVAL

This is to acknowledge that this research report entitled, "internal control systems and financial performance of manufacturing firms in Uganda: a case study of The study context," has been done under my supervision and is now ready for submission to the School of Business at Uganda Christian University.

Signature: .....



Date: .....



MR. NICSON KATSIME

(Supervisor)

## **DEDICATION**

With special regard, I wish to dedicate this piece of work to my parents.....who have always been there to support me in my education. May the Almighty God richly bless you.

## **ACKNOWLEDGEMENT**

I would like to thank the Almighty God for the gift of life and guiding me throughout my education; it has not being easy but it was possible. My heartfelt gratitude goes to my supervisor, Mr. Nicson Katsime for the tireless efforts and expertise he rendered to me during his supervision.

Additionally, I acknowledge the managers and employees of The study context for providing me with the necessary information to complete my research.

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God bless you all.

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## **ABSTRACT**

The study investigated the effect of internal control systems on the financial performance of the manufacturing firms in Uganda: A case of Uganda Clays Limited. It specifically focused on; examining the relationship between risk assessment procedures and financial performance, reviewing the relationship between ICT systems and financial performance and assessing the relationship between control environment and financial performance.

The study was carried out using an explanatory research design where both quantitative and qualitative research approaches were also used. The data was collected using questionnaires and interviews during the data collection, both purposive and simple random sampling methods were used. A sample size of 92 respondents who are management and employees from the study context was also used in the study although 44 responded to the study.

From the findings, it was revealed that the organization has demonstrated a commitment to managing financial risks effectively through clear guidelines, historical data utilization, and strategic decision-making based on both internal and external factors. Their ICT systems are robust, facilitating integrated financial processes, enhancing data security, and promoting collaboration among financial teams. Moreover, a strong control environment emphasizing ethical behavior, compliance, accountability, and transparency exists, supplemented by regular audits and open communication channels. Importantly, these individual components are found to significantly and positively influence the company's financial performance, underscoring their collective importance in driving the company's success in the market.

Finally, the study recommends that manufacturing firms in Uganda should prioritize several key actions. Firstly, they should enhance their risk assessment procedures, including clear guidelines for identifying financial risks, historical data analysis, and consideration of both internal and external factors. Secondly, investments in robust ICT systems, with regular updates and maintenance, are crucial. Additionally, firms should foster ethical cultures emphasizing compliance, accountability, and transparency.

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

The study was about “the effect of internal control systems on the financial performance of the manufacturing firms in the study context.” This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significant of the study and conceptual framework.

### 1.1 Background of the study

Mwindi (2018) reports that internal controls are processes designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness, efficiency of operations and compliance with applicable laws and regulations. The Internal control systems are put in place to, among other things, oversee public sectors compliance and adherence to national policies in the implementation of government programs (Adekola & Olayinka, 2018).

Financial management emerged as a distinct field of study at the turn of this century. It is one of the several functional areas of management but it is the center to the success of any industry. Inefficient financial management, combined with the uncertainty of the business environment often led Business Enterprises to serious problems (Lakew & Rao, 2014). According to Kwame (2010), careless financial management practices are the main cause of failure for businesses and companies. Regardless of whether it is an owner-manager or hired-manager, if the financial decisions are wrong, profitability of the company will be adversely affected. Consequently, a business organization’s profitability could be damaged because of inefficient financial management (Obrenovic et al., 2020).

Globally, internal control systems are an essential component of corporate governance and financial management worldwide. Effective internal controls ensure the accuracy, reliability, and integrity of financial information, safeguard assets, and promote compliance with laws and regulations (Bubilek, 2017). Across industries and countries, organizations implement internal

control mechanisms to mitigate risks, prevent fraud, and enhance operational efficiency. The efficient functioning of internal control systems is crucial for the financial performance and sustainability of any organization (Teru et al., 2017). Internal controls are policies, procedures, and practices implemented by a company to safeguard its assets, ensure accuracy and reliability of financial information, and promote compliance with laws and regulations. Effective internal controls help in mitigating risks, preventing fraud, and enhancing operational efficiency (Younas & Kassim, 2019).

In Africa, the manufacturing sector has been recognized as a key driver of economic development, job creation, and industrialization. The sector encompasses various industries such as food processing, textiles, chemicals, and construction materials (Kinyua et al., 2015). However, manufacturing firms in Africa often face challenges related to weak infrastructure, limited access to finance, inadequate technological capabilities, and governance issues. These challenges highlight the importance of robust internal control systems to address financial risks, improve operational performance, and attract investment (Francis & Imiete, 2018).

In the context of manufacturing firms in Uganda, internal control systems play a significant role in ensuring the proper utilization of resources, minimizing financial irregularities, and maintaining overall organizational performance (Kabuye et al., 2019). Uganda's manufacturing sector has been a key driver of economic growth, contributing to job creation, export earnings, and technological advancements. Uganda Clays Limited (UCL) is a prominent manufacturing firm in Uganda, specializing in the production of clay construction products. Established in 1950, UCL has been a key player in the country's construction industry, providing high-quality roofing tiles, bricks, and pipes. As a publicly listed company on the Uganda Securities Exchange, UCL has a responsibility to maintain transparency, accountability, and sound financial management (Musah et al., 2022).

However, manufacturing firms like UCL often face internal control-related challenges, such as inventory management, revenue recognition, procurement practices, and internal fraud risks. These challenges can have a significant impact on financial performance and overall sustainability (Aksoy & Aksoy, 2020). Therefore, understanding the relationship between internal control systems and financial performance is crucial for manufacturing firms in Uganda, including UCL.

## **1.2 Problem statement**

Effectiveness of internal control on financial performance should be considered most important in every firm because the task of internal controls is to prevent and detect fraud in the firm (Younas & Kassim, 2019). Internal controls are put in place to ensure safe custody of all assets; to avoid misuse or misappropriation of the firm's assets and to detect and safeguard against probable frauds. Every firm whether manufacturing or non-manufacturing, should have management of the highest qualifications, caliber and dedication since its inception (Reid & Smith, 2017).

Despite the importance of internal controls in the overall performance of manufacturing companies, firms are still struggling to maintain and improve their overall financial performance. For example, according to Muhumuza (2019) Uganda Clays which is one of the companies listed on Uganda Securities Exchange, had for yet another year been in the red, after the company announced Ugx5billion loss in 2014. This was a further expansion of losses from the Ugx3.9billion in 2018. Furthermore, there have been reports that clay building materials are not procured on time as specified by end users and poor quality clay building products have been produced (Kabuye et al., 2019). This has meant that the UCL incurs high costs in clay building supplies recalls and their disposal. These financial performance gaps could be associated with failure to conduct effective internal controls (Musah et al., 2022).

Furthermore, according to several studies that have been conducted for example by (Kaynak, 2018; Gatlin, 2013) show that most companies have not done enough to improve their internal controls in terms of auditing, risk assessment and control activities which has hindered their profitability, sales, return on investment and growth in the long run. Despite the studies carried out on, there is still scanty information on how each of the internal control system affects the financial performance of manufacturing companies especially in developing countries like Uganda. Therefore this research intended to fill this gap by investigating the effect of internal control systems on the financial performance of the manufacturing firms in the study context.

## **1.3 General objective of the study**

The general objective of the study was to investigate the effect of internal control systems on the financial performance of the manufacturing firms in the study context.

#### **1.4 Specific objectives of the study**

- i. To examine the relationship between risk assessment procedures and financial performance in the study context.
- ii. To review the relationship between ICT systems and financial performance in the study context.
- iii. To assess the relationship between control environment and financial performance in the study context.

#### **1.5 Research questions**

- i. What is the relationship between risk assessment procedures and financial performance in the study context?
- ii. What is the relationship between ICT systems and financial performance in the study context?
- iii. What is the relationship between control environment and financial performance in the study context?

#### **1.6 Scope of the study**

##### **1.6.1 Content Scope**

The study focused on investigating the effect of internal control systems on the financial performance of the manufacturing firms in the study context. It was limited to; examining the relationship between risk assessment procedures and financial performance, reviewing the relationship between ICT systems and financial performance and assessing the relationship between control environment and financial performance.

##### **1.6.2 Time scope**

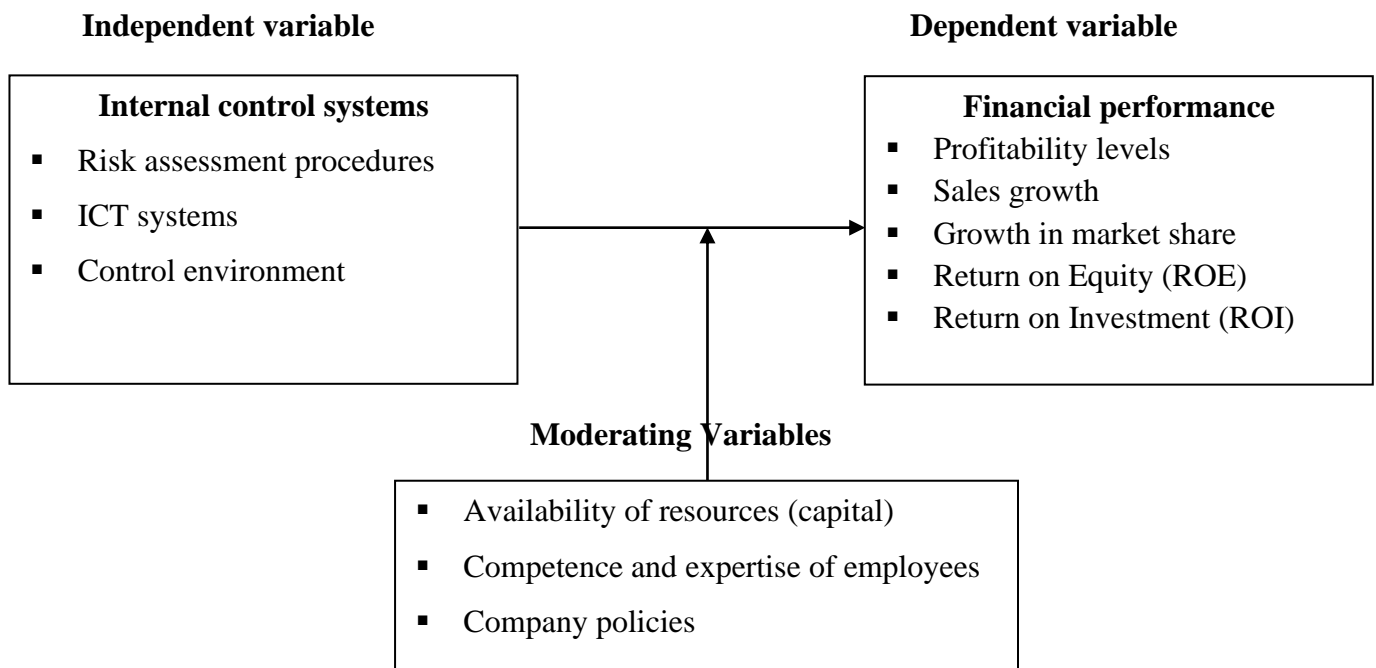
Data for this study was collected over a period of three months from June to August 2023. The review of the report and documents focused at a range of ten years that is 2013 to 2022 since this period helped in determining the level of financial performance of manufacturing firms in line with their internal control systems.

### 1.6.3 Geographical scope

This study was carried out in Uganda Clays Limited main branch located along Entebbe Road, Kajjansi, and P.O. Box 3188, Wakiso, Uganda. Uganda Clays Limited was chosen because it's one of the manufacturing companies that have tried to implement the use of internal control systems in order to attain improved financial performance.

### 1.7 Conceptual framework

**Figure 1: Conceptual Framework**



**Source:** Adapted from the “Internal Control System Handbook”, 2012 and modified by the researcher (2023)

The above conceptual framework shows the relationship between the independent variable (internal control systems) and the dependent variable (financial performance). In this study, internal control systems is measured using; risk assessment procedures, ICT systems and control environment. On the other hand, financial performance is measured using; profitability levels, sales growth, growth in market share, return on Equity (ROE) and return on Investment (ROI). This implies that the effective adoption of the above mentioned internal control systems are

likely to improve the overall financial performance of the company and vice versa. The conceptual framework also includes the moderating variables which are the enablers for internal control systems adoption to achieve financial performance and these are; availability of resources (capital), competence and expertise of employees and company policies.

### **1.8 Significance of the study**

The recommendations of the study will be of interest to the management of the company and other manufacturing firms because they point out the areas ignored in the internal controls as well as the ways of improving the quality of the internal controls for better operational performance. Furthermore the study helps to inculcate scientific and inductive thinking and promotes the development of logical habits and thinking by all staff in the organization.

The finding and results of this study will provide the policy makers like government agencies with invaluable insights and a more reliable guide to internal controls of the other institutions in the bid to improve operational performance.

This study is of interest to academicians and future researchers who will be undertaking other researches related to this. This is because it increases their knowledge on internal controls and provides the necessary information to be incorporated into their work.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter covers other works from other literatures. It is important that a closer look is taken at similar works done on the effect of internal control systems on the financial performance of the manufacturing firms and review some of the literatures pertinent to the study, for comparison, confirmation and differences to be laid bare. Due to this, this chapter is meant to contain the review of various literatures considered to be relevant to the study.

#### 2.1 Concept of Internal Control Systems

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm's objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation (Kaplan, 2018; Cunningham, 2014).

According to Basu (2016), "internal Control system is the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safe guard assets and secure as far as possible the completeness and accuracy of records". It comprises of following components: the control environment, the entity's risk assessment process, the information and communication system, control activities and monitoring. These internal control systems components can be described as follows:

Control Environment: Ofori (2011), Douglas (2011), Amudo & Inanga (2009), Sri Lanka Auditing Standards (2013) have mentioned that Control environment is the attitude toward internal control and control consciousness established and maintained by the management and the employees of an organization. It may be viewed as the foundation for other components of internal control providing discipline and structure. Millichamp (2012) describes control environment as the overall attitude, awareness and actions of directors and management regarding internal controls and their importance in the entity. Seven factors affecting the control

environment include management's philosophy and operating style, integrity and ethical values, a commitment to the competence, board of directors or audit committee, organizational structure, assignment of authority and responsibility and human resource policies and practices respectively.

**Risk Assessment:** The second major component of internal control is risk assessment. Risks are the happenings that threaten the achievement of objectives. They finally affect an organization's ability to achieve its mission. Risk assessment is the process of detecting, assessing and determining how to succeed these things. There are both internal and external risks that could prevent the achievement of established objectives at the every level in an organization. Therefore, management should take necessary actions to prevent these risks. But, sometimes management cannot avoid the risk from occurring. In these situations, management should determine whether to accept the risk, reduce it up to the acceptable levels, or avoid. So management should ensure each risk is assessed and handled properly to achieve its objectives (Douglas, 2011).

**Information and Communication System:** Information and Communication focuses on the nature and quality of information needed for effective control that the systems use to develop such information, and reports necessary to communicate it effectively. Information is needed at all levels of organization to assist management in meeting the organization's objectives. The information is used by inside parties as well as outside parties. This information should be communicated from top to bottom level that needs it in a form and within a time frame that helps them to carry out their responsibilities. Communication also use by outside parties such as customers, suppliers and regulators. Information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it in a form and timeframe that are useful.

**Control Activities:** Control activities are tools both manual and automated that help prevent or reduce the risks that can impede accomplishment of the organization's objectives and mission. Management should establish control activities to effectively and efficiently accomplish the organization's objectives and mission. Messier (2017) noted that control activities are the policies

and procedures that help ensure that necessary actions are taken to address the risks involved in the achievement of the entity's objectives. Accordingly the control activities that are relevant to the audit include: performance review, information processing, physical control and segregation of duties. Amudo & Inanga (2012) viewed that authorization, segregation of duties, verification before making the payments, control over access to resources, reconciliation, review operations and supervision as the control activities in any organization.

**Monitoring:** Monitoring, the last component of internal control, is a process that assess the quality of internal control over time. Also monitoring is the evaluation of an organization's events and transactions to gauge the quality of performance throughout the period and to decide whether controls are effective. Management should emphasis monitoring efforts on internal control and accomplishes the organization objectives. It is important to monitor internal control to determine whether it is operating as intended and whether any modifications are necessary. All employees need to understand the organization's mission, objectives, and responsibilities and risk tolerance levels for monitoring to be most effective. Simmons (2015) Monitoring can be done through ongoing activities or separate evaluations.

## **2.2 Concept of Financial Management**

Financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Mills, 2008). This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The performance measurement concept indicates that employees can increase the value of the firm by; increasing the size of a firm's future cash flows, by accelerating the receipt of those cash flows, or by making them more certain or less risky (Cadbury, 2012).

Alternatively financial performance is defined as the level of performance of an organization or business enterprise over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of an organization allows decision makers to judge the results of business strategies and activities in monetary terms (Daniela Venanzi 2011). It is used to measure an organization's overall financial health over a given

period of time and can also be used to compare similar firms across the same industry or to compare sectors or industries in aggregation (Ojjuko 2001).

There are many different ways to measure financial, but all measures should be taken in aggregation. Some of the indicators of financial performance are return on equity, liquidity ratios, asset management ratios, profitability ratios, leverage ratios and market value ratios. Carreta and Farina (2010), argue that use of financial performance could still be justified on the grounds that it reflects what managers actually consider to be financial performance and, even if this is a mixture of various indicators like accounting profits, productivity, and cash flow. Financial performance is determined by the following indicators; profit or value added; sales, fees, budget; costs or expenditure and stock market indicators (e.g. share price) and autonomy. Proxies for the financial performance also include the accounting measure of performance; return on equity (ROE) and return on asset (ROA).

### **2.3 Risk assessment procedures and financial performance of manufacturing firms**

Risk assessment system is divided into three steps: risk identification, risk analysis and evaluation, risk control and report. Risk identification deals with finding out how the enterprise judges and analyzes risks, including its nature, types and reasons of the occurrence. On the other hand risk analysis and evaluation needs quantitative analysis of digital information collected by mathematical method in order to make the risk management based on scientific basis. The result of risk analysis and risk evaluation is the probability of occurrence and size of the risk so as to provide a dependable basis for decision-making. When dealing with risk control and report management is required to consider how to control risk. The method of controlling risk usually is to transfer risk, adverse risk and disperse risk (Gamage et al., 2014).

Effective risk assessment identifies and perceives and considers internal parts, (for instance, the multifaceted way of the affiliation's structure, the nature of the organization's activities, the nature of the work constrain, various leveled changes and agent turnover) and what's more outside components, (for instance, fluctuating fiscal conditions, changes in the business and mechanical advances) that could inimically impact the achievement of the firm's objectives. This hazard evaluation ought to be led at the level of individual organizations and over the wide range of exercises and backups of the combined managing an account association. This can be refined

through different strategies (Pickett, 2010). Successful hazard appraisal addresses both quantifiable and non-quantifiable parts of dangers and measures expenses of controls against the advantages they give which greatly enhance operational performance.

Risk assessment is one of actions and procedures of operational performance process to be undertaken in a priority order. Risk assessment is undertaken in the planning stage that includes: 1) collection of information; 2) risk assessment; 3) assessment of the significant risk impacts upon the programme; 4) defining and (or) improvement of audit objectives; and 5) improvement of the audit scope, methodology, audit examination programme, audit budget and/or resources (Performance Audit Manual of the ECA, 2017; Waring and Morgan, 2017). Essentially, performance audit involves an identification of weaknesses of an entity's business that are inherent to its processes, inadequate management and weak internal controls. Also, other functions include a disclosure of possibilities for further improvement and submission of recommendations. In the business sector, services of the type are undoubtedly beneficial for each company seeking optimization of its business processes, strengthening its controls, minimizing costs and increasing its profit margins.

Risk assessment is important to all functions of the performance, where it involves the use of public funds for the attainment of certain objectives. Lost opportunities to attain certain objectives may also be considered to constitute a risk factor, e.g., opportunities to improve the performance or policy efficiency (Batra, 2015).

Culp (2018) asserts that risk assessment is viewed today as one of the main characteristics of successful companies which enable firms to view all risks facing a company through some form of common plan. Hence, risk assessment is a value adding technique that is aimed at generating additional profit to a company by giving an overview of all risky activities, constructing recovery plans and constant monitoring of day-to-day operations (Benner et al, 2014).

#### **2.4 ICT systems and financial performance of manufacturing firms**

Evidence from previous empirical studies indicates that information and communications systems has a positive impact on organization's operational performance, owing to the multitude of benefits it offers its users and providers alike. Such studies include those conducted in the USA (Agbonkpolor, 2010), Spain (Bett & Memba, 2017). The decision to provide online

services is currently perceived as vital for customer retention and maintaining competitive advantage (Njeri, 2014).

The relationship between investment in information and communications systems and operational performance has received massive attention from researchers in various countries over the years. The results from these studies have been markedly conflicting. Thus, whether the level of investment in information and communications systems actually brings real benefits to the organizations or not is still a matter of concern in academic circles. This is because while some posit a positive relationship between information and communications systems investment and operational performance (Cohen, Holder-Webb, Nath & Wood, 2012) some argue to the contrary (OECD, 2017).

Information and communications systems are clearly considered as key growth area in this century, specifically, in a dynamic business and highly competition environment which requires utilizing advanced information and communications systems to improve efficiency and cost effectiveness, and to present high quality products and services to their customers (Allen and Morton, 2014). Recently, the term of ICT has expanded to include the role of ICT tools not just inside the company but outside the company, for example, UNDP report, 2016, claimed that ICT is considered as a tool of marketing and contacting customers and looking for possible customers, as well as presenting ICT services is distinguished as a potential service for customers (Agbonkpolor, 2010).

Application of information and communications systems to enhance the operational performance of organizations of all types around the world do not only help to cut costs and improve efficiency but also for providing better customer services (Ashrafi and Murtaza). Spanos et al. (2002) posit that information and communications systems have the ability to enhance, coordinate and control the operations of many organizations and can also increase the use of management systems.

Conversely, Ongori and Migiro (2010) maintain that the impact of globalization has obliged many organizations to adopt information and communications systems in order to survive in the present competitive era especially in the area of competing with large organizations. Bresnahan et al. (2002) argue that durable productivity gains have been achieved in enterprises that use ICT.

This is traceable to the fact that information and communications systems help in the effective flow of data in organizations thereby assisting organizations to obtain information at any given time, which in turns helps these organizations to reach their desired target. Furthermore, information and communications systems bring about changes in businesses and helps to create competitive advantage hence, organizations of all types tend to adopt the innovation (Apulo and Latham, 2011).

Adeosun et al. (2009) state that the use of information and communications systems enables strategic management, communication, collaboration, information access, decision making, data management and knowledge management in organizations. Information and communications systems cause fundamental changes in the nature and application of technology in businesses. Information and communications systems can provide powerful strategic and tactical tools for organizations, which, if properly applied and used, could bring great advantages in promoting and strengthening their competitiveness (Buhalis, 2004). Hengst and Sol (2001), state that ICT enables organizations to decrease costs and increase capabilities and thus assist to shape inter organizational coordination. The use of information and communications systems can assist to lower coordination cost and increase outsourcing in organizations.

The most important improvement arising from the use of information and communications systems in the enhancement of operations and activities of organizations hinged on the reduction in overhead expenses. Specifically, the costs related to the maintenance of physical branches, marketing and labor can be cut appreciably (Hernado and Nieto, 2007). In their study of Turkish online banking, Polatoglu and Ekin (2001) reported that the average cost of online transactions was \$0.10 compared to \$2.10 for a teller. Similarly, based on a sample of Polish banks, Polasik (2006) estimated that the cost of Internet and in-branch bank transfers was €0.08 and €0.46 respectively.

## **2.5 Control environment and financial performance of manufacturing firms**

Control environment refers to all factors which are effective in determining, increasing or decreasing the effectiveness of policies, procedures, and methods specific to a process. Control environment stands out with the basic understanding adopted by the senior management of the corporation to control the organization, its attitude toward problems and approach to solving

problems and their perspective of the importance of moral values (Hayali et al., 2013). The element of control environment includes communication, enforcement of integrity, and ethical values.

Control environment sets the tone for the organization, impact on the consciousness of the employees; it is the foundation for all the other components of internal control system. The control environment includes the attitudes, awareness, integrity and ethical values of all the employees, and actions of management and directors, management and those charged with governance concerning the entity's internal control and their importance in the entity (Gamage et al., 2014; Mary, Albert, & Byaruhanga, 2014).

The control environment, as established by the organization's administration, sets the tone of an Institution and effects the control consciousness of its people. Management attitude should be committed to ethical business practices and to following the established control procedures. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include: Integrity and ethical values; the commitment to competence; leadership philosophy and operating style; and the way management assigns authority and responsibility, and organizes and develops its people (Thornton, 2014).

Control environment not only contributes to managerial effectiveness but are also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control system (Verschoor, 2018). A focus on integrity and ethical values was the principal contribution of Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

Fadzil et al., (2015) said that an effective control environment unequivocally correlates with organizational success in meeting its revenue target level. Effective control environment for revenue generation involves; regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner, 2013).

Finally, the control environment helps in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Control environment correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem (Singleton et al., 2016).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter covers the methodology that the researcher used in the process of carrying out research. It covers the tools that were used by the researcher such as the research design, the area of study, study population, sample selection, data sources, data collection methods that were used in the field, data analysis target population, procedures and data analysis, ethical issues and anticipated limitations of the study.

#### **3.1 Research Design**

This study used an explanatory research design which is developed to explore a phenomenon that had not been studied before or had not been well explained previously in a proper manner. Its main intention is to provide details about where to find a small amount of information (Patrik & Ugo, 2019). It also helped in ascertain how and why a particular phenomenon is occurring and further predict future occurrences. Lastly, it helped in investigating patterns and trends in existing data that haven't been previously investigated.

The researcher also used both quantitative and qualitative research approaches. The quantitative study was conducted using questionnaires with the selected employees from different departments in the company. Qualitative study was conducted using interviews where the management of The study context for example, the auditing manager was used as key informants in order to get an in-depth analysis about the topic and these were also considered as key informants since they had the relevant knowledge about the topic understudy. The quantitative approach was used with the objective of assessing the level of knowledge about the effects of internal control systems on the financial performance of manufacturing firms.

#### **3.2 Study area**

This study was carried out in Uganda Clays Limited main branch located along Entebbe Road, Kajjansi, and P.O. Box 3188, Wakiso, Uganda. Uganda Clays Limited was chosen because it's

one of the manufacturing companies that have tried to implement the use of internal control systems in order to attain improved financial performance.

### 3.3 Study population and sample size

According to [www.ugandaclays.co.ug](http://www.ugandaclays.co.ug), the company has a total population of 652 employees across its whole branches in the country. However the target population included 120 employees from the selected departments in the company’s head offices located in Kajjansi which included; administration, procurement and logistics, accounts and finance, operations and stores who were considered. This is because they were the people expected to have the necessary information and the sample size was determine using Krejcie and Morgan (1970) table of finding sample size as shown in the table below;

**Table 1: Showing study population, sample size and sampling methods**

<b>Departments</b>	<b>Population</b>	<b>Sample size</b>	<b>Sampling method</b>
Administration like the internal auditor and MD	15	12	Purposive sampling
Accounts and Finance	15	12	Simple random sampling
Procurement and Logistics	25	19	Simple random sampling
Operations	45	34	Simple random sampling
Stores	20	15	Simple random sampling
<b>TOTAL</b>	<b>120</b>	<b>92</b>	

**Source:** Krejcie and Morgan (1970)

### 3.4 Sampling methods

The researcher used both purposive and simple random sampling methods. Purposive sampling was used to select the key informants who were personnel from the auditing department since they are the one tasked to ensure effective internal control systems in the company. The reason why purposive sampling was used for this category of respondents was because of their active role and knowledge about the impact of internal controls on financial performance in the study context, these individuals also had special qualification and therefore these categories of

respondents were expected to provide in-depth information about the impact of internal controls on operational performance (Lewis and Ritchie, 2003).

The personnel in the other departments were selected using simple random sampling given that these were big in number and using this method eased their selection and gave each person to participate in the study, simple random sampling was preferred because its procedure is unbiased and prevents bias in their work and makes research on large populations more practical.

### **3.5 Sources of data**

#### **3.5.1 Primary source**

Primary data from the field was obtained through personal interviews and self-administered questionnaires to selected respondents in order to get their opinions. Primary data helped the researcher in collecting information for the specific purposes of their study. The researcher collected the data herself, using questionnaires. Primary data was used because it helps the researcher to obtain raw data/ firsthand information from the people carrying out internal controls

#### **3.5.2 Secondary source**

Secondary data refers to handling, collecting and possibly processing data by people other than the researcher in question. For the purposes of a historical research project, secondary sources are generally scholarly books and articles. This source was used to collect data from already written literature for example e-books, journals, published articles and periodicals.

### **3.6 Data collection methods**

The researcher collected data from respondents by use of questionnaires and face-to-face interviews as the data collection methods.

#### **3.6.1 Questionnaire**

The researcher used both closed-ended and open-ended questionnaires in the study. Closed-ended questions were used because they are easy and quick to answer and because they help in improved consistency of the responses. Open-ended questions were also used because they do

not place any limits on the response which means that the survey respondents were able to tell the researcher anything they felt was relevant and anything they wanted the researcher to know. The questionnaire guides were administered to the personnel in the other lower department positions in Uganda Clays Limited.

### **3.6.2 Face-to-Face Interview**

Face-to-face interview is a data collection method when the interviewer directly communicates with the respondent in accordance with the prepared questionnaire. Face-to-face interviews were used to collect data from the managing director and the management from the auditing department. These were key informants considering the vast information they had on internal controls and financial performance in the study context. Open-ended questions were used so that other valuable questions that emerged from the dialogue between interviewer and interviewee. Semi-structured interviews are the most widely used interviewing formats for qualitative research.

## **3.7 Quality and error control**

### **3.7.1 Validity**

According to Cohen, Manion and Keith (2007), Validity is ensured by; choosing an appropriate scale, ensuring that there are adequate resources for the required research to be undertaken, selecting an appropriate methodology for ensuring the research questions, avoiding having too long or too short an interval between pre-test and post-test, ensuring standardized procedures for gathering data or for information administering tests, and tailoring the instruments to the concentration span of the respondents. Validity was done in order to find out whether the questions were capable of capturing the intended data.

Instruments are supposed to measure what they are supposed to measure, the researcher ensured the validity of the tools used in data collection first by carrying out pre-test where 10 questionnaires were distributed to 10 respondents, the researcher tried by all means to be highly involved in data collection and analysis so as to avoid number of errors in her research.

### **3.7.1 Reliability**

Mugenda and Mugenda (2003) defined reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. An instrument is reliable if it measure consistently what it is supposed to measure even if other researchers administer it, it should be able to produce the same results to ensure reliability. A pilot study was carried out on the same few respondents on this research topic before the questionnaire were sent to different respondents.

### **3.8 Procedure of data collection**

After approval of the proposal from the School of Business at Uganda Christian University, the researcher was given a letter of introduction to Uganda Clays Ltd. This served to secure permission in order to carry out the study in this organization. The researcher presented a letter of consent to the respondents, after which, questionnaires were distributed. The respondents were given time within which they should have returned the fully filled questionnaires. After the questionnaires had been filled, the researcher collected them, sorted them and coded them. Dates were also set for the interviews with the key informants.

### **3.9 Data analysis**

Data analysis is the process of transforming raw data into usable information, often presented in the form of a published analytical article, in order to add value to the statistical output (Amin, 2005).

#### **3.9.1 Analysis of quantitative data**

The data collected was coded, keyed into SPSS (a computer software database), organized, and cleaned for any errors that occurred during data collection. The data was then analyzed using statistics with aid of the SPSS and Microsoft Excel (computer software). Qualitative statistical techniques were used to describe and summarize data. The results were then interpreted in the form of descriptive statistics the frequencies and percentages. The findings were presented in form of tables.

### **3.9.2 Analysis of qualitative data**

This involved content analysis. Thus, qualitative data was edited and reorganized into meaningful phrases. In other words, a thematic approach was used to analyze qualitative data where themes, categories and patterns were identified. The recurrent themes, which emerged in relation to each guiding question from the interviews, were presented in the results, with selected direct quotations from participants presented as illustrations.

### **3.10 Ethical considerations**

According to Nsubuga & Katamba (2013) ethical issues include setting clearances from the ethical body and consent of the respondent. It refers to the moral justification of the investigation or intervention; as regards the minimal about disregard, safety and psychological wellbeing of the person and or community. The researcher exhibited a high level of ethical behaviour in the course of implementing the study; confidentiality where the information got from the field was only used for academic purposes. There was also anonymity of the respondents exhibited so that they got the freedom to express themselves. More so, informed consent was obtained from all respondents before including them in the study.

### **3.11 Limitations and delimitations of the study**

First, some respondents were not willing to provide information because of being suspicious of where the information would be taken. This was solved through the nice remarkable reputation in the study context as a learning institution and also obtaining an introductory letter from the university.

The researcher was limited by funds that were needed to facilitate the research such as motivating the respondents, printing fees and even daily transport to the organization to collect data. However the researcher used self-initiatives and strategies to mobilize financial assistance from family.

Some people delayed to bring back the questionnaires which affected the researchers target time planned to analyze her study. This was solved by issuing more questionnaires beyond the target and this helped her to cover up the gaps for those who failed to return the questionnaires.

## CHAPTER FOUR

### DATA PRESENTATION AND INTERPRETATION OF RESULTS

#### 4.0 Introduction

This chapter focuses on analysis and findings of the research based on the responded questionnaires and interviews. The presentation has been made according to specific research objectives.

#### 4.1 Response rate

**Table 2: Response rate**

Response Rate	Sample Size	
	Frequency	Percentage (%)
Questionnaires returned	92	100.0%
Questionnaires not returned	00	00.0%
Questionnaires issued	92	100.0%

**Source:** *Primary data*

According to table 2 above a total of 92 (100%) respondents who are employees of Uganda Clays Limited were expected to respond to the questionnaires and all of them responded to the questionnaires giving a 100% response rate. The reason for the 100% response rate was due to the fact that the respondents were eager to be involved in the study and given that the researcher had enough time to collect the required data.

#### 4.2 Demographic characteristics of respondents

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The study sought to find out the demographic information of the respondents which included gender, age, highest level of education, department and period spent working in the company.

#### 4.2.1 Findings on gender distribution

**Table 3: Gender**

	Frequency	Percent
Male	52	56.5
Female	40	43.5
Total	92	100.0

**Source:** *Primary data*

Findings in the table above show that the majority of the questionnaires were filled by males represented by 56.5% and the rest were females represented by 43.5% and therefore, there were more male respondents than female respondents in this survey. This can be attributed to the fact that most of the work done in The study context is hard labor or manual work that is carried out by mostly men.

#### 4.2.2 Findings on the age of the respondents

**Table 4: Age**

	Frequency	Percent
20-29 years	28	30.4
30-39 years	38	41.3
40-49 years	17	18.5
50 years & above	9	9.8
Total	92	100.0

**Source:** *Primary data*

Findings in the table above show that the vast majority of the respondents fell between the age group of 30-39 years represented by 41.3%, followed by the respondents who fell between the age group of 20-29 years represented by 30.4%, followed by those fell between the age group of 40-49 years represented by 18.5%, whereas 9.8% of the respondents are 50 years and above. This implies that majority of the employees in UCL are relatively in their youthful years since

majority are below 40 years of age. This therefore can be attributed to the fact that Uganda as a country is comprised of majority youth according to the recent released 2014 population census.

#### 4.2.3 Finding on the education level of the respondents

**Table 5: Level of education**

	Frequency	Percent
Certificate/ Diploma	30	32.6
Bachelor's degree	47	51.1
Master's degree	15	16.3
Total	92	100.0

**Source:** *Primary data*

Findings in the table above revealed that majority of the respondents who are employed by The study context have attained bachelors degrees represented by 51.1%, followed by those who have at least attained certificates/ diplomas represented by 32.6%, whereas 16.3% of the respondents hold masters degrees. This implies that the employees of the company are qualified employees who can ensure effective internal control in the company.

#### 4.2.4 Department respondents belong to

**Table 6: Department**

	Frequency	Percent
Administration	12	13.0
Procurement & Logistics	19	20.7
Operations	34	37.0
Accounts & Finance	12	13.0
Sales & Marketing	15	16.3
Total	92	100.0

**Source:** *Primary data*

Findings in the table above revealed that majority of respondents represented by 37% are from the operations department, followed by those who are from the procurement and logistics department represented by 20.7%, followed by those who are from the sales and marketing department represented by 16.3%, followed by those from the administration department represented by 13%, whereas those from accounts and finance department also constituted 13% of the total population. This implies that the company is able to improve the financial performance of its day to day dealings with the coordination from these different employees in the different departments.

#### 4.2.5 Period spent working in the study context

**Table 7: Period spent working in the study context**

	Frequency	Percent
1-5 years	57	62.0
6-10 years	22	23.9
Above 10 years	13	14.1
Total	92	100.0

**Source:** *Primary data*

Findings from the table above show that majority of respondents represented by 62% have spent between 1-5 years working in the company, followed by those who have spent 6-10 years working in the company represented by 23.9% while those who have spent above 10 years working with The study context represented the minority 14.1% of the total population. The findings imply that the respondents have the necessary and efficient knowledge about the topic under study since majority of the respondents have spent reasonable time working with the company.

### 4.3 Relationship between risk assessment procedures and financial performance

Table 8 summarizes respondents' responses on the risk assessment procedures in the study context by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

**Table 8: Risk assessment procedures in the study context**

Statements	Mean	Std. Dev.
Clear guidelines exist for identifying and evaluating financial risks within the company	4.81	1.192
The risk assessment process considers both internal and external factors affecting financial performance	4.00	0.747
The company effectively prioritizes financial risks based on their potential impact	3.97	1.259
The company utilizes historical data to predict and mitigate potential financial risks	4.05	0.047
Risk assessment outcomes guide strategic decision-making to enhance financial performance	4.20	0.401
The risk assessment procedures are consistently updated to address evolving business conditions	4.58	0.495

**Source:** *Primary data*

The table presents respondents' perceptions of risk assessment procedures within the study context measured using a Likert scale and characterized by means and standard deviations for each statement. The scores of Strongly Disagree and Disagree have been taken to present a variable which mattered to a Small Extent (equivalent to mean score of 0 to 2.4 on the continuous Likert scale). The score of Not sure has been taken to represent a variable that mattered to a moderate extent (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale). The score of Strongly agree and Agree have been taken to represent a variable that mattered to a Large Extent (equivalent to a mean score of 3.5 to 5.0 and on a continuous Likert scale). A standard deviation of >1.5 implies a significant difference concerning the risk assessment procedures in the study context.

The findings indicate that the organization generally performs well in terms of risk assessment procedures. Notably, respondents strongly agreed that clear guidelines exist for identifying and evaluating financial risks (Mean = 4.81; Std. Dev. = 1.192), suggesting a high level of confidence in this aspect. Furthermore, the risk assessment process's consideration of both internal and external factors garnered general agreement (Mean = 4.00; Std. Dev. = 0.747). While there was slightly less consensus regarding the effective prioritization of financial risks (Mean = 3.97; Std. Dev. = 1.259), the majority of respondents still leaned towards agreement. Additionally, respondents positively perceived the utilization of historical data for risk prediction (Mean = 4.05; Std. Dev. = 0.047), the influence of risk assessment outcomes on strategic decision-making (Mean = 4.20; Std. Dev. = 0.401), and the consistent updating of risk assessment procedures (Mean = 4.58; Std. Dev. = 0.495), all of which indicated strong agreement and low variation, suggesting robust risk assessment practices within the organization.

From the study findings, it can therefore be noted that majorly, risk assessment procedures in the study context involve setting clear guidelines for identifying and evaluating financial risks within the company and effectively prioritizing financial risks based on their potential impact that have helped the company to achieve improved financial performance in the long run. The findings of the study concerning the relationship between risk assessment procedures and financial performance in the study context were further determined using Pearson's correlation that was conducted as shown below;

**Table 9: Pearson's correlation on risk assessment procedures and financial performance**

**Correlations**

		Risk assessment procedures	Financial performance
Risk assessment procedures	Pearson Correlation	1	.497**
	Sig. (2-tailed)		.000
	N	92	92
Financial performance	Pearson Correlation	.497**	1
	Sig. (2-tailed)	.000	
	N	92	92

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between risk assessment procedures and financial performance in the study context. This relationship is affirmed by r-values of 0.497\*\* with significant p-values of 0.000 at the level of 0.05 (2-tailed) ( $r = .497^{**}, p < .05$ ). This means that there is a significant positive relationship between risk assessment procedures and financial performance in the study context.

#### 4.4 Relationship between ICT systems and financial performance in the study context

Table 10 summarizes respondents' responses on the ICT systems in The study context by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

**Table 10: ICT systems in the study context**

Statements	Mean	Std. Dev.
The ICT systems effectively integrate various financial processes within the organization	4.49	0.567
The company invests in regular updates and maintenance of its ICT infrastructure	4.28	0.450
ICT systems contribute to accurate and timely financial reporting	4.18	0.387
Employees receive adequate training to utilize the company's ICT systems for financial tasks	4.24	0.476
The company's ICT systems enhance data security and privacy in financial operations	4.71	0.498
ICT systems facilitate seamless communication and collaboration among financial teams	4.21	0.406

**Source:** *Primary data*

The table presents respondents' perceptions of ICT systems within The study context, assessed using a Likert scale and the results are characterized by means and standard deviations for each statement. The scores of Strongly Disagree and Disagree have been taken to present a variable which mattered to a Small Extent (equivalent to mean score of 0 to 2.4 on the continuous Likert scale). The score of Not sure has been taken to represent a variable that mattered to a moderate

extent (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale). The score of Strongly agree and Agree have been taken to represent a variable that mattered to a Large Extent (equivalent to a mean score of 3.5 to 5.0 and on a continuous Likert scale). A standard deviation of  $>1.5$  implies a significant difference concerning the ICT systems in the study context.

The findings suggest a generally positive outlook on the organization's ICT systems. Respondents strongly agreed that the ICT systems effectively integrate various financial processes (Mean = 4.49; Std. Dev. = 0.567), indicating a high level of satisfaction and consensus in this aspect. Furthermore, there was strong agreement that the company invests in regular updates and maintenance of its ICT infrastructure (Mean = 4.28; Std. Dev. = 0.450), implying confidence in the organization's commitment to technology upkeep. ICT systems' contribution to accurate and timely financial reporting also received favorable feedback (Mean = 4.18; Std. Dev. = 0.387), reflecting a consistent positive perception.

Similarly, respondents expressed strong agreement that employees receive adequate training for utilizing ICT systems for financial tasks (Mean = 4.24; Std. Dev. = 0.476), suggesting a well-prepared workforce. Additionally, the statement indicating that the company's ICT systems enhance data security and privacy in financial operations received high agreement (Mean = 4.71; Std. Dev. = 0.498), indicating a robust sense of confidence in data protection. Lastly, ICT systems were perceived to facilitate seamless communication and collaboration among financial teams, albeit with some variability in opinions (Mean = 4.21; Std. Dev. = 0.406). Overall, these results indicate a strong positive perception of ICT systems and their potential contribution to financial performance within the organization.

From the study findings, it can therefore be noted that majorly, ICT systems contribute to accurate and timely financial reporting and also enhance data security and privacy in financial operations which has further helped the company to achieve improved financial performance in the long run. The findings of the study concerning the relationship between ICT systems and financial performance in in the study context were further determined using Pearson's correlation that was conducted as shown below;

**Table 11: Pearson’s correlation on ICT systems and financial performance****Correlations**

		ICT systems	Financial performance
ICT systems	Pearson Correlation	1	.523**
	Sig. (2-tailed)		.000
	N	92	92
Financial performance	Pearson Correlation	.523**	1
	Sig. (2-tailed)	.000	
	N	92	92

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between ICT systems and financial performance in the study context. This relationship is affirmed by r-values of 0.523\*\* with significant p-values of 0.000 at the level of 0.05 (2-tailed) ( $r = .523^{**}, p < .05$ ). This means that there is a significant positive relationship between ICT systems and financial performance in in the study context.

**4.5 Relationship between control environment and financial performance**

Table 12 summarizes respondents’ responses on control environment in the study context by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

**Table 12: Control environment in the study context**

Statements	Mean	Std. Dev.
The company emphasizes ethical behaviour and compliance in its financial control environment	3.99	0.871
Clearly defined roles and responsibilities exist within the organization’s financial control structure	4.81	1.192
Management actively promotes a culture of accountability and transparency in financial matters	4.00	0.747
Regular audits are conducted to assess the effectiveness of	3.97	1.259

the control environment on financial outcomes		
The company encourages open communication regarding potential improvements to the control environment	4.05	0.047
Feedback from employees is considered in refining and enhancing the financial control environment	4.00	0.747

**Source:** *Primary data*

The table summarizes respondents’ perceptions of the control environment within the study context, assessed using a Likert scale and the results are characterized by means and standard deviations for each statement. The scores of Strongly Disagree and Disagree have been taken to present a variable which mattered to a Small Extent (equivalent to mean score of 0 to 2.4 on the continuous Likert scale). The score of Not sure has been taken to represent a variable that mattered to a moderate extent (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale). The score of Strongly agree and Agree have been taken to represent a variable that mattered to a Large Extent (equivalent to a mean score of 3.5 to 5.0 and on a continuous Likert scale). A standard deviation of >1.5 implies a significant difference concerning the ICT systems in the study context.

The findings reveal a generally positive perception of the organization's control environment. Specifically, respondents indicated a relatively strong agreement that the company emphasizes ethical behavior and compliance in its financial control environment (Mean = 3.99; Std. Dev. = 0.871), suggesting a commitment to ethical standards. Additionally, there was strong agreement that clearly defined roles and responsibilities exist within the organization's financial control structure (Mean = 4.81; Std. Dev. = 1.192), indicating clarity in organizational structure. Management's active promotion of a culture of accountability and transparency in financial matters also received favorable feedback (Mean = 4.00; Std. Dev. = 0.747), reflecting a positive perception of leadership practices.

However, regular audits to assess the control environment's effectiveness on financial outcomes received slightly lower agreement (Mean = 3.97; Std. Dev. = 1.259), suggesting some variability in opinions regarding the extent of audit effectiveness. Nonetheless, respondents strongly agreed that the company encourages open communication for potential improvements to the control environment (Mean = 4.05; Std. Dev. = 0.047) and that feedback from employees is considered

for refining and enhancing the financial control environment (Mean = 4.00; Std. Dev. = 0.747), indicating a proactive approach to continuous improvement. Overall, these results suggest a generally positive perception of the control environment's influence on financial performance within the organization.

From the study findings, it can therefore be noted that majorly, the control environment in The study context involve emphasizing ethical behavior and compliance in its financial control environment and encouraging open communication regarding potential improvements to the control environment which has further helped the company to achieve improved financial performance in the long run. The findings of the study concerning the relationship between control environment and financial performance in the study context were further determined using Pearson’s correlation that was conducted as shown below;

**Table 13: Pearson’s correlation on control environment and financial performance**

**Correlations**

		Control environment	Financial performance
Control environment	Pearson Correlation	1	.433**
	Sig. (2-tailed)		.000
	N	92	92
Financial performance	Pearson Correlation	.433**	1
	Sig. (2-tailed)	.000	
	N	92	92

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between control environment and financial performance in the study context. This relationship is affirmed by r-values of 0.433\*\* with significant p-values of 0.000 at the level of 0.05 (2-tailed) ( $r = .433^{**}, p < .05$ ). This means that there is a significant positive relationship between control environment and financial performance in the study context.

## CHAPTER FIVE

### DISCUSSION OF FINDINGS, SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the summary, conclusion and recommendations of the findings in relation to the objectives under study.

#### 5.1 Discussion of findings

##### 5.1.1 Relationship between risk assessment procedures and financial performance in the study context

The study revealed that there is a significant positive relationship between risk assessment procedures and financial performance in the study context ( $r = .497^{**}$ ,  $p < .05$ ), indicating that the company's robust risk assessment practices contribute positively to its financial performance. The findings relate with the literature by Pickett (2010) who argued that effective risk assessment identifies and perceives and considers internal parts, (for instance, the multifaceted way of the affiliation's structure, the nature of the organization's activities, the nature of the work constrain, various leveled changes and agent turnover) and what's more outside components, (for instance, fluctuating fiscal conditions, changes in the business and mechanical advances) that could inimically impact the achievement of the firm's objectives. This hazard evaluation ought to be led at the level of individual organizations and over the wide range of exercises and backups of the combined managing an account association. This can be refined through different strategies.

The study findings on risk assessment procedures in the study context also revealed that the company generally has clear guidelines for identifying and evaluating financial risks, effectively prioritizes these risks based on their potential impact, and utilizes historical data to predict and mitigate potential financial risks. The findings are also in line with the literature by Batra (2015) who argued that risk assessment is important to all functions of the performance, where it involves the use of public funds for the attainment of certain objectives. Lost opportunities to attain certain objectives may also be considered to constitute a risk factor, e.g., opportunities to improve the performance or policy efficiency.

Finally, the findings established that risk assessment process considers both internal and external factors affecting financial performance and guides strategic decision-making to enhance financial performance. Furthermore, the risk assessment procedures are consistently updated to address evolving business conditions. The findings related with the literature by Culp (2018) who asserts that risk assessment is viewed today as one of the main characteristics of successful companies which enable firms to view all risks facing a company through some form of common plan. Hence, risk assessment is a value adding technique that is aimed at generating additional profit to a company by giving an overview of all risky activities, constructing recovery plans and constant monitoring of day-to-day operations.

### **5.1.2 Relationship between ICT systems and financial performance in the study context**

The findings revealed that there is a significant positive relationship between ICT systems and financial performance in the study context ( $r = .523^{**}$ ,  $p < .05$ ), suggesting that the company's robust ICT systems play a crucial role in positively impacting its financial performance. The findings relate with the literature by Agbonkpolor (2010) who asserts that the application of information and communications systems to enhance the operational performance of organizations of all types around the world do not only help to cut costs and improve efficiency but also for providing better customer services. Spanos et al. (2002) also posit that information and communications systems have the ability to enhance, coordinate and control the operations of many organizations and can also increase the use of management systems.

Furthermore, the study findings on ICT systems in the study context indicate that the company's ICT infrastructure is seen as effective in integrating various financial processes within the organization and contributes to accurate and timely financial reporting. The findings correspond with the literature by Adeosun et al. (2009) who argued that the use of information and communications systems enables strategic management, communication, collaboration, information access, decision making, data management and knowledge management in organizations. Information and communications systems cause fundamental changes in the nature and application of technology in businesses. Information and communications systems can provide powerful strategic and tactical tools for organizations, which, if properly applied and used, could bring great advantages in promoting and strengthening their competitiveness

Finally, it is noted that employees receive adequate training to utilize the company's ICT systems for financial tasks, and these systems enhance data security and privacy in financial operations. Furthermore, the ICT systems facilitate seamless communication and collaboration among financial teams. The findings relate with the literature by Ongori and Migiro (2010) who maintain that the impact of globalization has obliged many organizations to adopt information and communications systems in order to survive in the present competitive era especially in the area of competing with large organizations. Bresnahan et al. (2002) also argues that durable productivity gains have been achieved in enterprises that use ICT.

### **5.1.3 Relationship between control environment and financial performance in the study context**

The study findings revealed that there is a significant positive relationship between the control environment and financial performance in the study context ( $r = .433^{**}$ ,  $p < .05$ ), indicating that a strong and ethically-driven control environment positively influences the company's financial performance. The findings relate with the literature by (Gamage et al., 2014; Mary, Albert, & Byaruhanga, 2014) who argued that the control environment sets the tone for the organization, impact on the consciousness of the employees; it is the foundation for all the other components of internal control system. The control environment includes the attitudes, awareness, integrity and ethical values of all the employees, and actions of management and directors, management and those charged with governance concerning the entity's internal control and their importance in the entity.

More so, the study findings regarding the control environment at the study context suggest that the company places significant emphasis on ethical behavior, compliance, and accountability within its financial control framework. The findings are in line with the literature by Thornton (2014) who pointed out that the control environment, as established by the organization's administration, sets the tone of an Institution and effects the control consciousness of its people. Management attitude should be committed to ethical business practices and to following the established control procedures. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include: Integrity and ethical values; the commitment to competence; leadership philosophy and operating style; and the way management assigns authority and responsibility, and organizes and develops its people.

Finally, the study findings revealed that clearly defined roles and responsibilities exist within the organization's financial control structure, and management actively promotes a culture of transparency. The findings also relate with the literature by Fadzil et al., (2015) who said that an effective control environment unequivocally correlates with organizational success in meeting its revenue target level. Effective control environment for revenue generation involves; regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives

## **5.2 Summary of findings**

The study findings on risk assessment procedures in the study context reveal that the company generally has clear guidelines for identifying and evaluating financial risks, effectively prioritizes these risks based on their potential impact, and utilizes historical data to predict and mitigate potential financial risks. Additionally, the risk assessment process considers both internal and external factors affecting financial performance and guides strategic decision-making to enhance financial performance. Furthermore, the risk assessment procedures are consistently updated to address evolving business conditions. Importantly, the study establishes a significant positive relationship between risk assessment procedures and financial performance in the study context ( $r = .497^{**}$ ,  $p < .05$ ), indicating that the company's robust risk assessment practices contribute positively to its financial performance.

Furthermore, the study findings on ICT systems in the study context indicate that the company's ICT infrastructure is seen as effective in integrating various financial processes within the organization and contributes to accurate and timely financial reporting. Additionally, it is noted that employees receive adequate training to utilize the company's ICT systems for financial tasks, and these systems enhance data security and privacy in financial operations. Furthermore, the ICT systems facilitate seamless communication and collaboration among financial teams. Importantly, the study establishes a significant positive relationship between ICT systems and

financial performance in The study context ( $r = .523^{**}$ ,  $p < .05$ ), suggesting that the company's robust ICT systems play a crucial role in positively impacting its financial performance.

Finally, the study findings regarding the control environment at the study context suggest that the company places significant emphasis on ethical behavior, compliance, and accountability within its financial control framework. Additionally, clearly defined roles and responsibilities exist within the organization's financial control structure, and management actively promotes a culture of transparency. Regular audits are conducted to assess the effectiveness of the control environment, and open communication and feedback mechanisms are encouraged to refine and enhance this environment. Importantly, the study establishes a significant positive relationship between the control environment and financial performance in The study context ( $r = .433^{**}$ ,  $p < .05$ ), indicating that a strong and ethically-driven control environment positively influences the company's financial performance.

### **5.3 Conclusion**

In conclusion, the comprehensive analysis of the study context's risk assessment procedures, ICT systems, and control environment reveals several key factors contributing to the company's financial performance. The organization has demonstrated a commitment to managing financial risks effectively through clear guidelines, historical data utilization, and strategic decision-making based on both internal and external factors. Their ICT systems are robust, facilitating integrated financial processes, enhancing data security, and promoting collaboration among financial teams. Moreover, a strong control environment emphasizing ethical behavior, compliance, accountability, and transparency exists, supplemented by regular audits and open communication channels. Importantly, these individual components are found to significantly and positively influence the company's financial performance, underscoring their collective importance in driving the study context's success in the market.

### **5.4 Recommendations**

The study provides the following recommendations on investigating the effect of internal control systems on the financial performance of the manufacturing firms in Uganda in the study context:

**Strengthen risk assessment procedures:** The study recommends that manufacturing firms in Uganda should establish and enhance their risk assessment procedures. This includes developing clear guidelines for identifying and evaluating financial risks, incorporating historical data analysis, and considering both internal and external factors. A periodic review and update of these procedures to adapt to evolving business conditions are essential.

**Invest in robust ICT infrastructure:** The study also recommends that manufacturing firms should prioritize investments in robust ICT systems that integrate various financial processes, enhance data security, and facilitate efficient communication and collaboration among financial teams. Regular updates and maintenance of ICT infrastructure are crucial to ensure its effectiveness.

**Promote ethical culture and accountability:** Furthermore, the study recommends that manufacturers should emphasize ethical behavior, compliance, accountability, and transparency within their organizations. Management should actively promote a culture of responsibility and adherence to ethical standards in financial matters.

**Regular audits and feedback mechanisms:** More so, the study recommends that regular audits should be conducted to assess the effectiveness of the control environment on financial outcomes. Additionally, manufacturing firms should encourage open communication channels for employees to suggest potential improvements to the control environment. Feedback from employees should be considered seriously in refining and enhancing internal control systems.

**Continuous training and skill development:** To ensure the effective utilization of ICT systems, the study recommends that manufacturing firms should provide ongoing training and skill development programs for employees. This will empower staff to make the best use of available technology for financial tasks.

**Benchmarking and best practices:** The study also recommends that manufacturing firms should consider benchmarking their internal control systems against industry best practices and standards. This can help identify areas for improvement and adoption of proven strategies from successful peers in the manufacturing sector.

**Monitoring and evaluation:** The study further recommends the need to implement a robust monitoring and evaluation system to regularly assess the impact of internal control systems on

financial performance. Regularly track key performance indicators related to financial outcomes and the effectiveness of internal controls.

Regulatory compliance: In addition, the study recommends the need to ensure that internal control systems align with relevant regulatory requirements and standards. Staying compliant with industry-specific regulations is vital for long-term financial sustainability.

Collaboration and knowledge sharing: Last but not least, the study recommends the need to encourage collaboration and knowledge sharing among manufacturing firms in Uganda. Sharing experiences and best practices in internal control systems can benefit the entire industry.

Management commitment: Finally, the study recommends that the top management should demonstrate a strong commitment to internal control systems. Their leadership and endorsement of these systems will trickle down throughout the organization and foster a culture of responsibility and accountability.

## **5.5 Areas for further research**

The study was not conclusive and therefore recommended the following areas for further research.

Further research should be conducted to explore the internal control systems and financial performance of manufacturing firms in Uganda, comparing The study context to other key players in the sector to identify variances and best practices.

More so, there is need to conduct a longitudinal study to assess the evolution of internal control systems at the study context over an extended period and its correlation with financial performance trends.

Finally, there is need to investigate how changes in regulatory frameworks within Uganda impact the design and effectiveness of internal control systems in manufacturing firms and their subsequent financial performance.

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4. Which department do you belong to in this company?

- a) Administration       b) Accounting & Finance   
 c) Operations       d) Procurement & Logistics   
 e) Sales & Marketing

5. How long have you been working in this company?

- a) Less than 1 year       b) 1-5 years   
 c) 6-10 years       d) Above 10 years

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree).

**Section B: Internal Control Systems**

Statements		Responses				
NO.	Risk assessment procedures	5	4	3	2	1
1	Clear guidelines exist for identifying and evaluating financial risks within the company					
2	The risk assessment process considers both internal and external factors affecting financial performance					
3	The company effectively prioritizes financial risks based on their potential impact					
4	The company utilizes historical data to predict and mitigate potential financial risks					
5	Risk assessment outcomes guide strategic decision-making to enhance financial performance					
6	The risk assessment procedures are consistently updated to address evolving business conditions					

<b>NO.</b>	<b>ICT Systems</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	The ICT systems effectively integrate various financial processes within the organization					
2	The company invests in regular updates and maintenance of its ICT infrastructure					
3	ICT systems contribute to accurate and timely financial reporting					
4	Employees receive adequate training to utilize the company's ICT systems for financial tasks					
5	The company's ICT systems enhance data security and privacy in financial operations					
6	ICT systems facilitate seamless communication and collaboration among financial teams					
<b>NO.</b>	<b>Control Environment</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	The company emphasizes ethical behavior and compliance in its financial control environment					
2	Clearly defined roles and responsibilities exist within the organization's financial control structure					
3	Management actively promotes a culture of accountability and transparency in financial matters					
4	Regular audits are conducted to assess the effectiveness of the control environment on financial outcomes					
5	The company encourages open communication regarding potential improvements to the control environment					
6	Feedback from employees is considered in refining and enhancing the financial control environment					

**Section C: Financial performance of Uganda Clays Limited**

	Statements	Responses				
		5	4	3	2	1
<b>NO.</b>	<b>Financial performance</b>					
1	Over the past few years, The study context has demonstrated consistent revenue growth					
2	The study context effectively manages its costs to maintain a competitive edge					
3	The company’s financial stability is evident from its ability to manage debt and liquidity					
4	The company’s financial performance reflects its ability to adapt to changing market conditions					
5	The study context’s financial performance aligns with industry benchmarks and standards					
6	Shareholders have witnessed satisfactory returns on their investment due to the company’s financial performance					

**Thank you very much for your cooperation**

## **APPENDIX 2: INTERVIEW GUIDE**

### **FOR TOP MANAGEMENT OF UGANDA CLAYS LIMITED**

Dear respondent,

I am Mutesi a student at Uganda Christian University conducting research on “the effect of internal control systems on the financial performance of the manufacturing firms in Uganda: A case study of Uganda Clays Limited”. I will ensure total confidentiality of the information given to me during this research. This research will contribute to the award of my Bachelor’s degree of Business Administration so I humbly ask you for your cooperation. Thank you very much.

#### **Section A: Introductions**

1. Tell me about yourself (*gender, age, level of education*)
2. What position do you hold in Uganda Clays Limited?
3. How long have you worked with Uganda Clays Limited?

#### **Section B: Relationship between risk assessment procedures and financial performance in the study context**

4. How does the study context identify and prioritize potential financial risks within its operations?
5. Can you provide examples of how the company's risk assessment procedures have influenced strategic financial decision-making?
6. In your opinion, how has the effectiveness of risk assessment procedures contributed to the company's financial performance?

#### **Section C: Relationship between ICT systems and financial performance in the study context**

7. How do the ICT systems used by the study context impact the accuracy and timeliness of financial reporting?
8. Can you discuss instances where the integration of ICT systems has led to improved financial processes within the organization?
9. From your perspective, how do the ICT systems contribute to enhancing the company's overall financial performance?

**Section D: Relationship between control environment and financial performance in the study context**

10. How does the study context foster a culture of accountability and transparency within its financial control environment?
11. Could you provide examples of how deviations from established financial controls have been identified and addressed?
12. In your experience, how has the control environment influenced the company's ability to manage financial risks and maintain stability?

**Thank you for your cooperation**