

Internal Control System and Financial Performance of Small and Medium Enterprises in Lira City

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This study sought to examine the effect of internal control system on the financial performance of small and medium enterprise in Lira City. Much as Uganda is renowned internationally for its entrepreneurial flair and is ranked as one of the most entrepreneurial nations not only in Africa, but in the world (GEM Report, 2004), it is puzzling to note that there is remarkably high failure rate of SMEs in Uganda and hence suggesting these enterprises rarely grow to their full potential (Hatega, 2007);

The specific objective of the study was to examine the effect of control environment, risk assessment and control activities on the financial performance of small and medium enterprise in Lira City. The study employed cross-sectional survey research design. The target population for this study comprised 100 managers and owners of small and medium enterprises in the service sector in Lira City. A comprehensive self-administered questionnaire was used to collect primary data. This was supplemented with the use of interview guide. The quantitative data collected using the questionnaire was coded to facilitate analysis using Statistical Package for Social Scientists (SPSS) Version 23 in form of descriptive and inferential statistics. Descriptive statistics involved the use of frequencies, means, standard deviations and coefficient of variation. Inferential statistics involved the use of both correlation and regression analysis. The findings of the study revealed a significant effect of control environment ($\beta = 0.717$, $p < 0.05$), risk assessment ($\beta = 0.559$, $p < 0.05$), and the control activities ($\beta = 0.756$, $p < 0.05$) on the financial performance of small and medium enterprises in Lira City. The study is insightful in evaluating the effect of internal control system on performance. The study recommends for the strengthening of the risk assessment processes in small and medium enterprises in Lira City given the role it plays in highlighting firm-level inherent and control risks that amount to material misstatement in financial statements.

