Internal Control Systems, Working Capital Management and Financial Performance of Private Institutions in Uganda: An Empirical Study in Mbarara District

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Abstract: *This research adopted a cross-sectional and descriptive design. Data was collected using self administered questionnaire from those operating businesses in Mbarara municipality. Data was analyzed using a multivariate analysis technique and presented descriptively using mean, standard deviation and coefficient of variation. The study revealed that the businesses were weak at aligning their operations with set business procedures, guidelines and national laws The study also established that the current level of internal control systems is moderately effective. These are commendable practices especially in small and medium enterprise businesses. The moderate relationship between internal control systems and working management confirms the likelihood that these businesses conduct regular financial audits and endeavor to maintain reliable financial records. The study recommended that there is need for businesses to align their operations to national standards and also train their staff in internal control activities that ensure adherence to principles of accounting and financial records. Government has a role to play in protecting nationals against consumption of goods and services that do not measure to national or international standards*

Key terms: *Internal Control, Working capital management, Financial Performance, Profitability*

I. INTRODUCTION

The growth of an organization necessitates bringing in checks and balances to manage its activity. That is why internal control systems are brought into play. The importance of having effective and efficient internal control systems in organizations has been persistently emphasized due to its positive effects on financial performance. Performance can be measured through financial or non-financial. Gerrit and Abdolmohammadi, (2010) noted that financial performance of organizations may include: adherence to rules and regulations already established, profitability of the firm, growth rates and other parameters. It measures management efficiencies in the use of organizational resources in adding value to the business. Organizational performance is measured by what has been achieved by the organization, which showed good financial position and strength for a certain period of time and these measures the information obtained which is related to the flow of funds, the usage, effectiveness and efficiency. Saad and Zhengge, (2016) noted that financial performance of a company is essential in measuring the individual and or groups within the organization that contributes towards the financial objectives of the company. The extent to which a company is financially successful often determines the tangible benefits of management. Khan, Nouman & Khan, (2015) argued that financial sectors should consider economic value addition as an important factor for financial performance. Amajali Alamro& Al-Soub, (2012) observed that good financial information can be a motivator to managers and thus make the best decision. Machiuka, (2010) argued that the analysis of financial performance reflects the financial position of the company, the level of competitiveness in the same sector and thorough knowledge about the cost and profit centers within the firm.

Research Problem

Simiyu, (2011) noted that private institutions have a number of challenges which include among others liquidity challenges, improper financial accountability, untimely generation of financial statements and reports, misappropriation of institution funds and fraud. Internal control in effectiveness is among the problems most organizations face and that when you allow rogue people to manage your business entity, it may cause huge financial losses to the organization (Ayagre, Appiah-Gyamerah, Nartey, 2014). Although internal control system has been seen as significant in any success of financial performance, the cost associated to maintaining the system might be high and this may drag the process of effective management to failures. Issues related to incorrect and unreliable financial records and performance are very common around the world, especially in developing countries and Uganda is no exception. Most private entities continue to fail due to poor management of working capital, resulting in to inadequate financing (Masocha and Dzomonda, 2016).Poor management and insufficient control of risks may lead to financial distress or crisis in businesses and if not well checked it would worsened, and lead to business failures. Lack of an internal control system to keep the risks under control or major breakdowns within an existing internal control system would pose a threat against the success of any business entity; thus affecting financial performance. The most important issue at hand is developing approaches for quantifying financial sustainability in form of financial performance and identification of the directions and means of its rise (Sazonov, Kharlamova, Chekhovskaya & Polyanskaya2015). It is upon this background that, there is need to investigate internal control systems, working capital management and the role they play in supporting financial performance in Mbarara Municipality from 2015 to 2019.

Objectives of the study

1. To determine the effectiveness of the existing internal control systems.
2. To ascertain if internal control systems have a relationship with working capital management in an organization
3. To examine the relationship between internal control system, working capital management and financial performance in an organization
4. To determine the effect of working capital management on financial performance in an organization

Hypothesis

1. There is an effect of internal control system on working capital management.
2. There is an effect of working capital management on financial performance.

II. LITERATURE REVIEW

Internal Control

Yousef, (2017) defines Internal Control as a group of policies and procedures that are embedded in a firm to ensure that the entity followed set objectives. Michelon, Bozzolan and Beratta,(2015) noted that internal control systems aims to ensure the achievement of an organizations objective in its operations to achieve effective, efficient, and reliable financial reporting which complies with the policies, laws and regulations set in place. Hayali, Dinc, Sarli ,Dizman and Gundoghu, (2013) observed that internal control helps the financial sector in presenting its strong and stable outlook before the international spectators. They noted that it also helps in keeping a strict eye on fraudulent activities, monitoring the assets and maintaining the reliability of the company accounts. Chukwuani , Onyeko and Nwakwo, (2016) argued that internal control is a crucial aspect of an organization's governance system and ability to manage risks, which are fundamental to supporting the achievement of the objectives of an organization plus creating, enhancing and protecting stakeholders value. A well-set internal control system ensures that the goals of the organization are met, and that it will help the organization attain long-term targets and maintain reliable financial and managerial reporting (Gamage, Lock, and Fernando, 2014). Eniola and Oluwafemi, (2016) acknowledged that an organization can achieve its objectives if the management ensures a regular review and training of the members of the internal control in the departments and equip them with the basic knowledge and skills to handle unforeseen eventualities that may be an obstacle to an organization in achieving its objectives with limited resources available. Bongani, (2013) asserts that an Internal Control System (ICS) is primarily an accountability and governance tool an organization can establish and use to provide accountability to its stakeholders and safeguard its assets. Origa,(2016) observed that organizations that had put in place a stronger internal control systems were better off than those who had not created an internal control department, or those whose internal control systems department are weaker. As a result, those that implemented a stronger internal control system had improved on their accountability and financial performance.

Eton, (2018) noted that management of institutions should tighten and strengthen their internal control systems, sensitize all the staff at all levels to ensure adherence to the existing controls to minimize fraud or corruption and reporting errors as much as possible. Cobblah , Agbenyo and Jiang, (2018) observed that institutions should ensure that the internal control system is periodically monitored and evaluated, and that institutions should transparently report on the structure and performance of their governance, risk management and internal control system. Kisanyanya, (2018) argued that organizations should take regular and timely financial auditing to ensure that they identify any loophole in their financial accountability, performance and management systems. The dimension of fraud in most organizations are growing at an alarming rate day by day, and therefore management must develop and/or discover new ways to strengthen their internal control system (Eniola and Oluwafeni, 2016). Similarly, Ofori (2011) argued that for any internal control system to be effective and efficient it ought to have significant and dependable information which should be recorded and imparted to management and staff of the organization. Uwaoma and Ordu (2015) noted that an organization which does not have an effective and efficient internal control system put in place is riskier and these may cause its collapse. Ibrahim, Diibuzie and Abubakari, (2017) established the components of internal control systems which are positively significant in management may include; risk assessment, control activities, control environment, , information and communication and monitoring must be available for internal controls to work effectively.

Financial Performance

Sebbowa, (2009) defined financial performance as the ability of the firm to operate efficiently, profitably, survive, grow and swiftly respond to opportunities and threats that the environment may pose. Financial performance also refers the achievement of work made by an organization in a specified period of time which is stated in the firm's financial statement (Anggitasari and Mutmainah, 2012). The reliability of financial performance of a company is reflected on the effectiveness of the internal control systems which ensures that the transactions recorded in the books of accounts are complete, valid, correctly recorded, properly authorized and delivered on time. Muhunyo and Jagongo (2018) observed that the responsible persons in the preparation of financial accounting information's should be transparent, honest, and professional in their work and should avoid misreporting of financial position of firm. Fraser and Ormiston (2013) noted that some of the key pieces of information which are significant in the evaluation of the company's performances are not easily available in the financial statements and this makes it difficult to measure the firm's performance. Krstic and Bonic (2013) observed that the usage of financial and non-financial approaches simultaneously should be integrated as a measure of evaluation of a company's financial performance. The ultimate goal of a business is to earn enough profit and ensures sustainability under the prevailing market conditions (Adebayo and Onyeiwu, 2018).

Brigham and Houston, (2010) noted that financial performance is one of the indicators used to measure financial performance which shows profitability ratio since it would show the combinations of effects on asset management, liquidity and debt on the results of operations. Organizations look at profits as a motivator in any business and it demonstrates how well management has performed in investment and financial decisions. Malik, (2011) emphasizes profitability as one of the primary objectives of financial management and control, which is to maximize the owners' wealth. Moyer *et al*…., (2005) noted that any long term survival of a firm in the market is tied up in economic interests which results in to profit. Veronika *et al*…., (2014) pointed out that by securing firms long term survival it will generate higher profitability thus granting strategic advantages in the economically difficult periods in the life of the firm. Eton, Murezi, Mwosi and Ogwel, (2018) argued that business entities should train their staff on the current financial management system to speed up financial reporting systems and timely release of financial reports. In dealing with financial performance, transparency of all financial activities is of paramount importance.

Internal Control and Financial Performance

Mawanda, (2008) observed that proper internal control systems leads to a better financial performance, effective and efficient reporting processes, accurate and reliable reporting and increased financial accountability. Internal Control practice is very significant in the improvement of financial performance of a firm in terms of value for money through utilization of available resources injected in to business towards achieving the set objectives (Kamau, 2014). The best way of improving financial performance is the elimination of irregularities and fraud through improved internal control systems of the organization's (Ondieki, 2013). Similarly, COSO, (2013) noted that internal control further helps to ensure reliable financial reporting and that a company should comply with the laws and regulations. It is from these concepts therefore that internal control systems continue processing from a series of procedures and rules. Phiri and Mbetwa, (2017) observed that internal control systems should be further enhanced in order to improve financial performance of the institutions. Soudani ,(2013) argued that internal control is utilized in all areas of management and operations for enhancing financial performance, making it a suitable tool for improving achievement of the objectives. Ibrahim and Mustapha, (2019) observed that firms should continuously improve on their financial control techniques through the selection of suitable and consistent control mechanisms. In order to meet the organizational objectives of being effective and efficient in their operations and producing reliable financial reports, management and boards of the organizations should endeavor to setup an effective internal control system to ensure effective outcomes (Crawford and Weirich, 2011). The effectiveness of the internal control systems on financial performance are significant in every business since the task of the internal control is to detect and prevent fraud in the organization. Business entities and organizations should enhance the adequacy of internal audit department, internal control systems, and organizations commitment so as to improve good governance (Eko and Hariyanto, 2011).

A successful internal control systems gives management information about the firm's progress, or lack of advancement towards the accomplishment of the organizations objectives (Vijayakumar and Nagaraja, 2012). Effective and efficient internal control systems would guard against loss of assets, provide reliable financial records, complete and reliable records of the organization and everything are conducted in accordance with the laws and regulations which are provided. Mwangi and Muturi (2018) argued that management should always adopt an effective and efficient internal control system with efficient control activities and monitoring that enhances financial performance of the organizations. Aminu and Zainudin (2016) observed that managers, who serve as agents of shareholders should be in position to design, maintain, implement an effective internal control system in the organization, which will increase on the financial performance of the firm. Niyonsenga and Abuya (2017) noted that continuous assessment of the adequacy of the internal control process and its compliance with established policies and procedures have to be performed by the internal audit unit to help solve the issue of lack of accuracy and up-to-date records. Efficient and effective internal control system should provide accurate financial reporting which is intended to provide reasonable assurance about the reliability of a company's financial statements and the process of preparation of those statements.

Working capital management and financial performance

Dinku (2013) noted that working capital management is very significant and has been taken as the most sensitive aspects in financial management practices and thus requires careful consideration by an organization or company, regardless of what they are operating. Mustafa (2011) observed that efficient working capital management will help in the elimination of risks of the inability to meet short-term obligations while avoiding excessive investment in these assets and it can only be done when there is proper planning and controlling of current assets and liabilities in the right way. It is important to note that, as a company strategy which is aimed at value addition, working capital management is significant because of the influence it has on the company's liquidity (Afrifa, 2015). It is notably significant to stress that the essence of working capital management in a company depends on the macroeconomic conditions which directly affects its investment and the manner of its financing. The life giving force to an organization is the working capital management practices (Bana, 2012), and it should be noted that efficient and effective working capital management is a precondition for the financial success of any firm or organization. Niresh, (2012) established that working capital management should be taken as one of the crucial elements in determination of the financial performance of an organization. Akoto, Awunyo-Vitor and Angmor, (2013) noted that working capital management is a very important element of corporate finance because of its direct effects on both the liquidity and profitability of the company. Altaf and Shah, (2018) argued that efficient and effective working capital management should ensure that organizations are a going concern and that they should have sufficient cash flows to satisfy short-term debts and operational expenses as they fall due. However, working capital management in most private organizations are not effective due to the fact that the experience poor cash management systems, inappropriate debtor's management, defective creditor's management and poor inventory management (Odyek, 2017).Singh and Asress, (2010) observed that firms which have adequate working capital management in relation with their operational size performed better than those firms which have less than the required working capital management in relation with their operational size.

Kwenda and Holden, (2014) argued that at the optimal level of working capital management the company's balances costs and benefits, and therefore maximizes profitability while achieving an adequate liquidity level. Most importantly any deviation from the optimal working capital management level in the investment, whether upwards or downwards, would decrease any profitability to a company or an organization, and thus the best strategy in working capital management is to have an optimal strategy level. Marco, (2014) noted that a very effective tool for determining the efficiency of working capital management is cash conversion cycle which will determine the liquidity and profitability of the company. The faster or shorter the working capital management turnover, the higher the effectiveness and efficiency level of an organization that will impact effectively on the usage of capital and this will increase the profitability level of the firm (Singh *et al*....,2012). Malik,Waseem and Kifayat,(2010) argued that the success or failure of an organization or businesses arise from the way working capital management is being managed; this would be due to its impact on the firm's profitability and liquidity. Yusoff, Khan, Mubben and Azam,(2013) argued that in corporate governance; one of the major mechanisms that influence the performance of a firm is the ownership of the capital structure. Shezad, Jan, Gulzar and Ansari,(2014) noted the importance of working capital management to firms which are experiencing inability and constraints to obtain funds from capital markets compared to large companies. Jajongo and Makori, (2013) observed that the relationships that exist between working capital management and financial performance may inform policy direction towards appropriate current asset-liability mix which will most likely maximize the company's profitability while minimizing the risks they are likely to encounter. Working Capital Management has been noted to be one of the most significant issues in organizations with many financial executives struggling to establish the basic working capital management drivers which are appropriate , effective and efficient that minimizes risks, improve performance of their businesses and prepare for uncertainty (Gill, Biger, &Mathur, 2010). Holding on excess amounts of working capital causes decline in profitability of a business and therefore there must be balance (Lu, 2013). Organizations should develop a strategy of lowering their conversion cycle as a measure of effective and efficient working capital management (Waema and Nasieku, 2016)

Internal Control, Working capital management and Financial Performance

Kabuye, Akugizibwe and Bugambiro, (2019) argued that once an organization has an appropriate working capital management, it is most likely to have efficient internal control practices that enhances financial performance. The effectiveness and efficiency of working capital management will be desired as it has an important effect on profits and sustenance of the organization (Mba, 2014). Similarly, Akindele and Odusina,

(2015) observed that acquiring substantial working capital levels is significant and would serve in adding value to the organization in the form of risk reduction and improved performance. Uguru , Chukwu, and Elom, (2018) suggested that firms ought to adopt efficient and effective working capital management systems that would keep working capital management at optimal level and also improve on the profitability. Gitman and Zutter, (2012) argued that the increase in net working capital management is recognized as a positive indicator for the ability of the company to fulfill its obligations in a short time. Orobia , Padachi and Munene, (2016) argued that on average the frequency performed routinely in managing working capital relates to safeguards of cash and inventory, and credit risk management. Working capital management is related closely to the decisions on a company's asset compositions and current liabilities that impacts on the firm's profitability (Adekola, Samy and Knight,2017), and this suggests that a firm's ability to manage its working capital management will equally improve its profitability and growth.

In order for organizations to appropriately manage its working capital, firms may shorten the operation of cash cycles which will eventually increase the firm's profitability (Hien, Tran, Abbot and Jin-Yap, 2017). The shorter the firm's operating and cash cycles, the more likely is the firm to generate profits. Since a higher working capital management comes at an opportunity cost to profitability, the businesses must reduce the working capital management at hand while confronting any challenges that may arise due to limited solvency (Owele, 2014). This means that businesses will try to have less capital tied up in non-productive stocks, shorten the collection period for account receivables and stretch cash payments for accounts payable as far as possible (Mwaniki, 2012). The firm's profitability has a direct relationship with financial development and economic growth in both developed and developing countries (Levine, 2012). Accordingly, Chukwuani*et al*... (2016) observed that effective internal control systems are necessary in the effective management of working capital.

III. METHODOLOGY

The study adopted a cross-sectional and descriptive design. Descriptive studies are those studies which describe the characteristics of a particular individual, or of a group of studies concerned with specific predictions, with narration of facts and characteristics concerning the situation. Cross-sectional design was used because it allows collecting data at one point in time hence minimizing costs and resources required (Saunders, 2007). Data was collected using primary methods. The survey method was used to collect primary data from the respondents using a self-administered questionnaire. Simple random sampling was used, since it was good enough to yield expected results that reflected the experiences and views of the respondents. The researchers collected quantitative data using a close-ended questionnaire from 162 respondents out of a target population of 280 licensed businesses in Mbarara Municipality.

Data was analyzed using multivariate analysis techniques, which included the qui-square test. The researcher used the Statistical Package for Social Scientists (SPSS V 20.0) and presented descriptive results using mean, standard deviation and coefficient of variation. Correlation analysis was used to assess the relationship between the constructs while the regression model aided in establishing the effect of internal control systems and working capital on financial performance.

IV. RESULTS

The researchers presented the findings according to the study objectives. The mode of presentation was considered appropriate since the study considered a number of objectives.

Objective one: To determine the effectiveness of the existing internal control systems

The researcher used descriptive statistical measures to determine the effectiveness of the internal control systems among the businesses investigated. Descriptive measures portray the level of concentration of a particular phenomenon and the extent to which data items scatter around the concentration. The researchers used mean and standard deviation to understand the effectiveness of internal control systems. Similarly, the researchers used coefficient of variation (C.O.V) to determine the reliability of the data collected and consequently the mean descriptive.

Accordingly, the interpretation of the mean scores was as follows:

If mean < 2.5, the effectiveness of the internal control system was described as 'low '.

If $2.5 <$ mean < 3.5, the effectiveness of internal control was described as 'moderate or average'.

If mean > 3.5, the effectiveness of internal control system was described as 'high'. The detailed description of the effectiveness appears in table 1.

Table 1: Descriptive statistics

Variable List	Mean	Std.	C.O.V
This business has the ability to check on actions of fraud	4.397	0.653	14.9
The business has the ability to monitor its assets level	4.206	0.922	21.9
This business conducts regular financial audits	3.929	1.033	26.3
This business protects the value of stakeholders	3.879	1.186	30.6

This business regularly trains staff on internal controls	3.801	1.129	29.7
This business has the ability to maintain reliability of its accounts	3.645	1.178	32.3
This business manages its risks easily	3.567	1.300	36.4
The staff in this business have the best skills to handle unforeseen events	3.482	1.175	33.7
All the activities in this business are within national laws	2.766	1.407	50.9
All the activities in this business are guided by clear of set procedures	2.142	1.093	51.0
Average	3.582	1.108	30.9

Source: field data, 2019

The effectiveness of the internal control system among the businesses investigated was indicated with ($mean = 3.582, Std = 1.108\ and\ COV = 30.9$). The mean suggests a moderate effectiveness of the internal control systems. This means that on average, most of the businesses had what one can describe as 'a moderately effective' internal control systems. The specific attributes surrounding the moderate effectiveness of the internal control systems include ability to check on actions of fraud ($mean = 4.397; Std. = .653$) and ability to monitor assets level ($mean = 4.206; Std = .922$). The respective standard deviations of these attributes suggest consistence of participants' opinions about them. In other words, participants appear to understand the need for checking on and minimizing fraudulent practices in their businesses, in addition to maintaining an adequate level of assets. Similarly, (C.O.V =30.9%) suggest that mean measurements used to determine the level of effectiveness of the internal control systems are reliable and dependable. Importantly however, the internal control systems among the businesses investigated appear to be lacking in aligning their operations to a set of clear guidelines and procedures ($mean = 2.142; Std. = 1.098; C.O.V = 51.0\%$), and to national laws. These gaps in operations threaten both the future and relevancy of these businesses to the Ugandan economy. Secondly, there appear divergent opinions on how easy they find managing risks. The statistics suggest some difficulty in managing business risks. This further confirms the researchers' foregoing assumption regarding the future of these businesses.

Objective two: To ascertain if internal control systems has a relationship with working capital management in an organization.

The researchers adopted correlational tests to establish the relationship between internal control systems and working capital management. Correlation measures the degree of the relationship between two numerical variables. The strength of the relationship is measured by the correlation coefficient, which ranges from 0.0 to 1.0. The direction of the correlation coefficient determines the nature of the relationship. Accordingly, a positive correlation coefficient indicates a positive relationship while a negative correlation indicates a negative relationship amongst the variables. The relationship amongst internal control systems', working capital management and financial performance is presented in table 2.

Table 2: Correlations

Variable list, N = 141		Internal Control	Working capital management	Financial Performance
Internal Control	Pearson Correlation	1	.483(**)	.103
	Sig. (2-tailed)		.000	.226
Working capital management	Pearson Correlation		1	.366(**)
	Sig. (2-tailed)			.000
Financial Performance	Pearson Correlation			1
	Sig. (2-tailed)			

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

The study reveals a moderate relationship between internal control systems and working capital management ($r = .483; sig. < 01$). The relationship suggests that a variation in internal control activities is associated to a moderate variation in working capital management. Business organizations, which vigilantly institute mechanisms to check on fraud, conduct regular financial audits and maintain reliable financial accounts are likely to maintain the level of their working capital management, though this might be moderate, according to the current study and vice versa. The positive correlation means that internal control systems and working capital management vary in the same direction, while the significant value, which is less than 0.01 means internal control systems and working capital management have linear and relevant relationship in business operations. Additionally, the significant value indicates that businesses that pay attention to their internal control operations are 99% confident of maintaining their working capital management. This statistic eliminates any assumptions that the prevailing level of working capital management in the businesses investigated is by chance.

Objective three: To examine the relationship between internal control system, working capital management and financial performance of an organization.

From table 2 above, the relationship amongst the three relationships is observed. While the study shows a moderate relationship between internal control systems and working capital management, the relationship between internal control systems and financial performance ($r = .103$; $sig > .01$) suggests a very weak relationship, above all, which is not significant at all. The statistics means that a variation in internal control systems is associated to a very weak variation in financial performance. In practice, not all businesses, which enforce internal controls, have realized positive changes in their financial operations. Businesses, whose internal controls are more of protecting organizational property than ensuring adherence to principles of accounting and presentation of reliable financial records, are likely to realize weak variations in their financial operations. In essence, the effectiveness of internal controls on financial performance is dependent on the financial controls than just control activities and or control environment.

However, the relationship between working capital management and financial performance ($r = .366; sig. < .01$) appears weak but significant. This means that there is a linear relationship between working capital management and financial performance though, weak. In business life, working capital management is essential in the financial performance of any business. However, in the absence of cash management practices that are sound, proper working capital management and adequate assets management, financial performance is likely to vary negatively. This however, is not conclusive that the businesses investigated indicated have low working capital management behavior.

Objective four: To establish the effect of working capital management on financial performance of an organization.

The researchers adopted the regression model to establish the effect of working capital management on the financial performance of the businesses investigated.

Table 3: Regression model

	Unstandardized Coefficients		Standardized Coefficients		
Variable List	B	Std. Error	Beta	t	Sig.
(Constant)	3.020	0.194		15.585	0.000
Working Capital	0.226	0.049	0.413	4.586	0.000
Internal Control	-0.060	0.056	-0.097	-1.074	0.285
R	0.376				
R Square	0.141				
Adjusted R Square	0.129				
Std. Error of the Estimate	0.314				
Regression sum of squares	2.247				
Residual residual sum of squares	13.645				
Total	15.891				

Predictors: (Constant), Internal Control, Working Capital

Dependent Variable: Financial Performance

Table 3 shows the overall effect of working capital and internal control systems on financial performance as 12.9% as reflected in the (Adjusted R Square = .129). The researchers used Adjusted R Square because standardized beta coefficients are more comparable than the raw unstandardized coefficients. The implication of the above statistic is that working capital and internal control systems explain a very small variation in the level of financial performance. The remaining 87.1%, which is unexplainable by the current model shows that the current model is inadequate in modeling the relationship between working capital management, internal control systems and financial performance among the businesses investigated. In practice, working capital management and internal control may not adequately explain the variations in financial performance of any business organization if the staff handling these important aspects lack sufficient knowledge and training.

ANOVA (Analysis of Variation) confirms the results. From the analysis of variation, the regression sum of squares (2.247) is less than the residual sum of squares (13.645). A smaller regression sum of squares implies how inadequate working capital management and internal control are, in explaining variations in financial performance. Specific effects however, indicate that working capital management (Beta = .413) explains more of the variations in financial performance than internal control systems (Beta = -.097). The beta coefficient shows that for every unit-change in working capital management, financial performance changes by 41.3%. Similarly, for every unit-change in internal control systems, financial performance reduces by approximately 9.7%. These statistics indicate how important working capital management is to the financial wellbeing of the businesses investigated than internal controls systems.

Hypothesis testing

Hypothesis testing in research helps to verify a claim about a population based on sample results. In the current study, the researchers made two claims. To test the claims, the researchers used Chi-Square tests in cross tabulating working capital management and financial performance. The researchers denote H_0, for Null Hypothesis and H_A, for Alterative Hypothesis.

H_0: There is an effect of working capital management on financial performance.

H_A: There is no effect of working capital management on financial performance. Table 4 shows the chi-square output.

Table 4: Chi-Square Tests: Working capital management * Financial performance

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	991.463(a)	841	.000
Likelihood Ratio	404.397	841	1.000
Linear-by-Linear Association	18.789	1	.000
N of Valid Cases	141		

a 900 cells (100.0%) have expected count less than 5. The minimum expected count is .01.

Testing hypothesis using significant level, Pearson's Chi-square shows a (p-value < .05). This indicates that there is an effect of working capital management on financial performance. The (p-value = .000) means that within the same sample, there is zero chance of obtaining a different result as this one. The statistic is consistent with our claim that there is an effect of working capital on financial performance. By failing to reject the null hypothesis, the researchers conclude that there is an effect of working capital management on financial performance among the businesses investigated. Therefore, our test lends support to our hypothesis.

Similarly, we tested the hypothesis that there is an effect of internal control on working capital management.

H_0: There is an effect of internal control system on working capital management.

H_A: There is no effect of internal control system on working capital management. Table 5 shows the output.

Table 5: Chi-Square Tests: Internal control and working capital management

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	948.794(a)	696	.000
Likelihood Ratio	357.213	696	1.000
Linear-by-Linear Association	32.606	1	.000
N of Valid Cases	141		

a 750 cells (100.0%) have expected count less than 5. The minimum expected count is .01.

Pearson's Chi-square shows a (p-value = .000 < .05). This means that setting 0.05 as the cutoff for refuting the null hypothesis; there is zero chance of obtaining a result different from this one in the same sample. The statistic is consistent with our claim that there is an effect of internal control system on working capital management. By failing to reject the null hypothesis, the researchers conclude that there is an effect of internal control system on working capital management among the businesses investigated. Therefore, our test lends support to our hypothesis.

Discussion

The study sought to determine the effectiveness of the existing internal control systems. The findings revealed a moderately effective internal control system among businesses in Mbarara municipality. The findings are consistent with (Gamage, Lock, & Fernando, 2014) who assert that a well-set internal control system ensures organizational goals are met in addition to helping the organization attain long-term targets. Since the success of any organization rests on attainment of goals, internal control systems are one way towards such. The businesses in Mbarara municipality appeared to be effective in their operations, especially fraud management and monitoring their asset levels. These findings were consistent with (Bongani, 2013; Vijayakumar & Nagaraja, 2012). These authors agree that an effective internal control system guards the assets of the business against loss while ensuring reliability of assets. The study however, reveals that these businesses were weak at aligning their operations with set business procedures and guidelines, and national laws. This disagrees with (Vijayakumar & Nagaraja, 2012) who observes that effective internal controls provide for applicable laws and regulations. This weakness threatens consumer protection and national regulations, not only in Mbarara but also in Uganda as a whole. The inability of these businesses to operate within national laws defrauds national revenue.

The study sought to ascertain if internal control systems have a relationship with working capital management in an organization. A moderate relationship was found to exist between internal control systems and working capital management. The moderate relationship is consistent with (Kabuye, Akugizibwe &

Bugambiro, 2019) who argue that internal control systems and working capital management enhance financial performance. They further assert that adequacy of internal control systems with appropriate working capital are essential in financial performance. The businesses in Mbarara that were found to check on fraud, conducted regular financial audits and maintained financial accounts were likely to maintain their working capital. This outcome was further confirmed by hypothesis testing, when the researchers failed to reject the null hypothesis that there is an effect of internal control systems on working capital management. It should be noted that while there appeared a moderate relationship between internal control systems and working capital management, the actual effect of internal control on working capital was not established. The findings further support (Orobia, Padachi & Munene, 2016) who found out that firms that routinely manage their working capital relate to safeguarding cash and inventory, and credit risk management. Credit risk management and safeguarding cash and inventories are internal control practices.

The study sought to examine the relationship between internal control system, working capital management and financial performance in an organization. The aggregate effect of internal control and working capital management on financial performance was indeed very low. The findings are inconsistent with (Kabuye, Akugizibwe & Bugambiro, 2019), who found that a combination internal control systems and working capital management is likely to enhance financial performance. While the study indicates a low effect of both internal control and working capital management on financial performance, the researcher failed to reject the hypothesis that there is an effect of internal control systems on working capital management. Similarly, the findings disagree with (Akindele & Odusina, 2015) who observed that having adequate working capital management levels adds value to the different forms of risk reduction and performance improvement. Despite the observed low level of the aggregated effect of internal control systems and working capital on financial performance, working capital management appears to be more relevant in contributing to financial performance among businesses in Mbarara municipality.

Significance of the study

The study adds to the existing knowledge on internal control, working capital and financial performance. The hypothesis tests that failed to reject the null hypotheses in both situations are theoretical contributions to knowledge on financial performance. Business owners can borrow confirmation from this study to invest in extensive internal control systems to align their operations with national standards.

V. CONCLUSION

The study investigated the relationships that exist amongst internal control systems, working capital management and financial performance in Mbarara Municipality. It was established that the current level of internal control systems are moderately effective. Though not very sound, these businesses can, at least check against fraudulent practices and monitor the asset level of their businesses. These are commendable practices especially in small and medium enterprise businesses. The moderate relationship between internal control systems and working management confirms the likelihood that these businesses conduct regular financial audits and endeavor to maintain reliable financial records. Whereas the businesses investigated appear sound in internal control practices, the very weak association between working capital management and financial performance renders participants' claims flaccid. These businesses seemingly have control activities and control environments, which are lacking in adherence to principles of accounting and presentation of reliable financial records. Despite the loopholes that might be existent in the internal control systems, the study failed to reject the claims that there is an effect of internal control system on working capital management. Similarly, the study failed to reject the claim that there is an effect of working capital management on financial performance. The consistence of our findings with the theoretical claims on internal control systems, working capital management and financial performance are a milestone in contributing to the existing knowledge and conceptualization of internal control systems, working capital management and financial performance.

Recommendations

The businesses appeared to be lacking in aligning their operations to clear guidelines and national laws. There is need for businesses in Mbarara Municipality to align their operations to national standards, particularly, Uganda National Bureau of Standards (UNBS), Uganda Revenue Authority (URA) and Uganda Registration service Bureau (URSB). Government has a role to play in protecting nationals against consumption of goods and services that do not measure to national or international standards. The businesses investigated appeared slack in accounting principles and standards. There is need for businesses in Mbarara municipality to train their staff in internal control activities that ensure adherence to principles of accounting and financial records. The study confirmed internal control systems and working capital management contribute only 12.9% of the variations in financial performance. Similarly, our hypothesis confirmed these relationships.

Need for further study

There is need for another study on the other factors that predict financial performance among businesses.

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