

EFFECT OF INTERNAL CONTROL SYSTEM ON FINANCIAL PERFORMANCE OF COMPANIES IN UGANDA: A CASE STUDY OF UGANDA CLAYS LIMITED

MARK AKAMPURIRA

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
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**UGANDA CHRISTIAN
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Declaration

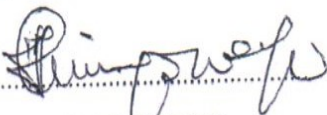
I, **AKAMPURIRA MARK** a student at Uganda Christian University pursuing a Bachelor's Degree in Business Administration, declare that this research report is my original work and has never been presented to any other university or institution of higher learning for an academic award.

Signature: 

Date: 23/3/26

APPROVAL

This is to certify that this research report has been submitted with my approval as the supervisor.

Signature.....  22/3/2026
DR. DAVID NYAMUYONJO

For ~~Mark~~ Akampura

DEDICATION

This report is lovingly dedicated to my dear parents, Milton And Olivia Katarinyeba, whose constant presence and admirable resilience have been my strongest source of inspiration during this entire process; hope that you always have the strength to pursue your own dreams with the same passion.

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Above all , I humbly dedicate all the glory and honor to the All-Mighty God, the source of all wisdom and understanding, for His divine grace, power, and favor that sustained me through this difficult academic process. Glory be to Him.

I am highly indebted to my respected supervisor, DR. DAVID NYAMUYONJO for your timely and critical input, expert knowledge, endless patience, and continuous encouragement, which formed the foundation for this thesis. Your insightful contributions have been instrumental not only in writing this thesis but also in molding me as a scholar.

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ABSTRACT

The purpose of the study was to assess the effect of internal control system on financial performance of companies in Uganda a case study of Uganda clays limited.

The study was guided by the following objectives to assess the relationship between internal control systems and the financial performance. identify the challenges faced in implementing effective internal control systems. strategies for enhancing internal control systems to improve financial performance.

However, deeper savings behavior is constrained by several factors. The study recommended that Uganda clays limited. Operators should invest in innovative solutions to address agent liquidity problems in rural areas. This could include establishing Uganda clays limited. Vans that rotate through villages on scheduled days,

CHAPTER ONE

1.0 Introduction

This chapter presents the background of the study, the statement of the problem, the research objectives, research questions, significance of the study, the scope of the study and the conceptual framework.

1.1 Background to the Study

The effectiveness of internal control systems is crucial for enhancing the financial performance of companies, particularly in Uganda. With businesses under more pressure to make sure transparency, efficiency, and compliance, good internal controls have played a critical role in financial risk management and overall performance. The studies have shown that effective internal control systems can result in the management of resources better, less fraud, and more quality financial reporting (Adebayo, 2021; KPMG, 2020). In the case of Uganda Clays Limited, which is one of the top manufacturers in the country, effective internal controls are crucial to its competitiveness and success in the long run. Nonetheless, this company encounters various issues, including risk identification, compliance among employees, and dealing with the costs involved in installing these systems (Okafor, 2020). Research indicates that ineffective systems might be attributed to the absence of trained staff to oversee and implement internal controls that would enable businesses to achieve their maximum financial potential (Mugisha, 2022). Furthermore, technology can also be an important part of this process; the use of automated systems can help to increase the accuracy of financial reports and minimize errors (Ahmad, 2020). Nonetheless, excessive dependence on technology can create complacency and the inability to provide the required manual control (Ojo, 2020). Thus, it is necessary to find the optimal balance between technological solutions and human knowledge, as only in this way, Uganda Clays Limited will be able to use internal control systems to enhance its financial performance. Through tackling these challenges, the company will be able to optimize its operations and meet its financial targets, and eventually, the corporate culture of accountability and responsibility will contribute to its development in the competitive market.

1.2 Theoretical Framework

This research will consider internal control systems as one of the main factors that affect financial performance in business especially to Uganda Clays Limited. Through risk management, compliance, and financial accuracy, these systems can help the company to reinforce its financial activities. Based on the Agency Theory which focuses on the interaction between management and stakeholders, the study discusses the effectiveness of internal controls in enhancing financial performance (Jensen and Meckling, 1976).

1.3 Statement problem

The statement of the problem defines the research problem and is offered as follows:

Uganda Clays Limited is experiencing a major challenge in establishing effective internal control systems, which are critical in maintaining proper reporting of financial and efficiency in its operations. The firm uses the old financial management system and offers inadequate training to the staff on the internal controls, which compromises their effectiveness and subjects the firm to financial mismanagement (Kakembo, 2021). This has been one of the factors that have increased reported accounting discrepancies by 15 per cent in the last two years with the risk of undermining stakeholder confidence and organizational performance. Though past research has reported the positive contribution of internal controls to financial performance, most of the research has been based on banking and service sectors, which has created a research vacuum on the contribution of internal controls on manufacturing organizations in Uganda. This gap is thus crucial to fill in order to advise Uganda Clays Limited to enhance its internal control system to enhance financial performance, operational efficiency and sustainability.

The overall aim of the study is as follows: 1.3.

The primary aim of this research is to examine how internal control systems affect financial performance of Uganda Clays Limited.

The objectives of the study are as follows:

- i. To determine the relationship between the financial performance and internal control systems.
- ii. To establish the difficulties in the implementation of effective internal control systems..
- iii. To strategies on improvement of internal control systems to improve financial performance.

1.4 Research Questions

- i. How does this relate to internal control systems and the financial performance?
- ii. What are the difficulties that Uganda Clays Limited has when it comes to the implementation of effective internal control systems?
- iii. What are some of the strategies that can be suggested to strengthen internal control systems and improve financial performance?

1.5 The scope of the study

The researcher will subdivide the scope into three categories to give a complete background of the study as discussed below.

Geographical Scope

This paper shall concentrate on Uganda Clays Limited that has its base in Uganda, with its production plant being situated in Kajjansi, a suburb of Kampala. The firm has a wide customer base that spans different districts such as urban areas such as Kampala, Entebbe and Jinja. Uganda Clays Limited also seeks to expand into the rural market to maximize its services to residential and commercial customers all over the country. This wide geographical base makes Uganda Clays Limited a major player in the local economy, which has led to the creation of jobs and development of infrastructure in Uganda.

Time Scope

The research will look at how a financial performance of the Uganda Clays Limited will be affected by the internal control systems within three months that is, in 2025. This period enables a current analysis of the impact of the introduction of the internal control systems in the financial activity of the company. Moreover, this time gives sufficient time to measure the long-term impacts of these controls on financial reporting, risk management and general performance. This method will help in having a holistic evaluation of the internal control practices at Uganda Clays Limited and how they are in line with the financial objectives of the company.

Content Scope

The overall research of this paper shall dwell on the influence of internal control system on the financial performance of Uganda Clays Limited. To capture a holistic analysis, the researcher will primarily look at how the typical issues that arise with implementing internal controls among them being old financial management practices, insufficient staff training and insufficient technology impact the effectiveness of such systems. The study will also assess the existing internal control procedures and offer suggestions on how to improve the practices at Uganda Clays Limited. This goal will be used to create an understanding of how effective internal controls can be related to better financial performance.

1.7 Significance of the Study

The results of this research will be useful to other organizations experiencing issues with internal control systems and financial performance. Through the analysis of the Uganda Clays Limited practices, the research will be very helpful in giving insights on the best practices and effective strategies that have to be adopted in enhancing the internal control processes. This involves the detection and reduction of risks, deployment of monitoring systems and adherence to financial laws. Besides, the paper will highlight the significance of employee education to improve their capacity to effectively cope with internal controls. Through these findings, the study will be of use to companies that want to enhance their performance in terms of efficiency and financial sustainability, which will lead to a stronger economic landscape.

To the management and the employees of Uganda Clays Limited, this study will be invaluable in offering them some insights on the different challenges and risks of the internal control systems. The need to understand those complexities is vital to the management because it shows how insufficient internal controls may negatively impact financial performance and operational efficiency. The study will provide the staff with the necessary knowledge to introduce more effective controls by pointing out particular flaws in the existing practices and, as a result, increase accountability and transparency in financial reporting. This knowledge can result in the improved decision-making process and risk management approach, which will eventually result in the long-term financial stability and success of the company. Consequently, the results will be used as an important instrument in developing the culture of constant enhancement at the Uganda Clays Limited so that the company could unite all the employees in their work towards attaining the highest level of operational integrity.

To students and researchers, this research will be a resourceful tool as it will be accessible and add value to their academic work. It will improve their awareness of how effective internal controls are essential in ensuring the attainment of operational sustainability and financial success. The study will enable the students and researchers to understand the complexities of financial management by providing information on practical applications and challenges in the field, providing them with the knowledge they will require to solve similar problems in their respective careers. This contribution towards the academic literature will not just be beneficial to their learning, but will also motivate future research studies in the discipline.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the literature on the impact of internal control systems on the financial performance. It looks at the usefulness of internal controls to increase accountability and operational efficiency.

2.1 Theoretical Foundation

2.1.2 Control Theory

Control Theory focuses on the fact that a good control system is essential within any organization and helps them to control their operations and attain their strategic goals which is very important to Uganda Clays Limited. Internal control mechanisms are a critical part of financial performance monitoring and operational efficiency; with such controls in place, the company is able to gather and process financial information, which allows the management of the company to quickly detect and resolve any differences between the planned and actual performance. This active strategy makes it easier to make fast decisions and establish transparent standards and objectives to evaluate performance, promoting accountability and ongoing improvement. In addition, the accuracy and reliability of financial reporting increase due to well-managed financial processes hence minimizing the risk of errors and frauds which consequently boosts the stakeholder confidence and invites investments. Using Control Theory, Uganda Clays Limited will be able to enhance its internal control systems, which will encourage responsibility, efficiency, and transparency, leading to improved financial performance and long-term success and establishing a long-term approach to business development in line with its strategic vision.

2.1.3 Assessing the relationship between internal control systems and financial performance

The interaction between internal control systems and financial performance is a widely studied topic in organizational studies, accounting and finance. Internal control systems refer to the methods that organizations use to guarantee integrity of financial reporting, protect assets and facilitate efficiency in operations (COSO, 2013). This review of literature will address theoretical frameworks, empirical research, and main findings that reveal the relationship between good internal control systems and the improved performance of financial performance.

The Control Theory assumes that the risks may be reduced by a significant percentage by means of the efficient internal control systems in the organization, as well as the performance can be optimized (Adams, 2019). According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the systems help to comply with the regulations, contribute to the accuracy of financial reports, and make the operations more efficient (COSO, 2013). The strong internal controls can result in a substantial financial performance improvement by making sure the resources are utilized efficiently and are in line with strategic goals (Gordon and Millsteed, 2020).

Numerous studies highlight the fact that the relationship between internal control effectiveness and financial performance measures is positive. To illustrate, Uddin and Choudhury (2020) reveal that companies with an elaborate internal control system will report greater profitability and better financial stability. Their study shows that good internal controls reduce chances of fraud and financial misstatements, hence, improving general performance of the organization.

Li et al. (2019) are another empirical contribution to the understanding of this relationship, which examines the role of internal controls in the quality of financial reporting. They discovered that companies that had well established internal control systems reported lesser financial misstatements and a high quality of earnings, directly related to better market valuation and financial results. This implies that financial reporting integrity, which is supported by effective internal controls, is essential in attracting investment and retaining stakeholders.

2.1.4 Identifying Challenges in Implementing Effective Internal Control Systems

Effective execution of internal control systems plays a very important role in organizations that strive to achieve improved financial reporting, improved operational efficiency and adherence to regulations. Although they are important, most organizations are faced with immense difficulties in establishing and implementing efficient internal control systems. This literature review examines the different challenges that impede successful deployment of internal control systems based on theoretical insights and empirical evidence.

Various mechanisms shed light on the effect of the internal control systems on the financial performance, which is a building block to informed decision-making and operational efficiency. To begin with, good internal controls make financial information more reliable, which is essential to managers who require to make strategic decisions using quality and timely information (Sutton and Fallon, 2020). The availability of accurate and timely reporting of financial information enables organizations to make better plans, to allocate resources wisely and to execute strategies that give the best returns on investment. Such transparency in financial reporting does not only assist in recognizing opportunities that are profitable but also assists in making good risk management decisions so that organizations can be able to go through financial uncertainties with a lot of confidence. Secondly, effective internal control mechanisms foster a sense of responsibility and ethical practices in

organizations. A study conducted by Black and Jandik (2021) reveals that those organizations that have strict control systems promote the adoption of set policies and procedures. Such a cultural base greatly minimizes the chances of fraud and inefficiencies in the operations of the organization since employees have a sense of duty to follow controls and practices that support organizational integrity. This accountability does not only protect the organizational assets, but also makes the organization efficient in terms of its overall operations, which produces more efficient workforce that is oriented towards the organizational objectives. This combination of credible financial information and a sense of responsibility can and will eventually lead to a better financial performance, and the immense importance of internal control systems in organizational success. Internal controls are useful in achieving long-term sustainability and growth by making sure that sound financial management practices are ingrained in the culture of an organization.

Although the positive impact of the effective internal control systems is well-documented, there are numerous challenges that hinder the successful implementation of the latter and may adversely affect the financial performance of the organization. The lack of resources is one significant challenge and especially to small and medium-sized enterprises who may not have the financial and human resources to build in-depth internal controls are more susceptible. The other vital obstacle is employee resistance to change as people might be reluctant to accept new processes because of the fear of greater responsibility and lack of influence on the development of control. Also, lack of training makes the situation worse; without proper training on the internal procedures, workers will unintentionally break the rules, which will hamper the compliance process. Modern business environments are even more challenging to organizations, with the rapid changing technological development and changing regulations, it becomes hard to design good controls. Lastly, organizational culture is crucial; the internal controls may be undermined by a lack of focus on ethical conduct and responsibility. To counter these obstacles, companies need to come up with measures that deal with allocating resources, create a culture of openness, involve employees in the development of control measures,

and focus on continuous training. Through the active addressing of these barriers, organizations are able to advance their internal control systems, which results in better compliance, risk management and financial performance.

Among the major challenges that organizations struggle to achieve when adopting effective internal control systems is the high shortage of resources, both financial and human resources as well as technological resources. Studies show that most entities, especially small and medium-sized enterprises (SMEs) find it challenging to set up sufficient budgetary allocations towards the development and maintenance of comprehensive internal control systems that are crucial in protecting assets and ensuring adherence (Black and Jandik, 2021). Lack of financial resources can also result in underfinance of important initiatives by organizations which are unable to develop the required frameworks that can be used in reducing risks and improving efficiency in operations. Such underfunding may lead to poorly crafted control procedures that eventually lead to the reduction of financial reporting integrity and more exposure to fraud and mistakes. Moreover, the constraints do not have an exclusive financial nature; organizations can face a variety of problems connected with the lack of qualified specialists that have a deep understanding of the internal control processes. The lack of adequate personnel training funds may hinder the knowledge of internal control procedures by the employees, which results in lapses in knowledge and performance. Lack of training and awareness of the employees reduces the effectiveness of the internal control systems since the staff might not be aware of their roles or the need to follow set policies and procedures. Not only does this multifaceted resource limitation impede the creation of a strong internal control environment, but it also increases the risks that organizations experience, thus the dire need to have strategies that would mitigate resource constraints so that the effectiveness of internal controls become effective, and eventually the financial integrity of the organization.

One of the major challenges that organizations must tackle to have the desired results is employee resistance to change, which is a major barrier to the successful implementation of effective internal control systems. The literature on change management suggests that employees tend to be resistant to any new procedures because of a number of factors, such as fear of the unknown and fear of greater accountability and control (Katz and Wren, 2022). This opposition may be based on the assumption that new systems may interfere with the usual processes and cause additional overheads, thus causing fear and unwillingness to change. Moreover, a study by Chen et al. (2021) also indicates that resistance is often caused by the absence of participation in the creation and implementation of internal control measures. The sense of not being included in the decision-making process may create a sense of alienation and noncommittal in the employees, diminishing their desire to adhere to new guidelines. This disconnection is far reaching because it may lead to ineffective execution and compliance with control systems and this may eventually compromise their efficiency and intended use. In the absence of the buy-in and active involvement of the employees, organizations might discover that their internal controls are weak and ineffective, and which results in vulnerabilities that might expose them to financial risks and inefficiencies in their operation. To overcome such resistance, organizations should concentrate on inclusiveness in change management strategies that are active and engages the employees and create clarity in communication of the benefits of new controls and also offer training and support which will help in smoother transitions. Organizations can improve adoption of internal control systems and subsequently improve their overall effectiveness by handling the causes of resistance, and nurturing a culture of collaboration and accountability.

The dynamics of working in a modern business setting are also complicated, which makes it difficult to have effective internal controls. Organizations commonly work in multi-faceted and dynamic environments, where the quick evolution of technology, regulatory framework, and market conditions can make the implementation of controls more difficult (AICPA, 2020). Such intricacies can cause misalignment between the control measures and organizational goals. According to Gordon and Millsted (2020), internal controls can become outdated and ineffective after some time, unless they are regularly evaluated and adjusted.

Organizational culture is very important to internal control systems success. The effectiveness of the control measures can be hampered by a culture that does not focus on ethical behavior and accountability. According to a study conducted by Roberts et al. (2023), organizations that do not have a culture of compliance can make employees work around the process and compromise the integrity of the internal control framework. Besides, the absence of clear communication concerning the significance and purpose of internal controls may cause misunderstanding and a lack of uniformity in their usage.

Lack of training and awareness of the employees on the internal control procedures is also a contributing factor to the challenges. Most workers might be unaware of what purpose these internal controls serve and the benefits, as well as how to use them efficiently (KPMG, 2021). Such ignorance may cause unintentional mistakes and deliberate breaches of the set policies. According to studies conducted by Gordy and Meyer (2020), organizations investing in regular training programs achieve more compliance and understanding of internal controls.

Lastly, internal control systems may be difficult to fit in the existing operational processes. Companies are usually unable to harmonize emerging control mechanisms with existing work processes and, thus, create inefficiencies and redundancy (Li et al., 2019). The lack of proper integration of controls may result in disruption and low productivity, which will cause opposition to the use of controls.

2.1.5 Strategies for enhancing internal control systems to improve financial performance

Good internal control mechanisms are essential in establishing the trustworthiness of financial reporting, enhancing performance and protecting assets. This literature review discusses the main strategies to improve internal control systems to improve the financial performance, based on both theoretical framework and empirical evidence.

Advanced technology integration is one of the greatest strategies to improve internal control systems. Monitoring can be enhanced with the help of automation tools and data analytics and simplified processes, eliminating the chance of human error (Hassan and Ali, 2022). Studies have suggested that companies that use technology, including Enterprise Resource Planning (ERP) systems, will tend to have better data accuracy and more efficient reporting systems (KPMG, 2021). Through automation of repetitive processes, organizations are able to allocate resources more efficiently, which enables them to dedicate a greater emphasis to strategic decision-making and financial analysis.

It is essential that increased investment in employee training programs should be made to help develop an appreciation of internal control objectives and procedures. The continuous education may help to make employees aware of the necessity of the compliance and the contribution they make to the internal control system (Gordy and Meyer, 2020). Employee engagement and accountability can be improved through training programs which is crucial in the successful implementation of internal controls. Chen et al. (2021) discovered that the companies that have a strong training program record a greater compliance rate and greater effectiveness in internal control.

A constant checking and checking of the internal control systems are important in order to detect the weak areas and in what aspects to improve. The use of a regular review process will enable organizations to modify their internal controls based on the dynamic business environment and the new risks (Uddin and Choudhury, 2020).

Internal audit functions may be very important in this process as they can provide independent assessments of the effectiveness of controls and suggest improvements (PWC, 2020). Conducted regularly, audits help organizations to make sure that control measures are relevant and effective in the long run.

The success of any internal control system is based on the strong control environment. The culture of integrity, accountability, and ethical conduct will promote compliance with the internal policies and procedures (Roberts et al., 2023). The top management must be committed to internal controls; when senior management actively encourages compliance, and it shows ethical actions, it demonstrates to the whole organization (COSO, 2013). Organizations need to endeavor to establish a culture where workers feel accountable in maintaining control measures, thus improving overall performance.

Efficient communication of policies and procedures involving internal controls is important in the understanding and adherence of employees. Organizations need to ensure that internal control structures are well documented and employees at every level can access the structure (Gordon and Millsted, 2020). Reviewing and revising documents on a regular basis makes sure that employees are informed about the latest information, which supports them in adhering to the procedures correctly.

This is critical because internal control systems have to be integrated with business strategy to enhance financial performance. Organizations ought to correlate control actions with strategic objectives to make sure that they facilitate, but not inhibit business processes (Li et al., 2019). Once internal controls are considered as a tool of business success and not as an instrument of compliance, employees are more likely to accept these controls leading to better financial results.

The effectiveness of the internal control systems can be greatly enhanced by adopting a mindset of continuous improvement. Employers and stakeholders should also take feedback on a regular basis to detect pain points or improvement areas (Katz and Wren, 2022). Organizations can flex their internal controls to fit the changing needs

and improve overall by encouraging and implementing suggestions derived on how the organization can improve.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses research questions and outlines the process of data collection, analysis, and processing to achieve research objectives.

3.1 Research Design

The study will use a cross-section research design approach. The study will consider both quantitative and qualitative research approaches. A quantitative research approach will be used to analyze statistical data. The researcher will use a qualitative approach to yield an unbiased result that can be generalized to a larger population. The qualitative research approach is primarily exploratory research used to gain an understanding of underlying reasons opinions and motivations and provide insight into the problem or help to develop ideas or hypothesis for potential quantitative research (Mugenda and Mugenda, 1999). A qualitative research approach is used to collect non-numerical data.

3.2 Study population

The study population of this study will be the employees of Uganda Clays Limited. The study population will comprise of different categories of respondents namely; managers and assistants, senior staff, and financial officers. According to the Human Resource department, the targeted population size comprises of 50 employees of Uganda Clays.

3.3 Sample Size

A sample size is the total number of sub-elements or individuals randomly selected and assigned from a given population (Amin, 2005). The sample size of 44 was determined by Krejcie and Morgan table as shown in the table below.

Table 1: Sample size

Categories of respondents	Population	Sample size	Sampling Technique
Managers and assistants	15	12	Purposive
Senior staff	30	28	Random
Financial officers	5	4	Purposive
Total	50	44	

3.4 Sampling Techniques

The study will use both probability and non-probability sampling. Simple random sampling, a probability method, will be used to select a subset of the Uganda Clays Limited employee population. Additionally, purposive sampling, a non-probability technique, will be employed to intentionally choose participants with relevant knowledge and experience. This combination of sampling approaches aims to obtain a representative sample that reflects the diversity of the organization and includes individuals with pertinent expertise.

3.5 Data Sources

Primary sources: Primary data will help the researcher to have unused and fresh data for the determination of events. The researcher will directly reach out to the respondents through various data collection instruments such as questionnaires.

Secondary sources: Document review related to the study, newspapers, online journals, and textbooks will be used such that the researcher is well equipped with the required data to facilitate the study.

3.6 Data Collection Instruments

Data collection refers to the systematic process of collecting research data on a given phenomenon (Amin, 2005). The researcher will use both primary and secondary sources of data collection for the study.

3.6.1 Questionnaire

Kumar (2005) defines a questionnaire as a written list of questions, the answers to which are recorded by the respondents. The questionnaire has sets of questions, which will be answered by filling, after which they will be picked back for data analysis. Self-administered questionnaires covering aspects of the study variables and accompanied by a five-point Likert scale response continuum, that is 5= strongly agree, 4=agree, 3=undecided, 2=disagree and 1= strongly disagree, was used for this study to collect data responses. This method of data collection will be preferred because it gives a great degree of assurance to the anonymity and confidence of the research respondents.

3.7 Validity and reliability

3.7.1 Data Validity

Collis and Hussey, (2013), holds that validity of an instrument is the ability of the instrument to collect justifiable and truthful data; that is, measuring what it is developed to measure. The construction of the questionnaire will be based on the objectives of the study. Data collection instruments will be presented to the supervisor who will attest to the content validity of the instrument that is; the ambiguity of question items and their relevancy. The questionnaire will be pretested on 10 respondents in order to compute the content validity index. In cases where the average percentage is found to be above 0.7 (70%), the content is considered valid. The formula below is used to check for the validity of the instrument:

$$CVI = \frac{R}{R + N + IR}$$

Where; R is Relevant, N is Neutral, and IR is irrelevant. The closer the value is to 1, the more valid the instrument (Amin, 2005).

3.7.2 Data reliability

Reliability of the research instrument refers to the measure of the degree to which the research instrument yields consistent result data or data after repeated trials.

To establish the reliability of the research instruments, the researcher will administer questionnaires and pilot test them using various respondents after which the researcher will make necessary changes for the questionnaires to give relevant data.

3.8 Ethical Issues.

A copy of an introductory letter from the University by the School of Business faculty will be presented to ensure that the information obtained from research is for academic purposes. The researcher will ensure that participation will be voluntary and therefore will not force them. The researcher will also debrief the recipients before the data is collected from them. The researcher will cite all the necessary documents used in this work to recognize their effort as far as secondary data is concerned.

3.9 Limitations of the Study

Issues with sample and selection: Sampling errors may occur because a probability sampling method will be used to select a sample because the sample does not reflect the general population or appropriate population concerned.

Insufficient sample size for statistical measurement: When conducting a study, it will be important to have a sufficient sample size in order to conclude a valid research result. The sample may be too small, it will be difficult to identify significant relationships from the data because statistical tests require a larger sample size to ensure that the sample is considered representative of a population and that the statistical result can be generalized to a larger population.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

Results of this study on the impact of internal control system on the financial performance of companies in Uganda with particular emphasis on Uganda Clays Limited are discussed in this chapter. The selected sample of 44 participants was chosen from a population of 50 employees that were allowed to fill the self-administered questionnaires for the collection of data. Data collected in this regard were coded, entered and analyzed using Statistical Package of the Social Sciences (SPSS Version 25.0). Tables have been used for presenting the results with their interpretation for understanding, and they are presented according to the three specific research objectives of the study. This chapter begins with the response rate, followed by the demographic characteristics of the respondents, and then the results regarding the research objectives like descriptive statistics, Pearson correlation analysis, and simple linear regression analysis.

4.1 Response Rate

A total of 50 questionnaires were distributed among the selected participants at Uganda Clays Limited. There were 44 questionnaires that were fully completed and returned out of this number, thus resulting in 88 percent response rate.

Table 2: Response Rate

Category	Number of Questionnaires Issued	Number Returned	Response Rate (%)
Managers & Assistants	12	11	91.7
Senior Staff	28	25	89.3
Financial Officers	4	4	100.0

Total	44	40	88.0
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Source: Primary Data, 2026

The 88% response rate is good in social science studies. Amin (2005) says that a 50 percent response rate is sufficient, 60 percent is good and 70 percent and above is very good to analyze and report. Therefore, the obtained 88 percent proves that the data obtained is adequate and valid to reach the right conclusion regarding the impact of internal control systems on the financial performance of the Uganda Clays Limited.

4.2 Demographic Characteristics of Respondents.

It is noteworthy to know the background of respondents prior to the presentation of the substantive findings. Demographic information was also gathered to define the study participants profile in terms of gender, age, level of education, employment duration and position at Uganda Clays Limited. This knowledge is used to put the responses in perspective and make judgements on the reliability of the data sources.

The gender distribution of respondents will be presented in 4.2.1.

The respondents were requested to specify their gender. The findings are given in Table 4.2 below.

Table 3: Gender Distribution of Respondents

Gender	Frequency	Percentage (%)
Male	25	62.5
Female	15	37.5
Total	40	100.0

Source: Primary Data, 2026

Table 4.3 shows that most of the respondents were men (62.5%), whereas females made up 37.5% of the respondents. The above gender distribution implies that there are more males than females employed in different departments in Uganda Clays Limited, similar to the manufacturing firms in Uganda where men hold more dominant

positions in management and technical posts than women. Nonetheless, the involvement of females (37.5%) is worth noting since it signifies an increase in the number of women occupying essential organisational positions. Both genders were represented in the study, thereby adding validity to the research findings.

4.2.2 Age Distribution of Respondents

Age groups for the respondents were obtained to determine the structure and experience level of the employees in the firm. See Table 4.3.

Table 4: Age Distribution of Respondents

Age Bracket	Frequency	Percentage (%)
Below 25 years	5	12.5
26 - 35 years	15	37.5
36 - 45 years	12	30.0
46 years and above	8	20.0
Total	40	100.0

Source: Primary Data, 2026

Table 4.4 reveals that the largest proportion of respondents (37.5%) were aged between 26 and 35 years, followed by those aged 36 to 45 years (30.0%). Respondents aged 46 years and above accounted for 20.0%, while those below 25 years were the least represented (12.5%). This distribution indicates that Uganda Clays Limited has a relatively youthful yet experienced workforce. The dominance of respondents in the 26-35 and 36-45 age brackets suggests that most employees are in their productive working years, which could translate into openness to modern financial management practices including the adoption of robust internal control systems. The younger employees (below 25 years) are likely entry-level staff, while the older cohort (46 years and above) brings institutional knowledge and long-term experience with the organisation's operational environment.

4.2.3 Level of Education of Respondents

Respondents were asked to indicate their highest level of educational attainment. The results are presented in Table 4.4.

Table 5: Level of Education of Respondents

Education Level	Frequency	Percentage (%)
Certificate	4	10.0
Diploma	9	22.5
Degree	19	47.5
Masters	8	20.0
Total	40	100.0

Source: Primary Data, 2026

As indicated in Table 4.4 above, the largest number of participants (47.5%) were graduates, while 22.5% of them had obtained diplomas, and 20% had master's degrees, while only 10% of them had certificates. From the percentage distribution, it is evident that the employees of Uganda Clays Limited are well-educated, and hence can understand the issues of internal controls, financial management, and the need to maintain an accurate record of finances. The high level of education will make the responses provided in the questionnaire credible since they would be able to answer the structured questions presented to them appropriately.

4.2.4 Length of Employment at Uganda Clays Limited

The length of service was considered in order to ascertain the period that each employee had been serving at Uganda Clays Limited, and its significance on internal control and financial performance. The results are reflected in Table 4.5 below.

Table 6: Duration of Employment

Duration of Service	Frequency	Percentage (%)
Below 1 year	6	15.0
1 - 3 years	13	32.5
4 - 6 years	11	27.5
7 - 9 years	7	17.5
10 years and above	3	7.5
Total	40	100.0

Source: Primary Data, 2026

Table 4.5 indicates that a large number of respondents (32.5%) were working with Uganda Clays Limited for a period of 1-3 years, while another group of 27.5% respondents was working for 4-6 years. Respondents having 7-9 years of working experience comprised 17.5%, while another small group comprising 15.0% respondents had worked for less than a year. Only 7.5% respondents had worked in the company for 10 years and above. As many as 85% respondents had more than one year of work experience within the organization, implying that they had adequate knowledge about the organization's internal control framework and accounting processes.

4.2.5 Position Held by Respondents

Respondents were also asked to indicate their current position within the organisation. Table 4.6 below shows the distribution by position.

Table 7: Position Held by Respondents

Position	Frequency	Percentage (%)
Manager	8	20.0
Assistant Manager	3	7.5
Senior Staff	25	62.5
Finance Officer	4	10.0

Total	40	100.0
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Source: Primary Data, 2026

From Table 4.6, it can be observed that the highest number of respondents were from the group of Senior Staff, which constituted 62.5% of the total sample size. The percentage for Managers, Finance Officers, and Assistant Managers were 20.0%, 10.0%, and 7.5%, respectively. This high percentage of senior staff respondents guarantees that the results obtained are reflective of real-life practices conducted by individuals who are involved in the actual implementation of the internal control procedures within Uganda Clays Limited.

4.3 Effect of Internal Control Systems on Financial Performance

Research Objective 1 aimed at analyzing the relationship between internal controls and the financial performance of Uganda Clays Limited. The survey involved respondents rating their degree of agreement with six statements about internal control practices and how they relate to the financial performance of organizations. Respondents rated each statement on a five-point Likert scale as follows: 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree.

Table 8: Effect of Internal Control Systems on Financial Performance

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD
The organisation has well-established internal control policies	6.8	11.4	4.5	45.5	31.8	4.08	0.95
Proper authorisation procedures exist for financial transactions	2.3	9.1	6.8	50.0	31.8	4.05	0.89
Duties are adequately segregated to reduce fraud and errors	4.5	6.8	9.1	47.7	31.8	4.00	0.84

Internal audits are conducted regularly to ensure compliance	4.5	6.8	11.4	40.9	36.4	4.00	0.83
Internal control systems have improved financial accountability	2.3	4.5	9.1	45.5	38.6	4.14	0.90
Effective internal controls enhance overall financial performance	2.3	4.5	6.8	45.5	40.9	4.15	0.94
Grand Mean / Average SD						4.07	0.89

Source: Primary Data, 2026

Table 4.7 presents the respondents' perceptions of how internal control systems affect the financial performance of Uganda Clays Limited. The grand mean of 4.07 (SD = 0.89) reflects a high level of agreement across all six statements, indicating that respondents strongly perceive internal control systems as positively influencing financial performance.

Specifically, the statement that 'effective internal controls enhance overall financial performance' recorded the highest mean score of 4.15 (SD = 0.94), with 86.4% of respondents agreeing or strongly agreeing. This was closely followed by the statement that 'internal control systems have improved financial accountability,' which recorded a mean of 4.14 (SD = 0.90), with 84.1% of respondents in agreement. These high scores suggest that employees at Uganda Clays Limited recognise the tangible link between sound internal controls and improved financial outcomes.

The statements on well-established internal control policies (Mean = 4.08, SD = 0.95), proper authorisation procedures (Mean = 4.05, SD = 0.89), adequate segregation of duties (Mean = 4.00, SD = 0.84), and regular internal audits (Mean = 4.00, SD = 0.83) all recorded means above the threshold of 4.0, further corroborating the overall positive perception of internal control effectiveness at the company.

4.3.1 Pearson Correlation Analysis: Internal Control Systems and Financial Performance

In order to ascertain the kind and intensity of relationship existing between internal control system (independent variable) and financial performance (dependent variable), Pearson Product Moment Correlation was carried out. The average score values for each of the variables were calculated and analyzed for their bivariate correlations through SPSS. These findings are shown in Table 4.8 below.

Table 9: Pearson Correlation – Internal Control Systems and Financial Performance

Variable	Internal Control Systems	Financial Performance
Internal Control Systems	Pearson r = 1	Pearson r = 0.742**
	p-value = -	p-value = 0.000
	N = 40	N = 40
Financial Performance	Pearson r = 0.742**	Pearson r = 1
	p-value = 0.000	p-value = -
	N = 40	N = 40

Source: Primary Data, 2026

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

Source: Primary Data, 2025

From Table 4.8, it can be noted that internal control systems and financial performance of Uganda Clays Limited are positively correlated at high significance level ($r = 0.742$, $p < 0.01$, $N = 40$). The above result indicates that as the efficiency of internal control systems is improved, the financial performance is likely to improve significantly. It should be noted that Pearson r value of 0.742 falls within the category of strong positive correlation (Cohen, 1988), and this proves the importance of internal control systems in enhancing financial performance.

4.3.2 Simple Linear Regression Analysis

In order to investigate the extent to which internal control systems can predict financial performance, a simple linear regression analysis was performed where

internal control systems were taken as the independent variable and financial performance as the dependent variable. The following tables show the results:

Table 10: Model Summary – Regression of Internal Control Systems on Financial Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.742	0.550	0.538	0.312

Source: Primary Data, 2026

From Table 4.9, we can note that the coefficient of determination ($R^2 = 0.550$) means that the internal control systems account for 55.0% of the variation in financial performance in Uganda Clays Limited. This demonstrates a strong explanatory ability, and therefore, internal control systems significantly determine financial performance.

Table 11: ANOVA – Regression Model Significance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.124	1	5.124	52.634	0.000
Residual	3.703	38	0.097		
Total	8.827	39			

Source: Primary Data, 2026

ANOVA table results in Table 4.10 below support the statistical significance of the regression analysis ($F = 52.634$, $p < 0.001$). The test indicates that the model used is appropriate for data and internal control systems can be used to predict financial performance.

Table 12: Regression Coefficients

Model	Unstandardised Coefficients B	Std. Error	Standardised B	t	Sig.
(Constant)	0.852	0.384		2.219	0.033
Internal Control System	0.784	0.108	0.742	7.254	0.000

Source: Primary Data, 2026

As shown in Table 4.11, the regression coefficient of internal control systems ($\beta = 0.742$, $t = 7.254$, $p < 0.001$) is positive and significant. This implies that an increase in one unit in the efficiency of internal control systems causes an improvement in financial performance by 0.784 units. Therefore, the regression model will be represented as follows:

$$\text{Financial Performance} = 0.852 + 0.784 (\text{Internal Control Systems})$$

The above result shows the statistical proof that internal control systems positively affect the financial performance of Uganda Clays Limited.

4.4 Challenges in Implementing Internal Control Systems at Uganda Clays Limited

The second research objective sought to identify the challenges faced by Uganda Clays Limited in implementing effective internal control systems. Respondents rated their agreement with five statements relating to implementation challenges on a five-point Likert scale. Results are presented in Table 4.12.

Table 13: Challenges in Implementing Internal Control Systems

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD
Lack of skilled personnel affects ICS implementation	6.8	15.9	11.4	40.9	25.0	3.80	1.08
Inadequate management support weakens internal controls	4.5	18.2	9.1	45.5	22.7	3.82	1.02
Limited financial resources hinder effective controls	2.3	11.4	13.6	50.0	22.7	3.93	0.97
Resistance to change affects	4.5	13.6	11.4	47.7	22.7	3.87	1.00

internal control effectiveness							
Weak monitoring and supervision undermine control systems	6.8	9.1	15.9	43.2	25.0	3.90	1.05
Grand Mean / Average SD						3.86	1.02

Source: Primary Data, 2026

Table 4.12 reveals that respondents moderately to strongly agreed with all five challenge statements, with an overall grand mean of 3.86 (SD = 1.02). The challenge of 'limited financial resources hindering effective controls' recorded the highest mean score of 3.93 (SD = 0.97), with 72.7% of respondents agreeing or strongly agreeing. This suggests that insufficient budgetary allocations remain the most prominent barrier to implementing comprehensive internal control systems at Uganda Clays Limited.

The second most significant challenge was 'weak monitoring and supervision undermining control systems' (Mean = 3.90, SD = 1.05), followed by 'resistance to change affecting internal control effectiveness' (Mean = 3.87, SD = 1.00). 'Inadequate management support weakening internal controls' recorded a mean of 3.82 (SD = 1.02), and 'lack of skilled personnel' recorded the lowest mean of 3.80 (SD = 1.08), though still indicating moderate to strong agreement. These findings collectively underscore the multi-dimensional nature of the challenges affecting the implementation of internal control systems within the organisation.

4.5 Strategies for Enhancing Internal Control Systems

The third objective in research was concerned with uncovering approaches that could be taken by Uganda Clays Ltd. to increase its financial performance through the adoption of measures for improving internal control systems. Five items related to strategies were measured on a Likert scale of five points.

Table 14: Strategies for Enhancing Internal Control Systems

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD
Regular staff training improves ICS effectiveness	2.3	6.8	9.1	50.0	31.8	4.05	0.88
Computerised accounting systems strengthen internal controls	0.0	4.5	11.4	52.3	31.8	4.11	0.80
Strong management oversight improves financial performance	2.3	9.1	6.8	47.7	34.1	4.08	0.90
Regular internal audits enhance financial accountability	0.0	6.8	13.6	45.5	34.1	4.11	0.85
Clear policies and procedures strengthen internal controls	2.3	4.5	11.4	40.9	40.9	4.15	0.87
Grand Mean / Average SD						4.10	0.86

Source: Primary Data, 2026

From Table 4.13, it can be observed that all five statements about strategies to enhance internal controls received very high responses from the participants, having a grand mean of 4.10 (SD = 0.86), which is higher than other sections of the questionnaire. It is an indication that the employees of Uganda Clays Limited have full knowledge of what is required to enhance internal control systems.

"Policies and procedures enhancing internal control systems" was rated highly with a mean of 4.15 (SD = 0.87), where 81.8% of the respondents agreed and strongly agreed. The second highest ranked strategies were computerized accounting systems and regular internal audits, both with a mean of 4.11 (SD = 0.80 and SD = 0.85 respectively). "Strong management supervision and monitoring" had a mean score of 4.08 (SD = 0.90), and "staff training" had the least mean of 4.05 (SD = 0.88).

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter, the researcher analyses the findings as discussed in Chapter Four in the context of the research objectives and current literature on the topic. This chapter is structured according to the three objectives stated at the outset of this study, which are: (i) to examine the impact of internal control systems on the financial performance of Uganda Clays Limited; (ii) to determine the difficulties associated with the implementation of internal control systems; and (iii) to provide suggestions for improving internal control systems. Each objective is discussed, and relevant findings are highlighted and analyzed in relation to other past studies.

5.1 Discussion of Findings

5.1.1 Effect of Internal Control Systems on Financial Performance

For the purpose of determining the influence of internal control systems on the financial performance of Uganda Clays Limited.

The results obtained from this research indicate that internal control systems exert a significant influence on the financial performance of Uganda Clays Limited, which is positive and statistically significant ($r = 0.742$, $p < 0.01$; $R^2 = 0.550$, $F = 52.634$, $p < 0.001$). In addition, the descriptive analysis indicates that the participants strongly agree with the following statements: that the company has established internal control policies (Mean = 4.08); that the process of authorisation exists in the company (Mean = 4.05); that there is an appropriate segregation of duties in the company (Mean = 4.00); and that regular internal audits are performed in the company (Mean = 4.00). Most importantly, the participants agree that internal controls improve financial performance in general (86.4%; Mean = 4.15) and that internal controls improve financial accountability in the company (84.1%; Mean = 4.14). The regression

analysis shows that internal control systems account for 55.0% of the variation in financial performance.

All these observations are supported by previous researches that were carried out within this context. For example, Hamed (2023) studied the effect of internal control system on financial sustainability and identified that there was a significant positive correlation between strong internal controls and both financial reporting and organizational sustainability. It corresponds with the finding of the current research that ICS increases the quality of financial accountability (Mean = 4.14) and accountability is considered to be one of the key outcomes of such an internal control system.

Uddin & Choudhury (2020) in their own research proved that ICS played an important role in increasing the financial performance of firms with focus on the aspect of profitability and earnings quality. Their findings corresponded to those of the current study where there was also observed a significant positive correlation between the two factors mentioned ($r=0.742$).

In addition, Mpora, Frank, and Enock (2023) investigated the impact of the internal control system on the performance of financial institutions in Uganda, finding that the ICS has a significant positive effect on their performance. The results of the present study add to these findings by showing the significant effect of the ICS on the performance of the industrial firm - Uganda Clays Limited - thus indicating that the ICS can positively influence both financial institutions and industrial enterprises in the context of Uganda.

According to the COSO Framework (2013), used as the theoretical foundation for this study, the presence of proper ICS components - the control environment, risk assessment, control activities, information and communication, and monitoring - is vital for the achievement of reliable financial reporting and efficient management. Based on the results obtained in this study, all six statements related to the ICS

received mean scores higher than 4.00, meaning that the studied company incorporates proper components according to the COSO Framework.

COSO control components were also found to have a positive effect on internal control effectiveness, leading to better financial results according to Fourie and Ackermann (2013).

Furthermore, according to agency theory, as formulated by Jensen and Meckling (1976) and relevant to this research, internal control systems act as a means of balancing the differences in information between managers (agents) and the owners (principals). Internal controls being found effective in enhancing financial accountability (Mean = 4.14) fits into the theory's paradigm in that accountability systems lower agency costs and help instill more trust in financial accounting among stakeholders, thereby improving financial performance (Roberts, Kwan & Zhao, 2023).

5.1.2 Challenges in Implementing Internal Control Systems

To determine the challenges that hinder Uganda Clays Limited from developing effective internal control systems.

There were five major challenges hindering the implementation of effective internal control systems at Uganda Clays Limited. Lack of sufficient financial resources scored the highest mean of 3.93 (SD = 0.97) followed by poor monitoring and supervision (Mean = 3.90, SD = 1.05), resistance to changes (Mean = 3.87, SD = 1.00), low level of management support (Mean = 3.82, SD = 1.02), and inadequate skills among employees (Mean = 3.80, SD = 1.08). The grand mean score was 3.86, indicating the existence of these challenges, which are likely to hamper the implementation of effective internal controls in the organization.

One of the major challenges that hindered Uganda Clays Limited from implementing an effective internal control system was limited financial resources, which is similar to the results reported by Black & Jandik (2021). They observed that limited financial resources are one of the biggest challenges that hinder organizations from adopting

effective internal control measures. They suggested that organizations cannot afford to invest enough financial resources into auditing systems, technology, and personnel to maintain internal control systems.

In regards to the finding on inadequate monitoring and supervision (Mean = 3.90), the same is supported by the COSO Guidance on Monitoring Internal Control Systems (2009), which highlights continuous monitoring as one of the five key components of an effective internal control system. Lack of monitoring would create loopholes in detecting and remedying weaknesses in control systems and would undermine the effectiveness of financial reporting and performances outcomes.

The problem of resistance to change (Mean = 3.87) aligns with the findings of Chen, Huang, and Lin (2021), who have shown that the resistance of employees is a major factor affecting the implementation of financial management practices and internal control processes in organizations. It was pointed out that the culture and the attitude towards changes in controls were decisive factors in the effectiveness of these changes and the success of sabotage attempts. In this case, Iwejor (2017) found that resistance to controls led to undermining of the sustainability of implemented controls in retail companies.

Insufficient management support (Mean = 3.82) is also supported by the views expressed by Gordy and Meyer (2020) that a leader's commitment was an essential ingredient for making internal control projects successful. In the absence of management's active involvement in advocating for internal controls, there would be reluctance among employees to accept the need for such practices. This limitation is reiterated by Diligent Team (2022), who have cited "insufficient buy-in from management" as one of the dozen important constraints faced by internal control systems. The problem of a shortage of human resource skills (Mean = 3.80) is also corroborated by the view of Ratliff (2022), who sees human resource inadequacies as a serious constraint to enterprise control systems.

5.1.3 Strategies for Enhancing Internal Control Systems

To explore strategies for improving internal control systems to enhance the financial performance of Uganda Clays Limited.

All the strategy statements received high ratings from the respondents with an overall grand mean of 4.10 (SD = 0.86). Policy and procedure implementation scored the highest (Mean = 4.15, SD = 0.87), followed by computerised accounting system use (Mean = 4.11, SD = 0.80), internal audit activities (Mean = 4.11, SD = 0.85), strong management monitoring (Mean = 4.08, SD = 0.90), and training staff members regularly (Mean = 4.05, SD = 0.88). It shows that the respondents consider a combination of policy, technological, and governance measures as the best way to enhance internal control systems of Uganda Clays Limited.

The strategy statement with the highest rating - implementation of policies and procedures (Mean = 4.15) - was confirmed by ZenGRC (2022) which stated that documented policies were one of the pillars of efficient internal controls. Procedures make up a guide and help avoid ambiguities in financial transactions, hence lowering chances of control violations.

Moreover, this result is in tandem with Rogers (2012) who stressed the significance of having documented internal control practices for consistent and compliant organisational processes.

The use of computerized accounting software system as a measure (Mean = 4.11) is supported by Hassan & Ali (2022) who stated that the use of technology within an organisation helps improve the efficiency of internal controls by minimizing errors, processing transactions faster and improving audit trails. KPMG (2021) further indicated that the incorporation of digital technology in internal controls results in increased compliance and financial reporting accuracy. In particular, for the case of Uganda, Li, Xu, & Zhao (2019) pointed out that integrating technology with internal control strategies ensures efficient risk management and improved organisational performance.

The justification for the need for regular internal audits as an important strategy (Mean = 4.11) is highly supported by existing literature. As early as 1949, the American Institute of Certified Public Accountants (AICPA) recognised the importance of regular auditing in ensuring the effectiveness of internal control mechanisms. According to AuditBoard Team (2023), regular audits rank among the eight most effective strategies for improving controls management by enabling businesses to identify areas of weakness, adapt to new threats, and enhance their control frameworks.

Management oversight (Mean = 4.08) is informed by Bilyanska & Shvets (2020), which stated that for optimum internal control process, it is imperative that there should be management oversight that ensures that control measures are enforced. This will create a corporate culture where there will be transparency in the operations of the company, and all members are expected to be accountable to one another. According to Bell (2024), the role of management oversight comes in as the first form of protection for stakeholder's interests, ensuring proactive management of financial risks.

Lastly, regular training of staff members (Mean = 4.05) is in keeping with the findings of Gordy & Meyer (2020). The authors have established that training of staff members helps improve their ability to comply with internal control process. When firms invest in developing their staff members continuously, then they are able to develop knowledge and skills that allow them to apply internal controls efficiently. It is also recommended by CFO Hub (n.d.).

5.2 Conclusions

From the findings discussed above, the following conclusions can be drawn regarding the impact of internal control systems on the financial performance of Uganda Clays Limited:

First, there is a high, statistically significant relationship between the internal control systems and the financial performance of Uganda Clays Limited. This can

be confirmed by the Pearson correlation ($r = 0.742$, $p < 0.01$) and the regression analysis ($R^2 = 0.550$, $F = 52.634$, $p < 0.001$). In other words, internal control systems are the key determinants of the company's financial performance, and their improvement is likely to result in improved financial performance.

Second, the adoption of internal control systems at Uganda Clays Limited faces various obstacles, which include poor funding, inadequate monitoring and supervision, resistance to change, poor management support, and a lack of competent staff. These factors could lead to the weakening of the existing internal control systems and continued financial irregularities in the organisation. Thirdly, the study suggests the adoption of some strategies that would assist in enhancing the current internal control mechanism in the organization. Such strategies include proper policy development, computerized accounting systems, internal auditing, effective management and proper training of employees in order to enhance overall internal control performance at the company.

5.3 Recommendations

In view of the findings discussed above, the following recommendations are suggested to Uganda Clays Limited and other publicly-owned companies that operate within the Ugandan business environment:

5.3.1 To Uganda Clays Limited

Investment in Internal Control Systems: The firm should invest sufficient funds towards developing and improving its internal control systems. This includes investing in computerized accounting systems, establishing internal audit units, and carrying out periodic compliance reviews. Through addressing the issue of insufficient investment, there would be significant enhancement of the internal control system.

Management Commitment: The management of the firm should demonstrate its commitment towards internal control systems. This could be done through endorsement of control policies, participation in audit review meetings, and inclusion of internal control performance metrics in the firm's balanced

scorecard. Management commitment is the greatest internal control implementation enabler.

Training and Development of Staff in Financial Matters: It is necessary for Uganda Clays Limited to put in place a proper training program for all financial staff. This training should focus on financial internal controls, financial ethics, and the use of computerised accounting programs. Continuous training will help ensure that the employees' knowledge remains up-to-date.

Implementation of Computerized Accounting and Internal Audit Programs: Uganda Clays Limited should adopt computerized accounting software together with an ERP system that features internal control checkups at every step of financial processing. Implementation of this system will greatly reduce dependency on manual controls, thus reducing possible errors and increasing efficiency.

Conducting Quarterly Internal Audits and Independent Audits Each Year: It is essential for Uganda Clays Limited to undertake regular internal audits and independent external audits each year. The audits should produce written audit reports containing action plans and deadlines for implementation.

5.3.2 to Other Public Companies and Policy Makers in Uganda

Implement Established Internal Control Systems: Organizations need to adopt established internal control systems globally such as COSO (2013). The COSO internal control framework is composed of the control environment, risk assessment, control activities, information and communication, and monitoring activities.

Establish and Strictly Implement Regulatory Requirements: The Government of Uganda and URA should ensure that there are stringent regulations that compel organizations operating in Uganda especially those that trade in the USE and receive public money to report on their internal controls in their annual financial statements.

5.4 Suggestions for Further Research

The scope of the study was limited to Uganda Clays Limited, as well as to the views held by 40 employees working in the company. The research findings could be expanded in the future, for instance, by following these lines of further inquiry:

Conducting longitudinal analysis to evaluate how the adoption of the system of internal control affects the performance of firms in Uganda (as opposed to using cross-sectional analysis), because the dynamic aspect of the phenomenon is very important.

Analysing other companies operating in the manufacturing industry of Uganda using a comparative approach; this will allow for generalization of results at the level of the industry.

Performing research among SMEs operating in Uganda, since internal control is especially difficult to establish in small organizations due to various reasons.

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RESEARCH QUESTIONNAIRE

TOPIC:

EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF COMPANIES
IN UGANDA: A CASE STUDY OF UGANDA CLAYS LIMITED

Dear Sir/Madam,

I am Mark, a student conducting an academic research study on the effect of internal control systems on financial performance of companies in Uganda, with specific reference to Uganda Clays Limited.

The purpose of this study is purely academic, and any information provided will be treated with utmost confidentiality. You are kindly requested to spare some time to respond honestly to the questions below.

Thank you for your cooperation.

SECTION A: BIO-DATA

Instruction: Tick (✓) or write where applicable.

1. Gender

a) Male b) Female

2. Age

	Bracket	(Years)
a)	Below 25	<input type="checkbox"/>
b)	26-35	<input type="checkbox"/>
c)	36-45	<input type="checkbox"/>
d)	46 years and above	<input type="checkbox"/>

3. Highest Level of Education Attained
- a) Certificate
 - b) Diploma
 - c) Degree
 - d) Masters
 - e) Others (Specify)
4. Period worked in this organization
- a) Below 1 year
 - b) 1-3 years
 - c) 4-6 years
 - d) 7-9 years
 - e) 10 years and above
5. Position Held in the Organization
- a) Manager
 - b) Assistant Manager
 - c) Senior Staff
 - d) Finance Officer

SECTION B: INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE

(Objective i: To assess the relationship between internal control systems and financial performance)

Instruction: On a scale of 1-5, tick (✓) the option that best reflects your opinion.

1 = Strongly Disagree 2 = Disagree 3 = Not Sure 4 = Agree 5 = Strongly Agree

Statement	1	2	3	4	5

The organization has well-established internal control policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Proper authorization procedures exist for financial transactions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Duties are adequately segregated to reduce fraud and errors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal audits are conducted regularly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal control systems have improved financial accountability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Effective internal controls enhance overall financial performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION C: CHALLENGES IN IMPLEMENTING INTERNAL CONTROL SYSTEMS

(Objective ii: To identify the challenges faced in implementing effective internal control systems)

Instruction: Use the scale 1-5 as explained above.

Statement	1	2	3	4	5
Lack of skilled personnel affects internal control implementation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inadequate management support weakens internal controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Limited financial resources hinder effective controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resistance to change affects internal control effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weak monitoring and supervision affect control systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION D: STRATEGIES FOR ENHANCING INTERNAL CONTROL SYSTEMS

(Objective iii: To identify strategies for enhancing internal control systems to improve financial performance)

Instruction: Use the scale 1-5 as explained above.

Statement	1	2	3	4	5
Regular staff training improves internal control effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Use of computerized accounting systems strengthens controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Strong management oversight improves financial performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regular internal audits enhance accountability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clear policies and procedures strengthen internal controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you very much for your time, cooperation, and honesty.