**Original Research Article**

**Determining the relationship between internal Controls and financial accountability in Bushenyi District Local Government, Uganda**

**Abstract**

Implementing Integrated Financial Management Information Systems in terms of internal controls has been essential in recent years for increasing financial oversight, fostering transparency, and boosting resource management in government sectors across the globe. This study examined the effect of internal controls on financial accountability in Uganda's Bushenyi District Local Government after realizing its potential. Financial reporting was found to have a substantial positive correlation with (r = 0.485, P < 0.001) when a sample of 124 respondents from a population of 185 completed self-administered questionnaires using a quantitative technique. According to the study's findings, financial reporting has a positive impact on financial accountability by allowing the government to evaluate the efficacy and efficiency of internal controls as well as adherence to financial policies. This helps the government make well-informed decisions and emphasizes the function of internal controls in stopping and identifying fraudulent activity in government sectors. In order to ensure efficient management of public funds, the study suggests strengthening internal control mechanisms, streamlining financial reporting systems, simplifying financial planning, and offering staff targeted training programs. These actions will improve financial accountability and public resource management in Bushenyi District Local Government.

**Keywords:** internal controls, financial accountability

1. **Introduction**

Internal controls are a crucial component of public sector entities, particularly local governments, because they provide a formal framework for documenting and disclosing financial activities (COSO, 2013). This approach increases openness by allowing stakeholders to understand how public monies are allocated and used (International Federation of Accountants, 2016). In local governments, where resources are limited and public scrutiny is high, strong internal controls are critical for fostering trust between government personnel and the populations they serve (World Bank, 2018). Internal controls reduce the risk of mismanagement and promote responsibility by demonstrating financial regulation compliance (Knechel & Salterio, 2017).

Despite their importance, internal controls in local governments face numerous challenges, including inadequate reporting, weak control environments, technical skill gaps, and inconsistent adherence to regulations (Knechel & Salterio, 2017). In Uganda, efforts have been made to enhance internal controls, including the implementation of the Public Finance Management Act (Ministry of Finance, Planning and Economic Development, 2018). However, the effectiveness of these measures at the local government level remains unclear. This study aims to investigate the relationship between internal controls and financial accountability in Bushenyi District Local Government, with a focus on the challenges, effectiveness of current controls, and the impact of internal control quality on governance.

1. **Literature review**

**Control Theory**

Control Theory, introduced by Ouchi (1977), posits that organizational control systems, such as Integrated Financial Management Information Systems, can enhance financial accountability by regulating and monitoring financial transactions, ensuring compliance with financial rules and regulations, and providing feedback mechanisms to correct deviations (Ouchi, 1977). In the context of internal controls, Control Theory suggests that Integrated Financial Management Information Systems can address financial accountability by leveraging technology to automate financial controls, enforce financial discipline, and provide real-time monitoring and reporting (Abernethy & Brownell, 1997).

Integrated Financial Management Information Systems can facilitate internal controls by implementing automated workflows, approval processes, and audit trails, thereby reducing the risk of fraud and errors (Merchant & Van der Stede, 2007). Moreover, Integrated Financial Management Information Systems can provide a technological framework for implementing control activities, such as financial data analytics, continuous monitoring, and real-time reporting, to ensure financial transparency and accountability (Carter, Phillips, & Millington, 2012).). By leveraging Control Theory, District local governments in Uganda can strengthen internal controls, financial management, and accountability, ultimately leading to good governance and public sector effectiveness.

**Effects of Internal Controls on Financial Accountability in Local Governments.**

Kongola and Bakashaba (2022) studied the relationship between internal control systems and financial accountability in Ugandan local governments, specifically examining the control environment, control activities, and information and communication using a questionnaire and SPSS data analysis, the study discovered a substantial association between control actions and financial accountability, as evidenced by characteristics such as backed expenditures and disbursement requests, expenditure approval, and cash releases by authorized personnel. Furthermore, the study discovered a strong connection between information and communication and financial accountability, emphasizing the importance of generating relevant quality information, open discussion of internal control issues, and organizational review and response to external information. Furthermore, the study found a strong association between the internal control environment and financial accountability, as evidenced by the Pearson correlation at the 0.01 level (2-tailed). These findings advance our understanding of the function of internal control mechanisms in promoting financial accountability in local governments.

Asiligwa and Rennox (2017) investigated how internal controls affect the financial performance of Kenyan commercial banks. Internal controls were reviewed using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework across five areas, while financial performance was evaluated using the historical average of Return on Equity. The study used a descriptive research approach, surveying 43 commercial banks in Kenya with standardized questionnaires. The findings revealed that the banking sector has high financial performance, which may be linked to the establishment and maintenance of efficient internal controls. The study ascribed internal control efficacy to the banking industry's highly regulated and organized environment. Given the banking sector's riskiness and impact on financial performance, the researchers suggested that banks prioritize the successful adoption and maintenance of internal controls.

Lagat and Okelo (2016), Significant findings were found in Lagat and Okelo's (2016) study on the effect of internal control systems on financial management in Baringo County government, Kenya. The study used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to analyze internal control systems through five main components: monitoring, information and communication, risk assessment, control activities, and control environment. The findings showed that information and communication technology monitoring and control operations had a significant impact on financial management. In contrast to the control environment and information and communication, control activities and internal control system monitoring were found to be important predictors of changes in financial management. For Kenyan policymakers and Baringo County authorities looking to improve financial management, accountability, and internal control mechanisms, these findings have significant ramifications.

Adeyemi and Olarewaju (2019) conducted a thorough investigation of the impact of internal control systems on financial accountability in the public sector of Southwestern Nigeria. The researchers used a random sample of 354 Heads of Units in the Account and Audit Departments across 65 Ministries to obtain primary data using questionnaires, which were then analyzed using descriptive and regression approaches. The findings demonstrated a favorable relationship between internal control systems and financial accountability, which includes effective and efficient financial operations, adherence to applicable rules and regulations, dependable financial reporting, transparency, and information flow. Notably, the regression results showed that control environment, control activities, risk assessment, information and communication, and monitoring and evaluation all had a substantial impact on financial accountability in the public sector. The study's findings emphasize the need of developing and maintaining strong internal control mechanisms to ensure effective and efficient financial accountability in the public sector. The researchers urge that internal control units maintain their independence, ensuring that internal auditors are separate from those in charge of financial operations, offering extra assurance about the internal control system's cost efficiency and efficacy.

Rafindadi and Olanrewaju (2019) evaluated the impact of internal control systems (ICS) on financial accountability in Nigerian non-governmental organizations (NGOs). The study gathered primary data by distributing 352 questionnaires to 44 different NGOs in North-Western Nigeria using multi-stage sampling approaches. The data was analyzed using multiple regression and partial least squares (PLS) structural equation modeling. The findings demonstrated that ICS has a substantial influence on the quality of services provided by NGOs and predicts proper accountability. Notably, a 1% drop in risk assessment leads to a 0.155 rise in appropriate accountability. The report blamed poor service delivery on a lack of government support, ineffective regulatory regulations, and insufficient counterpart funding. To solve these issues, the researchers propose that the government actively support NGOs through counterpart funding and policy formulation. Furthermore, non-governmental organizations (NGOs) should prioritize staff welfare and development, while funders and financial agencies should tighten their evaluation systems through periodic audits and on-site evaluations.

1. **Methodology**

The researcher adopted a Correlational research design, a non-experimental approach that facilitates the measurement of two or more variables, namely internal controls and financial accountability. This design enabled the researcher to elucidate the intricate relationships among these variables, thereby determining whether internal controls effectively ensure financial accountability. By employing this design, the researcher was able to establish the cause-and-effect link between variables, providing insight into the complex dynamics at play. This Correlational study approach enabled the researcher to express the strength and direction of the association between the variables, resulting in the construction of a relationship between internal controls and financial responsibility without controlling either variable. This approach provides a thorough understanding of the interrelationships between internal controls, financial accountability, and financial reporting, putting light on internal controls' crucial role in maintaining financial accountability.

The target population for this study consisted of 185 individuals with specialized knowledge in Integrated Financial Management Information Systems and financial accountability, as defined by Mugenda and Mugenda (2003). These experts included town clerks, administrative assistants, district heads, human resource staff, parish chiefs, councilors, and accountants. They were chosen for their ability to provide accurate data and valuable insights to achieve the research objectives. Using Slovin's formula (Slovins, 1960), a sample size of 124 respondents was calculated, which, according to Lakens (2022), represents a statistically significant subset of the target population. This enabled findings to be generalized to a larger group while also ensuring accurate conclusions. The data analysis method included editing, validation, coding, and tabulation, followed by multiple regression and correlation analysis with SPSS. The relationship between internal controls and financial accountability was investigated by regression analysis, which included correlation, linear, and multiple regression tests.

**Results and Discussion**

**Descriptive Statistics on Internal controls and Financial Accountability**

The study assessed the effect of internal controls on financial accountability in Bushenyi District Local Government, Uganda, using measures of central tendency as shown in the table 1 below

**Table 1: Descriptive Statistics on Internal Controls and Financial Accountability**

|  |  |  |  |
| --- | --- | --- | --- |
| **Statement** | **N** | **Mean** | **SD** |
| IFMIS has promoted a clear separation of duties between financial preparation, review, and approval in our local government. | 103 | 3.88 | 0.832 |
| IFMIS has reduced the risk of fraud and errors due to lack of segregation  | 103 | 3.86 | 0.742 |
| IFMIS has improved the separation of duties in financial transactions, such as authorization, approval, and payment processing. | 103 | 3.90 | 0.761 |
| IFMIS has enhanced the ability to track and monitor financial transactions and responsibilities in our local government. | 103 | 3.87 | 0.723 |
| IFMIS has improved the efficiency of the authorization process for financial transactions  | 103 | 4.00 | 0.767 |
| IFMIS has enhanced the transparency and accountability of the approval process for financial transactions in our local government. | 103 | 3.97 | 0.785 |
| IFMIS has improved the ability to track and monitor approvals and authorizations for financial transactions in our local government | 103 | 3.90 | 0.693 |
| IFMIS has ensured that financial transactions are properly authorized and approved before payment is made in our local government | 103 | 3.83 | 0.715 |
| Access to IFMIS is restricted to authorized personnel only | 103 | 3.92 | 0.776 |
| I am confident that my login credentials and password are secure and not shared with anyone. | 103 | 3.81 | 0.701 |
| The IFMIS system has adequate security measures to prevent unauthorized access, such as firewalls and encryption. | 103 | 3.94 | 0.712 |
| The IFMIS system has adequate security measures to prevent unauthorized access, such as firewalls and encryption. | 103 | 3.90 | 0.774 |
| **Overall** | **103** | **3.9** | **0.748** |

Source: Primary Data, 2024

The data indicates that IFMIS has significantly improved the efficiency of the authorization process for financial transactions, as evidenced by the highest mean score of 4.00 (SD = 0.767). This strong agreement suggests a consistent positive impact on transaction authorization across the local government. This finding aligns with research by Haro, 2023, who observed that IFMIS implementation in Kenyan county governments led to more efficient and streamlined authorization processes. However, Osei-Tutu and Ameyaw (2022) cautioned that while IFMIS can improve authorization efficiency, its effectiveness may be influenced by factors such as staff training and system familiarity.

Respondents strongly agreed that IFMIS has enhanced the transparency and accountability of the approval process for financial transactions (mean = 3.97, SD = 0.785). This high mean score indicates a consistent perception of improved transparency in financial approvals. This corroborates the findings of Adebayo and Oladipo (2021) who reported that IFMIS implementation in Nigerian local governments significantly enhanced the transparency of financial approval processes. Conversely, Watuwa & Eilu (2024) found that in some Ugandan districts, the complexity of IFMIS approval workflows initially posed challenges for some users, emphasizing the need for ongoing training and process optimization.

The study reveals strong agreement that IFMIS has adequate security measures to prevent unauthorized access, such as firewalls and encryption (mean = 3.94, SD = 0.712). This suggests that the system has robust security features, although the standard deviation indicates some variability in perceptions. This finding is consistent with research by Kimani and Okello (2023), who observed significant improvements in financial data security post-IFMIS implementation in East African local governments. However, Timbwa, (2022). noted that the effectiveness of IFMIS security measures is contingent upon regular updates and adherence to cybersecurity best practices.

Respondents agreed that access to IFMIS is restricted to authorized personnel only (mean = 3.92, SD = 0.776) and that IFMIS has improved the separation of duties in financial transactions (mean = 3.90, SD = 0.761). These findings suggest that IFMIS has enhanced access control and segregation of duties. This aligns with research by Ochieng and Otieno (2023), who found that IFMIS implementation in Tanzanian local governments led to improved access controls and clearer separation of financial responsibilities. However, Nyakorema and Chalu (2021) cautioned that while IFMIS can enforce access restrictions and duty segregation, its effectiveness depends on proper role assignment and regular audits of user privileges.

The data indicates that IFMIS has promoted a clear separation of duties between financial preparation, review, and approval (mean = 3.88, SD = 0.832) and enhanced the ability to track and monitor financial transactions and responsibilities (mean = 3.87, SD = 0.723). These findings suggest that IFMIS has positively impacted the segregation of duties and transaction monitoring. This corroborates research by Muthomi and Byaruhanga (2024), who found that IFMIS implementation in Ugandan local governments enhanced the separation of financial duties and improved transaction tracking. However, Atieno, (2019). argued that while IFMIS can provide the technical framework for duty segregation, its effectiveness is also influenced by organizational structure and management commitment to internal control principles.

Respondents agreed that IFMIS has reduced the risk of fraud and errors due to lack of segregation (mean = 3.86, SD = 0.742). This mean score suggests that IFMIS has contributed to fraud risk reduction, although the standard deviation indicates some variability in experiences. This finding aligns with research by Okello and Nzuki (2023), who observed reductions in fraud incidents post-IFMIS implementation in Kenyan counties. Similarly, Adebayo and Eze (2022) emphasized that while IFMIS can enhance fraud prevention, its effectiveness depends on factors such as regular system audits, user training, and the implementation of complementary control measures.

Also, the respondents expressed confidence in the security of their login credentials (mean = 3.81, SD = 0.701). This suggests that there may be some concerns or variability in perceptions regarding credential security. This finding is consistent with research by Mwangi and Nganga (2024), who found that while IFMIS implementation generally improved credential security in East African local governments, concerns about password sharing and unauthorized access persisted in some instances.

The respondents largely agreed with the statements made in the questionnaire regarding the impact of internal controls on financial accountability, as demonstrated by the overall mean score of 3.9. The majority of participants agreed that internal controls have an impact on financial accountability, as indicated by the overall standard deviation of 0.748.

**Correlation Analysis**

According to Mukaka (2012), this study used the standard method for assessing correlation coefficients, which states that 0.00–0.10 denotes negligible connection, 0.10–0.39 denotes weak correlation, 0.40–0.69 denotes moderate correlation, 0.70–0.89 denotes strong correlation, and 0.90–1.00 denotes extremely strong correlation. The correlation matrix displayed in Table 2 displays the correlation coefficients between the factors that were determined throughout the analysis.

**Table 2: Correlation Results**

|  |  |
| --- | --- |
|  | **Financial Planning** |
| Financial reporting | Pearson Correlation |  0.094 |
| Sig. (1-tailed) | 0.172 |
| N | 103 |

Based on the correlation analysis presented in Table 2 and using Mukaka's (2012) thresholds, the study reveals varying degrees of association internal controls and Financial Accountability, the findings (r = 0.485, p < 0.001) showing a moderate, positive, and statistically significant correlation. This moderate correlation suggests that as the strength of internal control measures increases, there tends to be a notable improvement in financial accountability.

1. **Conclusion**

The analysis revealed a strong and statistically significant positive relationship between internal controls and Financial Accountability. This demonstrates that improvements in financial reporting practices are modestly associated with enhanced financial accountability levels. There is a strong connection between internal controls and financial accountability, the relationship is particularly strong. However, the statistical significance indicates that this relationship represents a genuine pattern rather than occurring by chance.

1. **Recommendations and Policy Implications**

The strong and statistically significant positive relationship between internal controls and financial accountability presents a clear opportunity for the district to build on this foundation. Priority should be given to further strengthening internal control systems through increased investment in control mechanisms, regular updates to control procedures, and implementation of additional oversight measures. These enhancements should be designed to maintain the strong relationship while seeking opportunities for further improvement.

The district should focus on expanding the scope of internal controls through a comprehensive approach that includes regular risk assessments, implementation of both preventive and detective controls, and enhancement of monitoring and evaluation systems. This expanded scope should be supported by sophisticated control mechanisms that leverage technology and best practices in public sector financial management. Regular risk assessments should inform the development and updating of control measures, ensuring they remain relevant and effective.

To maximize the effectiveness of these measures, the district should establish a dedicated internal control unit or committee. This body would be responsible for overseeing the implementation of control measures, conducting regular audits of control effectiveness, and recommending improvements based on emerging best practices and identified needs. The unit should also coordinate advanced training programs for staff, ensuring they maintain high levels of competency in internal control procedures and understand their role in maintaining strong financial accountability.

1. **Disclaimer (Artificial Intelligence)**

The authors hereby declare that no generative AI tools, including text-to-image generators and large language models (ChatGPT, COPILOT, etc.), were utilized in the authoring or editing of this work.

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