

Internal Control System and Public Funds Management in Uganda: A Case of Local Governments in the Busoga Sub-Region

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Abstract

This article examines the association of the Internal Control System with Public Funds Management in the Busoga sub-region of Uganda. The study adopted a cross-sectional design, where data were obtained through both a closed-ended questionnaire and an interview guide. The authors employ hierarchical models such as structural equation modeling (AMOS version 21) and NVivo version 9, and thematic analysis to analyze qualitative data. The study revealed that control activities, control environment, monitoring, risk assessment, and information and communication as dimensions of internal control systems have a positive and significant association with public funds management. The study provides relevant insights for policymakers and implementers to apply these findings as a guideline for improving public funds management using internal control systems for the enhancement of local governments. In this paper, the authors offer empirical evidence on the association between the Internal Control System and Public Funds Management of Local Governments in the Busoga sub-region of Uganda. Moreover, the study offers evidence on how the different Internal Control Systems impact the management of public funds. The study further extends both theoretical and practical implications to public funds management in local governments.

Keywords

Internal Control System, Public Funds, Public Funds Management, Management

1. Introduction

Effective public funds management (PFM) at the local government (LG) level is fundamental to achieving sustainable development goals and fostering public trust

in governance systems. In Uganda, the government recognizes that a robust internal control system is inherently linked to a well-designed fiscal framework that promotes accountability, transparency, and fairness in the utilization of public resources (*Local Government Act (CAP 243), 1997*). Such systems are essential to ensure that LGs act in the public interest, responsibly manage financial resources, and deliver services efficiently and equitably. An effective PFM system provides the institutional framework, procedures, and methods necessary to encourage responsible resource management, prioritize public needs, and hold LGs accountable for their financial decisions (*CIPFA, 2010*). In particular, the capacity of local governments to undertake budgeting and fiscal planning is vital for evaluating the affordability and necessity of local investments. Balancing local fiscal capacity with expenditure responsibilities such as local taxes, debt management, and budgeting is crucial for sustainable development at the LG level. These components are central to enhancing LG performance and ensuring public funds are managed prudently (*Local Government Act (CAP 243), 1997*). Therefore, strengthening internal control systems such as control activities, control environment, monitoring, risk assessment, information and communication, and PFM practices is critical in addressing challenges faced by LGs in Uganda, especially in regions like Busoga, where local governance plays a pivotal role in service delivery and development outcomes.

Despite numerous financial reforms—including the adoption of Performance-Based Budgeting (PBB), integrated financial management systems, and supportive legal frameworks like the PFM Act, 2016 LGs continue to encounter significant challenges in fully realizing the benefits of public funds in achieving Sustainable Development Goals (*Kioko et al., 2011*). The 2024 Auditor General of Uganda’s report indicates that over 60% of LGs exhibited deficiencies in internal controls, leading to misappropriation of funds and weak financial accountability (*Office of the Auditor General, 2024*). These challenges are compounded by an evolving environment characterized by policy shifts, legal reforms, and changes in governance structures (*Pressman & Wildavsky, 2020; Rohr, 2002; Agranoff & McGuire, 2003*). As LGs navigate these dynamics, the need for adaptable PFM models and strong internal control systems becomes increasingly evident. Therefore, this study, focusing on the Busoga sub-region, aimed to assess the effectiveness of internal control systems (that is: control activities, control environment, monitoring, risk assessment, and information and communication) in managing public funds within local governments, thereby contributing to the broader understanding of how public funds management can be improved in Uganda.

Theoretical underpinnings

This study was hinged on the lens of two foundational theoretical frameworks: agency theory and institutional theory. These theories underpin the internal control systems, which are integral components of Public Funds Management.

Agency Theory

Originating from *Jensen and Meckling (1976)*, agency theory offers broad ap-

plicability across multiple scholarly disciplines, including accounting, economics, finance, marketing, political science, organizational behavior, and sociology (Jensen & Meckling, 1976; Eisenhardt, 1989). It conceptualizes the relationship between a principal and an agent, where the principal delegates decision-making authority to the agent to achieve organizational objectives. In the context of LGs, the principal is represented by local government leadership, while the agents are the staff employed within these entities.

The core premise of agency theory highlights potential conflicts of interest, primarily arising from two issues: information asymmetry and moral hazard. Agents, possessing superior and more comprehensive information about organizational operations, may withhold pertinent data or act in self-interest at the expense of principal goals, leading to phenomena such as fraud, embezzlement, and financial misreporting (Jensen & Meckling, 1976). For example, agents in the accounting departments might manipulate financial statements to enhance perceived performance, thereby misinforming stakeholders.

To mitigate these agency problems, Jensen and Meckling (1976), along with subsequent scholars like Nguyen and Dang (2022), emphasize the importance of monitoring mechanisms, notably independent auditors and oversight bodies such as public accounts committees and audit institutions (Nguyen & Dang, 2022). These monitors serve to provide impartial assurance, reduce information asymmetry, and promote accountability. Empirical evidence underscores the significance of such oversight systems in ensuring effective LG operations and public trust; examples include findings from India (Cordero, Arora, & Manochin, 2022) and other contexts where audit and legislative oversight have been linked to improved PFM outcomes.

However, agency theory faces criticisms for its limited scope, particularly its assumption of human self-interest as the dominant driver of behavior. Critics like Perrow (1986) argue that this perspective oversimplifies organizational dynamics and neglects the institutional and social contexts influencing agent conduct. Pepper (2012) and Wiseman et al. (2012) further contend that the theory's applicability is constrained to specific environments, primarily Western, and fails to fully account for institutional influences on organizational behavior (Pepper, 2012; Wiseman, Cuevas-Rodriguez, & Gomez-Mejia, 2012). While agency theory provides a useful framework for understanding conflicts rooted in self-interest and information asymmetry, institutional theory enriches this understanding by emphasizing the role of social, cultural, and normative influences. Together, these frameworks offer a more comprehensive view of agent behavior in Public Funds Management, recognizing that agents are not only motivated by self-interest but are also influenced by the institutional environment, which shapes their perceptions of what constitutes legitimate and acceptable conduct. Therefore, in order to address the limitations of agency theory, the study incorporates institutional theory.

Institutional Theory

As proposed by DiMaggio and Powell (1983), who emphasize the role of social

influence, legitimacy, and conformity in shaping organizational behavior (DiMaggio & Powell, 1983). Institutions—defined as socially constructed norms, laws, and cultural expectations—serve to organize social, political, and economic interactions, providing stability and reducing uncertainty (North, 1990). For LGs, conforming to institutional pressures—regulative (laws), normative (social norms), and cognitive (belief systems)—is crucial for legitimacy and sustainability.

Institutional theory posits that organizations adopt similar structures and practices through processes of isomorphism—coercive, mimetic, and normative (DiMaggio & Powell, 1983). Coercive isomorphism relates to compliance with laws and regulations, such as those governing PFM; mimetic isomorphism involves imitation in uncertain environments; and normative isomorphism stems from professional standards and peer influence. These processes explain how LGs adapt their policies, procedures, and cultures to meet societal expectations and regulatory demands, thereby fostering legitimacy and resource access. In the context of PFM, institutional pressures lead LGs to reform practices in response to legal mandates, social expectations, and professional norms, such as adopting robust internal control mechanisms and audit practices (DiMaggio & Powell, 1983). The theory recognizes that these adaptations are often driven by external pressures rather than solely internal strategic choices, highlighting the importance of normative and regulatory environments in shaping PFM reforms. In other words, institutional theory complements agency theory by expanding the understanding of agent behavior beyond self-interest and formal incentives to include the influence of social norms, legitimacy, and professional standards—collectively called institutional pressures—that guide organizations and agents to conform to legal, normative, and cultural expectations, fostering ethical conduct and legitimacy vital for sustainable local government operations, and recognizing that agents are motivated not only by incentives and oversight but also by social and normative influences embedded in their broader institutional environment.

Despite these frameworks, challenges persist, including unaccounted funds, weak enforcement of accountability measures, and limited capacity for effective oversight. For example, during the 2019/2020 fiscal year, LGs in Uganda reported unaccounted-for funds amounting to over 179 billion Ugandan shillings, reflecting systemic weaknesses in PFM. These issues underscore the necessity of strong institutional arrangements, effective oversight, and adherence to legal provisions—principles aligned with both agency and institutional theories.

2. Literature Review

Internal control system and public funds management

Internal control systems serve as a strategic reflection of an organization's hierarchical strategies, sanctions, and internal procedures developed to ensure that management achieves its objectives and the organization effectively fulfills its mandate (Puttick, 2001). These systems encompass a comprehensive set of financial and non-financial controls established by management, designed to promote

operational efficiency, safeguard assets, and enhance the security and integrity of organizational records (Ariyo & Kazaara, 2023). The management of public funds, which involves overseeing assets that uphold the worth of public institutions, is a key aspect of internal control systems within the public sector (Nsungwa & Babirye, 2023). Public Financial Management (PFM) is a systematic process of utilizing, installing, executing, upgrading, disposing of, and managing an organization's assets efficiently and effectively to deliver quality services (CIPFA, 2010; Navvubya & Irumba, 2023). Empirical evidence suggests that robust internal control systems are instrumental in strengthening PFM by minimizing risks of misappropriation and fraud (Simmons, 1997). According to Mwesigwa & Irumba (2023) and Ariyo & Kazaara (2023), internal control involves a holistic process involving the board of directors, management, and other personnel, which provides reasonable assurance regarding the attainment of objectives related to operations, reporting, and compliance (Mwesigwa & Irumba, 2023; Ariyo & Kazaara, 2023). This system is conceptualized as a coordinated plan comprising various methods and measures aimed at asset protection, data accuracy, operational efficiency, and adherence to managerial policies. Simmons (1997), Natumanya and Zikusooka (2023) and Adegboyegun et al. (2020) emphasized that internal control is a five-dimensional construct, encompassing the control environment, risk assessment, control activities, information and communication, and monitoring—all critical components for achieving organizational objectives (Simmons, 1997; Natumanya & Zikusooka, 2023; Adegboyegun, Ben-Caleb, Ademola, Oladutire, & Sodeinde, 2020). These components are shown in **Figure 1** below.



Figure 1. Internal control systems.

Control Environment: The control environment comprises the standards, processes, and structures that form the foundation for implementing internal control throughout the organization. The board of directors and senior management set the tone at the top by emphasizing the significance of internal control and outlin-

ing the expected standards of behavior (COSO, 2013). This component sets the ethical climate and influences the overall effectiveness of internal controls within the entity.

Control Activities are defined as the policies and procedures instituted to facilitate the execution of management's directives aimed at mitigating risks associated with the attainment of organizational objectives. These activities are implemented across all levels of the entity, encompass various phases of business processes, and extend to the technological environment, thereby ensuring comprehensive risk management and operational effectiveness. These activities include approval processes, authorization protocols, verifications, reconciliations, and segregation of duties, all designed to prevent errors, safeguard assets, and reduce the risk of fraud (COSO, 2013; Antwi, Adelokun, & Eziefule, 2024).

Risk Assessment involves the systematic identification and analysis of risks that may impede the achievement of organizational objectives. This process entails evaluating potential risks, their likelihood of occurrence, and their potential impacts on the organization's strategic and operational goals (COSO, 2013). An effective risk assessment enables organizations to prioritize risks and allocate resources appropriately to mitigate adverse effects.

Information and communication: Information and Communication are critical for the functioning of internal controls, requiring the timely, relevant, and reliable exchange of information across the organization. In the context of internal controls, the Information and Communication component is vital for ensuring the timely, relevant, and reliable exchange of data across organizational levels, thereby facilitating effective decision-making, supporting internal and external stakeholder engagement through strategic dissemination of quality information, and emphasizing principles that prioritize data integrity (COSO, 2013), internal communication channels (Larkin & Larkin, 2013), and external reporting mechanisms (ISO, 2017), all of which are subject to assessment during performance audits to verify that management's processes for identifying information requirements externally (IAASB, 2018), evaluating data sources, and implementing communication strategies effectively uphold organizational objectives, risk management, and compliance standards.

Monitoring activities involve the ongoing evaluation of internal control systems to determine their continued effectiveness. This process includes continuous assessments, evaluations, and reporting, which help identify control deficiencies and facilitate corrective actions. Regular monitoring is vital to adapt controls to changing risks and operational environments (Turetken, Jethefer, & Ozkan, 2020). Through systematic oversight, organizations can enhance the robustness of their internal control frameworks over time, thus ensuring effective PFM.

Empirical evidence has revealed that many cases of financial misreporting and fraud originate from weak or absent internal controls. Consequently, effective internal controls bolster the reliability and accuracy of financial reporting, thereby enhancing accountability and transparency in public funds management (Moureen &

Julius, 2023). These controls facilitate better oversight, reduce opportunities for malfeasance, and foster compliance with statutory and regulatory frameworks.

Despite the recognized importance of internal control systems in promoting sound public financial management, empirical research examining their facilitating role remains limited. In particular, studies focusing on the public sector in Uganda reveal persistent challenges; even with elaborate control frameworks in Local Governments (LGs), the management of public funds continues to face significant hurdles (Dinnah & Alex, 2023). Hence, this underscores the critical need for further empirical investigation into the effectiveness and implementation of internal control systems to ensure public funds management in LGs in Uganda. Addressing these gaps will contribute to a more comprehensive understanding of how internal control systems can be effectively leveraged to overcome persistent challenges in public funds management.

3. Methodology

3.1. Research Design, Population, and Sample Size

The study adopted an explanatory-sequential research design, a design that emphasizes first collecting quantitative data, which is followed by the collection of qualitative data (Creswell et al., 2011). The study was also triangulation in nature, integrating the two phases at the level of presentation of the results, their discussion, and conclusion. The mixed sampling approach was adopted to maximize data quality and representativeness for the small, critical subgroup of Chief Administrative Officers through a census, while employing simple random sampling for the larger groups to ensure efficiency and statistical validity. The population of Chief Administrative Officers within the study area consists of only 10 individuals. Given this small and manageable population size, conducting a census ensures that every CAO is included in the study, thereby capturing the complete spectrum of perspectives and minimizing potential biases associated with sampling. For larger groups such as Accounts staff, Heads of Department, and others—whose populations range from 30 to 184—simple random sampling was employed to ensure representativeness while maintaining resource efficiency. Sampling a subset reduces logistical burdens and data collection costs without significantly compromising the validity of the findings, given the larger population sizes. Results from the qualitative phase were used to explain and provide a more comprehensive contextualization of findings and interpretations drawn from the quantitative phase. This approach enabled us to gain deeper insights into the phenomenon of public funds management from various perspectives. The units of analysis and inquiry were public servants and political leaders, respectively, based on the foundation that they had adequate information. The study used Yamane's (1967: p. 886) simplified formula to calculate sample sizes. This formula will be used to calculate the sample size of this study, as it shows a 95% confidence level and $p = .05$ (Yamane, 1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where “*n*” is the sample size, “*N*” is the population size, and “*e*” is the level of precision. The sample size was 381 out of the target population of 478, as determined by Yamane’s (1967: p. 886) simplified formula to calculate sample sizes. This was composed of Local Governments of the Busoga sub-region, including Accounts staff, Internal Audit Staff, Heads of Department, Chief Administrative Officers, Head Teachers, members of the Local Government Public Accounts Committee (LGPAC), District Executive Committee (DEC) members headed by District chairpersons, as indicated in **Table 1** below.

Table 1. Study population.

Category	Target population	Sample size	Sampling Technique	Method of data collection
Accounts staff	184	126	Simple random	Questionnaire
Internal audit staff	30	28	Simple random	Questionnaire
Heads of department	84	69	Simple random	Questionnaire
Chief Administrative Officers	10	10	Census	questionnaire
Secondary Head Teachers	70	60	Simple random	Questionnaire
Members of the LGPAC	50	44	Simple random	Questionnaire
District Executive Committee (DEC) members	50	44	Simple random	Questionnaire
Total	478	381		

Source: Revised Local Government structure by Ministry of Public Service 2020; Field Data (2023).

From the 109 LGs, 381 questionnaires were distributed, but only 338 questionnaires were retrieved, constituting 88.7%, which is above the suggested minimum of 50% (Hair Jr. et al., 2014). This implies that 381 questionnaires were used for further analysis in this study. Further, Mellahi and Harris (2016) contend that a response rate of 50% and above is judged sufficient to represent the population. Generally, the response rate of 72.6% for the LGs (unit of analysis) and 88.7% for respondents (unit of inquiry) meets the criteria of Mellahi and Harris (2016). Qualitative data were obtained using an interview guide from 25 respondents picked using purposive sampling. The point of saturation was reached by the 10th interviewee.

3.2. Operationalization and Measurement of Variables

For quantitative data, researchers administered a questionnaire anchored on a five-

point Likert scale. The response categories ranged from “1—strongly disagree” to “5—strongly agree” for Internal control system and public funds management. **Table 2** below shows the quantitative demographic characteristics.

Table 2. Quantitative demographic characteristics.

Demographic Variable	No.	Percent (%)
Gender	338	100%
Male	210	62.10%
Female	128	37.90%
Working Experience	338	100%
Less than 10 yrs.	67	19.80%
10 - 19 yrs.	136	40.20%
20 - 29 yrs.	85	25.10%
30 - 39 yrs.	32	9.50%
40 yrs. and above	18	5.30%
Marital status	338	100%
Single	54	16%
Married	284	84%
Educational Level	338	100%
Certificate	31	9.20%
Diploma	49	14.50%
Degree	129	38.20%
Postgraduate.	64	18.90%
Masters	45	13.30%
PhD	20	5.90%
Age	338	100%
Less than 20 yrs.	10	3%
20 - 29 yrs.	44	13%
30 - 39 yrs.	92	27.20%
40 - 49 yrs.	127	37.60%
50 - 59 yrs.	64	18.90%
60 yrs. and above	1	1%

Continued

Staff category	338	100%
Accounts staff	70	20.70%
Internal Audit staff	40	11.80%
Heads of Dept.	96	28.40%
Cao	12	3.60%
Head teacher.	27	8.00%
PAC Members	31	9.20%
Executive members	62	18.30%
LG Type	338	100%
District	267	79%
City	10	3%
Municipality	13	3.80%
Town council	17	5%
Division council	2	.60%
Sub county council.	29	8.60%
Years of Existence	338	100%
1 - 10	56	16.60%
11 - 20	95	28.10%
21 - 30	53	15.70%
31 and above	134	39.60%

Source: Primary Data, 2023.

Table 3. Qualitative demographic characteristics.

Cases	Age	Gender	Marital status	Education Level	Yrs. in LG	Frequency
1	20 - 29	Male	Married	Post Graduate	11	02
2	30 - 39	Male	Married	Post Graduate	9	03
3	40 - 49	Female	Married	Bachelor's Degree	15	02
4	50 - 59	Male	Married	Masters	13	04
5	60 and above	Male	Married	Masters	15	02
Total						13

Source: Primary Qualitative Data (2023).

Table 3 shows the qualitative demographic characteristics. The researcher measured internal control systems in terms of control environment, control activities, risk management, information and communication, and monitoring as indicated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013). It had items such as “*all stakeholders of the LG are committed to doing what is right*”. Public funds management was measured according to the Chartered Institute of Public Finance and Accountancy (CIPFA, 2010). It was operationalized in terms of a systematic process of utilizing, installing, executing, upgrading, disposing of, and managing an organization’s assets efficiently and effectively to deliver quality services. It had items such as “*Budget interventions of the LG are according to the district development plan*”.

3.3. Descriptive Statistics

Based on the works of Field (2006), small standard deviations relative to the mean values indicate that the data points are close to the means, which is a manifestation that the mean represents the data observed. Results for the descriptive statistics of the internal control system and public funds management are reflected in **Table 4**.

Table 4. Descriptive statistics for the internal control system (ICS) and PFM.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Internal Control System	338	2.52	5.00	3.94	.501
Public Funds Management	338	1.80	5.00	4.01	.515

Source: Primary data, 2023.

From **Table 4** above, the Internal Control System has a mean score of 3.94, indicating a generally positive perception, though some variability is noted (standard deviation of .501), with scores ranging from 2.52 to 5.00. Public Funds Management received an even higher mean score of 4.01, reflecting strong confidence among respondents, but also shows slightly more variability (standard deviation of .515), with scores between 1.80 and 5.00.

3.4. Common Methods Bias (CMB), Normality, Reliability, Correlations, and Multicollinearity

In order to minimize possible CMB, the researchers applied procedural remedies to the study design (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). These included assuring respondents that the information provided would be kept unidentified and private. Furthermore, all the scale items in the questionnaire were randomly displayed. The questionnaire was designed in such a way that it had some negatively worded items that served as cognitive speed bumps in order to encourage objective rather than mechanical responses from respondents (i.e., psy-

chological separation). Based on the works of Kline (1998), there was a fair level of normal distribution of data realized because the skewness and kurtosis statistics do not exceed values of 3 and 10, respectively (Table 5). The reliability of the measures of all these variables was found to be $>.7$ in terms of α level (Table 9) (Nunnally, 1978). The correlations (Table 9) provide insight into the direction, strengths, and significance of the relationship between variables.

Table 5. Skewness and Kurtosis.

Construct	Skewness			Kurtosis		
	S-statistic	SE	z-score	K-statistic	SE	z-score
Public Funds Management	-.013	.133	-.098	-.332	.265	-1.253
Internal control system	.015	.133	.113	-.286	.265	-.052

Source: Field Data, 2023.

3.5. Kolmogorov-Smirnov and Shapiro-Wilk Test

We used the Kolmogorov-Smirnov and Shapiro-Wilk tests to determine if the overall distribution differed from normal in our data. As a general rule, if the test is non-significant ($p > .05$), it indicates that the sample distribution is most likely normal because it does not differ significantly from the normal distribution. On the other hand, if the test is significant ($p < .05$), it means that the distribution under consideration differs significantly from a normal distribution, making it non-normal. The non-significant values ($p > .05$) for all the study variables, as indicated in Table 6 below, show that the distribution of the sample was not significantly different from a normal distribution. Thus, it can be concluded that the distribution is fairly normal, implying that subsequent statistical tests can be done since the normality assumption was met.

Table 6. Kolmogorov-Smirnov and Shapiro-wilk tests.

Variable	Kolmogorov-Smirnov			Shapiro-Wilk		
	statistic	Df	Sig	Statistic	Df	Sig
Public Funds Management	.027	338	.200	.995	338	.299
Internal control system	.022	338	.210	.995	338	.404

Source: Field Data, 2023.

3.6. Testing the Assumption of Homogeneity of Variances

We tested the assumption of homogeneity of variances using our data. According to this supposition, the variances should be constant or the same across the board in the data. Levine's test was used with descriptive statistics in SPSS to determine

whether the data set was homogeneous. The Levine's test was used to determine whether the variances in the groups are equal and the difference between variances is zero (Field, 2009). As a general rule, we can conclude that the variances are considerably different and that the assumption of homogeneity of variances has been violated if the Levine's test is significant at $p \leq .05$. On the other hand, the assumption is plausible or reasonable if Levine's test results show that the variances are almost equal ($p > .05$). According to **Table 7** below, the values of the Levine's test are greater than .05, suggesting that the data are homogeneous and eligible for further statistical analysis.

Table 7. Homogeneity of variance.

Variable	Levine's statistic	df1	df2	Sig
Public Funds Management	2.463	2	25	.084
Internal control system	1.632	2	25	.231

Source: Primary data (2023).

3.7. Multi-Collinearity

The purpose of the multicollinearity test was to determine the degree of correlation between two or more independent variables. Multicollinearity exists when two independent variables are highly correlated to the extent that it is overly difficult to determine which one causes more variation in the dependent variable. The Variance Inflation Factors (VIF) and the Tolerance statistics are two measures used to determine multicollinearity. As a general rule, multicollinearity is not a threat when tolerance levels are greater than .2 ($TL > .2$), and Variance Inflation Values (VIF) are less than 5 ($VIF < 5$) (Hair et al., 2010). It is recommended that one of the offending variables be eliminated as soon as it is found to address multicollinearity issues. Regression results from the SPSS were analyzed to screen for multicollinearity, and the VIF and tolerance level or statistics matched both assumptions, as shown in **Table 8** below.

Table 8. Multi-collinearity statistics.

Variable	Variance Inflation Factor (VIF)	Tolerance Statistics
Public Funds Management	2.34	.62
Internal control system	1.92	.52

Source: Primary data (2023).

3.8. Reliability and Validity of Quantitative Data

Table 9 below shows that all of our variables had composite reliability values greater than .6 and Cronbach's Alpha coefficients of .7 and above. This proves that the instrument is reliable.

Table 9. Reliability results.

Variable	Cronbach's alpha	Composite reliability	No. items
Public Funds Management	.823	.826	19
Internal control system	.857	.859	42

Source: Primary data, 2023.

3.9. Reliability and Validity of Qualitative Data

This study ensured credibility, rigour, completeness, consistency, and coherence of ideas from the interviews (Sarantakos, 1998). The study ensured that data were captured in a credible manner through conducting interviews, recording the experiences described, and verifying the research findings with the older persons (Polit & Beck, 2012). Additionally, the study ensured that the methods used to obtain data were rigorous, that is, sound, valid, and reliable. This involved using appropriate sampling techniques, collecting data using well-crafted questions, and documenting all aspects of the research process (Creswell, 2014). To warrant completeness, the study ensured that the data collected were comprehensive and included all relevant information about the phenomenon being studied. The study strived for information saturation, whereby interviews were carried out until the saturation point was attained (Onwuegbuzie et al., 2009), whereby no new information was being obtained, and the data collected were consistent. Consistency was guaranteed by having different interpreters of the data, and the data were analysed independently and their results were compared to ensure consistency and reduce bias. To ensure coherence, the study ensured that the data collected were logical, clear, and easy to understand. The study organized the data in a meaningful way and ensured that the interpretation of the findings made sense based on the data collected.

3.10. Measurement Model and Data Analysis

3.10.1. Exploratory Factor Analysis (EFA)

The authors employed both SPSS (version 22) and AMOS version 21 to analyze data. The two variables were subjected to Exploratory Factor Analysis (EFA) to help uncover the underlying structure of a large set of items (Hair, Black, Babin, Anderson, & Tatham, 2006) and also to reduce data to manageable levels. Results showed that KMO was .942 (well above the required .7). Based on the study data, the results presented in Table 9 showed that all of our variables had composite reliability values greater than .6 and Cronbach's Alpha coefficients of .7 and above. This proved that the instrument was reliable. Bartlett's test of Sphericity was less than .05. EFA results generated indicated that 42 items loaded well on the construct of internal control system with a total component of five and KMO of .941. This meant that the sample data was adequate. The results of principal component analysis (PCA) yielded five factors with Eigenvalues greater than 1. The factors of

monitoring (37.1%), control activities (6.09%), risk assessment (4.13%), information and communication (3.33%), and control environment (3.22%) were generated, thus accounting for 53.9% of the total variance in ICS. Therefore, the items that loaded above .5 adequately explained the global construct of internal control system. Accordingly, it can be inferred that all the 42 items were valid and could be used to measure the intended components of internal control system. For PFM, the results that emerged from our data revealed that 19 items loaded well on the construct of public funds management with a total component of two factors extracted. Analysis based on the PCA using Varimax with Kaiser Normalization was also done on the data to examine the components of public funds management, which yielded two factors with Eigenvalues greater than 1. These factors of financial accountability (40.03%) and public expenditure (10.22%) were generated, thus accounting for 50.25% of the total variance in public funds management. The KMO and Bartlett test values were all sufficient at .919 and .000 significance respectively. This shows that the sample data was adequate and items of the constructs were well correlated. Also, only items with absolute values above .50 were considered to determine the loadings on each of the factors of public funds management. Moreover, the result indicated that 11 items of the financial accountability dimension loaded well on factor 1 with significant loadings between .402 and .837, which explained 40.03% of the variance, while 8 other items of public expenditure loaded well on factor 2 with significant loadings of .392 to .802, which accounted for 10.22% of the variance. Consequently, the items that loaded above .50 adequately explained the global variable public funds management.

3.10.2. Confirmatory Factor Analysis

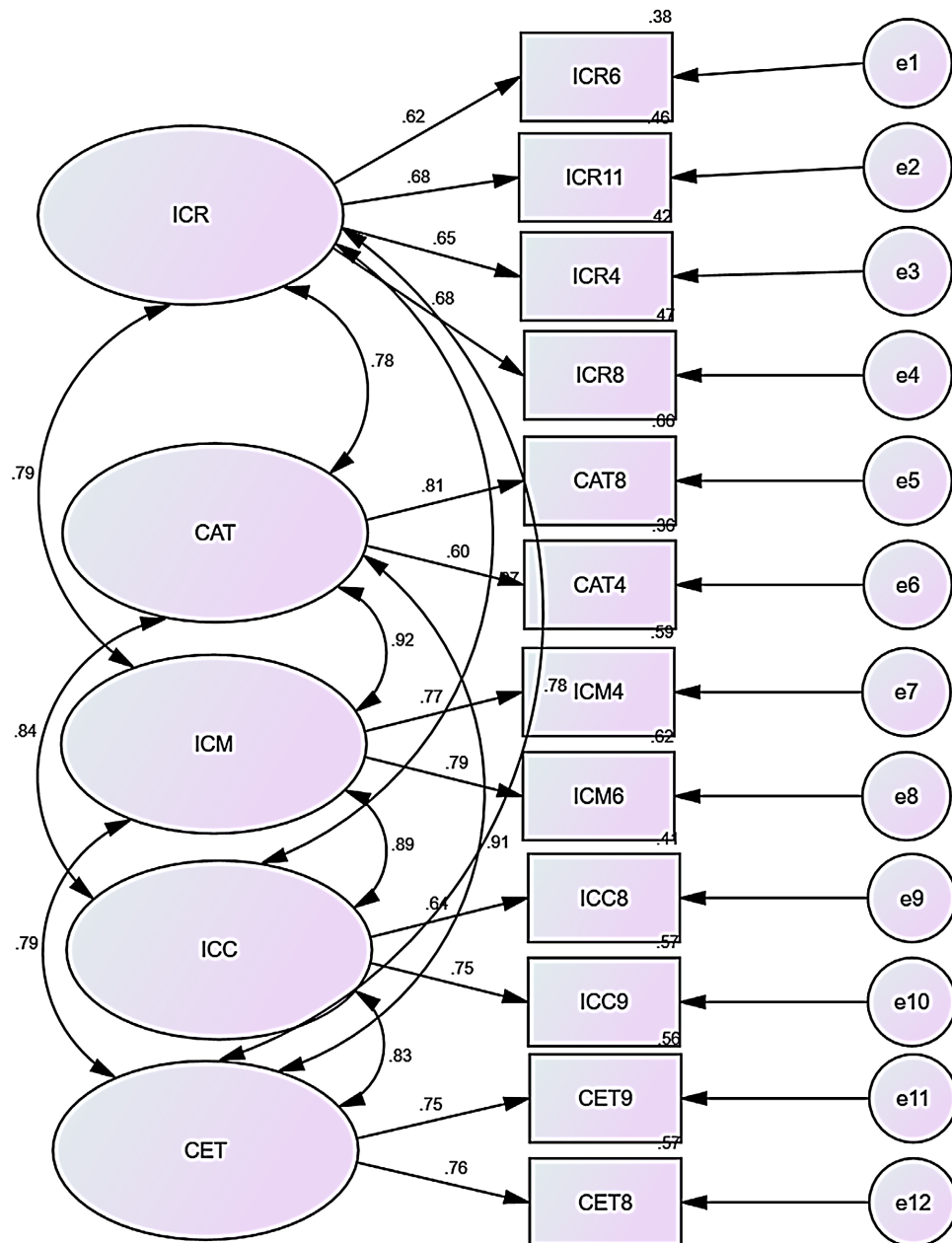
Consistent with [Anderson and Gerbing \(1988\)](#), the authors constructed several nested models. First, they constructed one for the Internal Control system and then for PFM.

The Internal Control System Measurement Model in [Figure 2](#) below shows an NFI of .976, which is an indication of strong convergent validity. The χ^2 statistic of 39.61 was not significant at the .05 level: its p-value was .660 and degrees of freedom/df (44), suggesting that the model adequately fitted the data. This was further validated by other fit indices: RMSEA (.000), TLI (1.000), CFI (1.000), GFI (.981), and AGFI (.966). [Fornell and Larcker \(1981\)](#) suggest that the average variance explained (AVE), as a measure for discriminant validity, should be .5 and above. In this present study, the AVE was .73. Accordingly, each item was a reliable factor for the internal control system.

Additionally, CFA for PFM was performed as shown in [Figure 3](#) below.

The Public Funds Management (PFM) Measurement Model in [Figure 3](#) below shows an NFI of .981, which is an indication of strong convergent validity. The χ^2 statistic of 1.311 was not significant at the .05 level: its p-value was .703 and degrees of freedom/df (19), suggesting that the model adequately fitted the data. This

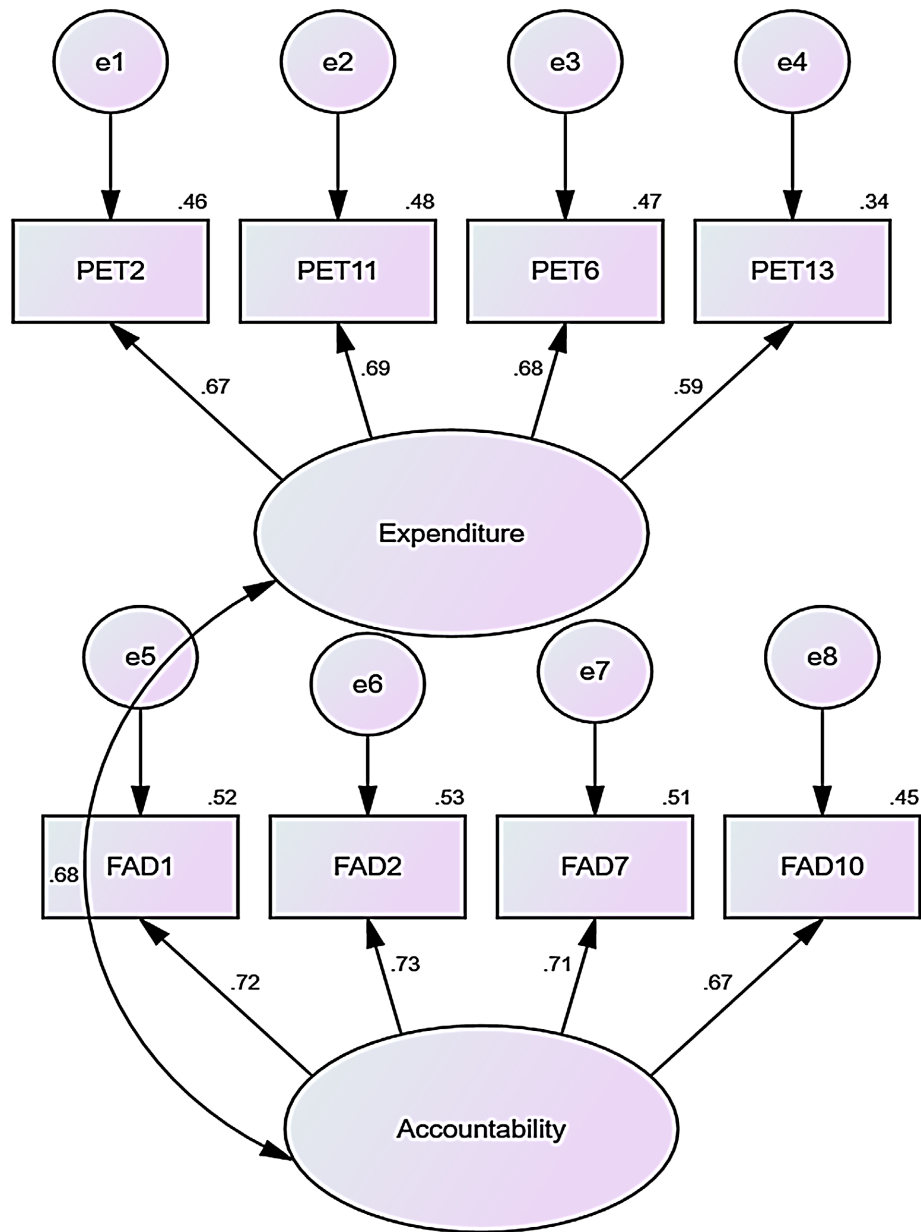
was further validated by other fit indices: RMSEA (.000), TLI (.998), CFI (.999), GFI (.989), and AGFI (.978). Fornell and Larcker (1981) state that the average variance explained (AVE) as a measure for discriminant validity should be .5 and above. In this current study, the AVE was .68. As a result, every item served as a reliable component for PFM.



Goodness of Fit Indices

$\chi^2 = 39.61$; p -value = 0.660, d/f = 44; RMSEA (0.000); TLI (1.000); IFI (.996); CFI (1.000); NFI (0.976); GFI (0.981) and AGFI (0.966) Key: CET- Control environment; ICM- Monitoring; CAT- Control activities; ICR- Risk assessment, ICC- Information and communication

Figure 2. CFA model for the ICS.



Goodness of Fit Indices
 $\chi^2 = 1.311$; p-value = 0.703, d/f = 19; RMSEA (0.000); TLI (1.000); IFI (1.000); CFI (0.999); NFI (0.981); GFI (0.989) and AGFI (0.978) Key Expenditure- Public Expenditure
 Accountability- Public Accountability.

Figure 3. CFA model for the PFM.

4. Results

4.1. Quantitative Results

The study sought to establish the relationship between the internal control system and public funds management. Correlation analysis was conducted to ascertain the strength of the relationship.

Table 10. Mean, standard deviations, and correlations between ICS and PFM.

Variables	M	SD	1	2	3	4	5	6	7	8
(1) Year of Existence	2.78	1.13	1							
(2) Staff Category	3.67	2.15	.14**	1						
(3) Marital Status	1.84	.36	.03	.05	1					
(4) Education Level	3.37	1.41	.16**	.24**	.01	1				
(5) Public Funds Management	4.01	.51	.24**	.54	.02	.05	1			
(6) Internal control system	3.94	.50	.28**	.15**	.03	.08	.775**	.742**	1	

Source: Primary data, 2023. Notes: $n = 338$. * $p < .05$; ** $p < .01$; Correlation is significant at the .01 level (2-tailed); * Correlation is significant at the .05 level (2-tailed).

Table 10 above provided insight into the direction, strengths, and significance of the relationship between the internal control system and public funds management, plus the categorical variables. Cohen (1988) suggests that $r = .10$ to $r = .29$ indicates a small (low) relationship, $r = .30$ to $r = .49$ indicates a medium (moderate) relationship, and when $r = .50$ to $r = 1.0$, there is a strong relationship. Results revealed that the internal control system was a positive and significant predictor of public funds management ($r = .775^{**}$). This indicates that effective internal controls are strongly associated with better public funds management.

Furthermore, the study found that the Year of Existence of a local government has weak positive correlations with staff category ($r = .14$), education level ($r = .16$), and modest positive correlations with public funds management ($r = .24$) and internal control systems ($r = .28$), all significant at the .01 level; additionally, staff category correlates moderately with education level ($r = .24$), strongly with public funds management ($r = .54$), and slightly with internal control systems ($r = .15$), while education level shows negligible and non-significant correlations with public funds management and internal control systems.

In addition to the correlational results, regression analysis was also performed to ascertain the direct paths of ICS to PFM.

Table 11. Regression results of ICS on PFM.

Item	Unstd. Est (B)	S.E	CR	Std. Est(β)	p -value
Internal control system for public funds management.	.376	.033	7.544	.335	***

$p < .0001$, $p < .01$, $p < .05$.

Table 11 above evidently reveals that the internal control system has a positive and significant effect on public funds management ($R = .335$, $p < .01$). This finding means that the existence of a robust internal control system improves public funds

management in local governments. This significant relationship between the internal control system and public funds management was previously supported by the works of Ndanyi (2021). It was noted that improving employee capability and closely adhering to internal control procedures are the cornerstones of a robust financial management system in the management of local governments. This implies that positive changes in the internal control system are related to positive changes in public funds management in local governments. These results further suggest that when there is an effective ICS in place, we experience an improved PFM system in LGs.

4.2. Structural Equation Modeling (SEM)

Prior to SEM, parametric tests confirmed that key statistical assumptions—linearity, homogeneity of variance, and normality—were satisfied. The study adopted the two-stage SEM approach by Anderson and Gerbing (1984). The first stage involved Confirmatory Factor Analysis (CFA) to estimate measurement models, as detailed in the methodology section. The second stage estimated the structural model. SEM analysis began with model specification, establishing connections among the factors believed to influence other variables (Hair et al., 2010).

The overall fit of our models was evaluated based on the following fit criteria: The χ^2 test, which depicts an absolute test of model fit, demands that a model be disregarded if the p-value is less than .05, the RMSEA is above .06, and TLI is .95 or greater (Hu & Bentler, 1999). Other scholars, such as Yang (2006) and Ha et al. (2007), advocate Goodness of Fit (GFI) > .90, Adjusted Goodness of Fit Index (AGFI) > .85, CFI > .90, TLI > .95, and RMSEA < .08 as appropriate goodness-of-fit indices. The critical ratio (CR), which is the ratio of the parameter estimate to its standard error and serves as a Z-statistic in determining if the estimate is statistically distinct from zero, was also used in this study to determine the statistical significance of parameter estimations. The hypothesis (that estimations equivalent to .0 may be rejected) must be greater than ($>|\pm|$) 1.96 based on a .05 probability threshold. Accordingly, the statistical benchmarks acted as decision criteria for determining fitting measurement models as well as estimating a structural model for PFM.

Testing Direct Paths for the SEM

Table 12 presents the results of an SEM analysis, specifically the regression weights (that is, factor loadings) of observed indicators (items) onto their respective latent constructs (F1 through F5) within the ICS construct. Each row shows the relationship between a particular observed variable and its associated latent factor, including statistical details such as unstandardized coefficients (B), standard errors (S.E.), critical ratios (C.R.), significance levels (P), and standardized regression weights (β). Results from the path summary in Table 13 indicate that the latent constructs F1, F2, F3, F4, and F5 each significantly predict their respective observed indicators, with standardized regression weights (β) ranging from .600

to .790, and all paths being statistically significant at $p < .001$, such that F1 strongly influences ICR6, ICR11, and ICR4 with β values of .615, .679, and .646 respectively; F2 exhibits a very high loading on CAT8 and CAT4 with β values of .812 and .600; F3 significantly predicts ICM4 and ICM6 with β s of .766 and .790; F4 influences ICC8 and ICC9 with β s of .642 and .754; and F5 predicts CET8 and CET9 with β s of .757 and .747, demonstrating robust and statistically significant relationships across all latent-construct-indicator paths, thereby confirming the measurement model's reliability and the strong internal consistency of the constructs examined in the study.

Table 12. Path summary showing regression weights for the ICS latent construct.

	Paths	B	S.E.	C.R.	<i>p</i>	β
ICR6	← F1	1.000				.615
ICR11	← F1	1.049	.109	9.622	***	.679
ICR4	← F1	.979	.105	9.355	***	.646
ICR8	← F1	1.114	.115	9.720	***	.684
CAT8	← F2	1.000				.812
CAT4	← F2	.610	.057	10.775	***	.600
ICM4	← F3	1.000				.766
ICM6	← F3	1.028	.074	13.937	***	.790
ICC8	← F4	1.000				.642
ICC9	← F4	1.294	.118	10.969	***	.754
CET8	← F5	1.000				.757
CET9	← F5	.965	.078	12.431	***	.747

Narration: Refer to Appendix 1. Source: Primary data (2023).

In **Table 13** below, the path summary for the PFM latent construct reveals that the factors F1 and F2 significantly influence their respective observed variables, with standardized coefficients (β) ranging from .587 to .731, all exhibiting high critical ratios (C.R.) exceeding 8.5 and p-values less than .001, indicating robust and statistically significant loadings; specifically, F1 strongly predicts PET2, PET11, PET6, and PET13 with β s of .675, .692, .684, and .587, respectively, while F2 significantly predicts FAD1, FAD2, FAD7, and FAD10 with β s of .723, .731, .713, and .672, respectively, demonstrating that these latent factors reliably account for the variance in their observed measures and confirming the validity of the measurement model within the PFM construct.

Table 13. Path summary for the PFM latent construct.

Paths			B	S.E.	C.R.	p	β
PET2	←	F1	1.000				.675
PET11	←	F1	1.080	.110	9.819	***	.692
PET6	←	F1	1.132	.113	10.045	***	.684
PET13	←	F1	.861	.099	8.695	***	.587
FAD1	←	F2	1.000				.723
FAD2	←	F2	1.101	.094	11.695	***	.731
FAD7	←	F2	.955	.086	11.169	***	.713
FAD10	←	F2	.830	.077	10.807	***	.672

Narration: Refer to Appendix 1. Source: Primary data, 2023.

4.3. Qualitative Results

4.3.1. The Perceived Understanding of the Study Variables by Uganda's Local Governments

The participants' perceptions of ICS and PFM in Uganda's local governments, and the associated influencing factors, are presented in this section. The interviewees were asked to define and characterize each of the study factors (public funds management and internal control system) in order to gain a better understanding of these variables. This enabled us to convert their narrative accounts into developing themes and sub-themes. With the help of the model function in the NVivo 9 software, these themes and sub-themes were utilized to create a hierarchical model that connected the themes and sub-themes. The two research constructs' perceived meanings, along with their main themes and sub-themes, are presented in the sections that follow.

Public Funds Management

According to the findings, interviewees in Uganda's local government usually perceived PFM as adhering to accountability standards, expenditure and budgeting guidelines, as stipulated by the Public Finance Management Act, PFMA, 2015. Three key themes that emerged from the analysis of the qualitative interview transcripts were "expenditure," "accountability," and "budgeting."

Theme 1: Expenditure

One of the main themes that emerged was ensuring that expenditures incurred adhere to the budget. Informants indicated that they had been able to spend based on current budget commitments, adjusting for inflation, and identifying potential cost savings arising from greater efficiency or alternative ways of service delivery. Moreover, participants noted that all local government expenditures complied with the existing policy framework governing financial management. Respondents pointed out that local governments begin with the primary goal or goals and

incorporate them into the budget in order to guarantee strong statutory-led expenditures. Moreover, they are mindful of the limited resources available to the local government and decide how best to use them. In addition to ensuring that there will be money for future requirements, this method assists local government in meeting its present and future financial obligations.

The participants also suggested that local government officials were encouraged to adhere to five aspects for local governments to improve their control over their spending commitments. These included establishing a robust framework for incorporating the commitments into financial monitoring, enhancing reporting commitments in both accounts and budget documents, and strengthening procedural controls on commitments, such as consenting to veto the commitments by the Ministry of Finance. Participants noted that complying with local government expenditure requirements was essential to achieving excellence in public funds management. One participant was quoted saying “...local governments begin with the primary goals and incorporate them into the budget in order to guarantee strong statutory-led expenditures.” (Participant 8, October 2023).

In addition to this, another respondent noted that “Local government officials are encouraged to establish a robust framework for monitoring commitments, enhance reporting, and strengthen procedural controls like vetoing commitments by the Ministry of Finance to improve control over spending.” (Participant 2, October 2023).

This is a clear indication that expenditure by local governments is increasingly being guided by structured financial management practices rooted in adherence to budgets, policy frameworks, and procedural controls. The emphasis on establishing robust monitoring systems, enhancing reporting, and implementing procedural safeguards such as veto powers underscores a concerted effort to promote fiscal discipline and accountability. Such measures aim to ensure that expenditures align with statutory goals, optimize resource utilization, and safeguard the financial sustainability of local governments. Overall, these practices reflect a proactive approach to managing public funds responsibly, thereby supporting effective service delivery and future financial planning.

Theme 2: Budgeting

Participants conceptualized a budget as simply a spending plan that projects the expected income and outlays for a local government over a given time frame. Effective financial management is essential to achieving the goals of a community, and the budget is one of the main instruments that directs this endeavor. In addition to helping to keep local leaders financially accountable, it also reflects plans for the community’s overall future. After analyzing the transcripts, it was established that evaluating or assessing the needs: determining the community’s needs and ranking them according to strategic objectives; considering departmental proposals: examining proposals for funding from different local government departments and agencies; undertaking revenue projections: estimating the amount of money that will be available from sources like taxes, grants, and fees; conduct-

ing cost-benefit analysis: to ascertain the best use of finances; and Public Input: Incorporating feedback from public consultations and community meetings to ensure transparency and address community priorities can result in an acceptable budgeting process in Uganda's local government as a sub-theme. According to interviewees, in order for PFM to flourish in LGs, departmental and agency budget proposals must be prepared based on the projected needs and strategic priorities; reviews of requests must be done by the finance department, which later compiles a draft budget. Afterward, the draft budget is presented to the LG executive body, and later to the legislature—council for review, discussion, amendments, and approval. Moreover, public hearings must be held to gather input from the community or citizens and other stakeholders before the final approval by the legislative body that votes to adopt the final budget, which then becomes the official financial plan for the upcoming fiscal year. One respondent noted that “*public hearings and community inputs are essential in the budgeting process; they ensure transparency and that community priorities are incorporated before final approval*”. (Participant 9, October 2023).

This means that an effective budgeting process in Uganda's local government relies heavily on a structured approach that includes assessing community needs, reviewing departmental proposals based on these needs and strategic priorities, and conducting thorough revenue projections and cost-benefit analyses. Additionally, incorporating public input through community consultations and hearings is crucial for ensuring transparency, accountability, and alignment with community priorities. The process involves multiple stages—preparation of proposals, review by the finance department, drafting, presentation to the executive body and legislature, and finally, public hearings—culminating in the official adoption of the budget. Public participation is recognized as vital in making the budgeting process inclusive, transparent, and responsive to community interests, ultimately fostering trust and effective financial management in local governments.

Theme 3: Accountability

Making sure that LGs account for the resources entrusted to them for quality service delivery was one of the primary themes that emerged from qualitative data. Interviewees perceived financial accountability in the local government context to mean assuring local government stakeholders about the stewardship of public resources, and noted that supporting the allocation of limited resources, such as time, people, space, equipment, and money, is one of the two main goals of financial accountability in LGs. Moreover, they noted that they complied with all the legislative accounting requirements since accountability served the dual functions of giving the public insight into government operations and satisfying internal management requirements. The goal of government financial reports should be to promptly and fully disclose all relevant information about the government's financial situation and operations, which was a common phenomenon practiced by Uganda's LGs. One respondent pointed out awareness pertaining to misuse of public resources when he noted that “*when public financial resources are not*

being adequately recorded, the local governments lose accountability when they neglect to make sure that financial fundamentals like recording, calculating balances, summarizing receipts and expenditures, and reporting to the public are carried out correctly” (Participant 5, October 2023).

This implies that ensuring proper financial recording and reporting practices is essential for maintaining transparency, accountability, and public trust in local government operations. When local governments fail to accurately document and disclose their financial activities, they risk losing public confidence and may be perceived as mismanaging resources. Therefore, compliance with legislative accounting requirements and timely, complete financial disclosures is critical for demonstrating responsible stewardship of public resources, supporting effective service delivery, and upholding good governance standards within local governments.

4.3.2. Qualitative Findings on Perceived ICS

Internal Control System

Based on the findings, interviewees in Uganda’s local government usually perceived the internal control system as an internal procedure that organizations use to reasonably ensure that the LG’s primary goals are met; information is accurate and dependable; LG policies, plans, procedures, laws, and regulations are followed; assets are safeguarded; resources are used economically and efficiently; and that operations or program goals and objectives are met. Five key themes that emerged from the analysis of the qualitative interview transcripts were “control environment,” “control activities,” “risk assessment,” “monitoring,” and “information and communication.”

Theme 1: Control Environment

One of the main themes that emerged related to participants’ perception that the control environment shapes LG employees’ awareness of controls in place. LG staff perceived the control environment as the combination of the LG’s structure, guidelines, policies, standards, and processes working together to ensure that LG staff undertake to perform the right things in the right way to accomplish its goals or fulfill its mission. Key informants revealed that LGs had promoted the control environment as a key dimension of ICS through management assigning power and responsibility to different audit staff, detailing management’s operational philosophy and style, emphasizing the moral principles and character of the workforce, and the establishment of the existing human resources rules to support ICS in promoting PFM. Overall, participants noted that the control environment provides the LG with organization and discipline while serving as the framework for the other internal control components, such as monitoring, risk assessment, and control activities, among others.

Theme 2: Control Activities

Findings from qualitative data indicated that participants conceptualized control activities as A set of guidelines and procedures that is used to lower risks and ensure that other internal control system components, such as monitoring, risk assessment, and information and communication, operate as intended. They

noted that control operations make sure that management directives are followed and that hazards that could inhibit the LGs from reaching their objectives are taken care of. From their narratives, control activities are perceived as measures put in place by policies and procedures to assist in guaranteeing that LG management's instructions to reduce risks to achieving goals are followed.

Participants further noted the need for LGs to promote actions that enhance control activities in supporting ICS for improved PFM. These actions included instituting regular performance reviews, forecasts, assessment of quarterly performance of LG audit staff, physical controls, and job segregation, as these impact LG's PFM. Participants thus suggested a range of procedures, including information processing (approvals, authorizations, and verifications), performance evaluations (reconciliations, assessments of operational performance), physical controls (asset security), and separation of roles to promote internal control activities for enhanced PFM.

Theme 3: Risk Assessment

One of the main themes that emerged from the interviews in local governments concerned the importance of risk assessment as an internal control aspect in promoting public funds management. LG staff perceived risk assessment as identifying and evaluating pertinent risks to the accomplishment of the local government goals in order to establish the best course of action for managing such risks. This definition thus highlights the need for LGs to regularly define and assess specific threats that might constrain the realization of the local government's goals and objectives.

Participants further noted that risk assessment aims to examine the risks of misstatement of the LG materials and to provide and implement robust interventions. The interviewees thus suggested the need for LGs to regularly diagnose and analyze the material misstatement risk in relation to omissions, incomplete or inaccurate disclosure, identification of threats, assessment of the likelihood and potential impact of various risks to the LGs, evaluation of internal controls to determine their adequacy in risk reduction, review of controls, recording of findings, and regular audit of residual risks. Overall, participants noted the need to secure risk assessment through objective setting, risk identification, risk analysis, testing, development of a risk mitigation plan, and implementation of the risk mitigation plan, if PFM is to be realized in LGs.

Theme 4: Monitoring

From the qualitative data, monitoring emerged as a key internal control system element that supports public funds management in local governments. In the context of LGs, participants defined monitoring as the process of regularly assessing and analysing the LG's performance to make sure it aligns with its set goals and objectives. Participants further noted that by providing monitoring and responsibility, it reduces the likelihood of LG staff taking advantage of opportunistic behavior and promotes LG success, which is demonstrated by better financial statements. From interviews, it was established that monitoring helps to ensure that control activities and other planned actions to effect internal control are carried

out properly and in a timely manner, and that the end result is effective internal control, which is essential for PFM.

Key informants revealed that LGs had promoted a monitoring culture as an ICS measure, as indicated by actions such as defining the purpose and scope of monitoring, reaching consensus on the objectives and monitoring outcomes, planning data collection and analysis, including data collection tools, organizing data, information flow and reporting requirements, reflection processes, monitoring events, and planning the necessary resources and skills. Overall, participants noted that monitoring provides the LG with an opportunity to measure audit performance against the established targets and standards, to identify deviations from anticipated results and effect necessary adjustments, and to provide feedback to LG stakeholders on the effectiveness of LG processes and on areas for improvement.

Theme 5: Information and Communication—ICT

From the qualitative data, ICT emerged as a crucial measure of ICS that supports LG PFM. In the setting of LGs, participants conceptualized ICT as a crucial component of the ICS that involves gathering and sharing the financial, operational, and compliance-based data required for the institution's (LG's) management and control. ICT thus refers to all communication technologies, such as the internet, wireless networks, cell phones, computers, software, middleware, video conferencing, social networking, and other media applications and services that allow LG users to access, retrieve, store, transmit, and manipulate information in a digital form. Participants further noted that the aim of ICT is to enable LG and other stakeholders to communicate, collaborate, and access information more efficiently and effectively for enhanced PFM.

Key informants revealed that LGs had promoted an ICT culture as a measure of ICS through a raft of initiatives, including but not limited to: developing and functionalizing LG websites, creating open data initiatives, and establishing online portals to provide channels for the public to access and retrieve LG official documents such as reports, workplans, and budgets. As well, participants noted a tendency for LGs to outline their strategic goals and objectives for IT, define the ICT strategy's purpose, lifespan, and stakeholders, review existing IT systems and infrastructure for gaps or inefficiencies, and build an inventory and assessment of the life expectancy of the LG's current technology. Overall, participants noted that ICT provides the LG with an opportunity to reform their financial management practices, which later promotes PFM.

5. Discussion of Findings and Implications

5.1. Discussion of Findings

The study hypothesized that the internal control system is related to the management of public funds in LGs. The findings revealed a significant positive association between the internal control system and the management of public funds in Uganda's LGs. This finding suggests that the prevalence of a strong and robust internal control system is associated with improved management of public funds

in LGs. This is realistic because strong internal control systems, indicated by the existence of control activities, an enabling ICT architecture, a strict and consistent monitoring mechanism, and appropriate risk assessment practices, are crucial in safeguarding the organization's public funds, preventing fraud, and ensuring accountability in the management of public funds, which leads to improved PFM. Thus, as noted by Ndanyi (2021) and Dowdell, Klamm, & Andersen (2020), an elaborate internal control system contributes positively to addressing PFM dilemmas and helps to improve its operations for better realization of its objectives. This also aligns with qualitative insights, where participants emphasized that effective internal controls—such as control environment, control activities, risk assessment, monitoring, and information and communication—are perceived as foundational to sound financial management as indicated in Figure 4. A real radial diagram of the internal control system and Table 14. For instance, participants articulated that “LGs had promoted control environment as a key dimension of ICS through management assigning power and responsibility to different audit staff, detailing management's operational philosophy and style, emphasizing the moral principles and character of the workforce” (Participant 4, October 2023). This underscores the importance of a supportive organizational culture, which aligns with the quantitative finding that the control environment significantly influences PFM outcomes.

The findings also link well with the conclusions of Ndanyi (2021), Navvubya & Irumba (2023), Mwesigwa & Irumba (2023), and Nsungwa & Babirye (2023), who noted the vital role of the internal control system in shaping efforts geared towards improvement in PFM. Thus, this study suggests that when internal control systems are implemented appropriately, they boost the reporting processes and production of reliable reports that strengthen the management of the entity's accountability role, as well as PFM (Otoo, Kaur, & Rather, 2023). This finding further supports the agency theory (Jensen & Meckling, 1976), which emphasizes the importance of monitoring agents' actions, in this context, through the institution of robust internal controls as an appropriate strategy for improved management of an organization's operations, leading to improved PFM. Specifically, based on the assumptions of agency theory, LGs are able to institute a robust internal control system characterized by factors of monitoring, control activities, risk assessment, information and communication, and control environment, which in unison limit misuse of public funds and consequently enhance PFM. These results suggest that an internal control system supported by the domains of control environment, risk assessment, control activities, information and communication, and monitoring practices provides an enabling environment for improved management of public funds (Otoo, Kaur, & Rather, 2023). Through the control environment, LGs have been able to improve PFM. According to Omata & Kaplan (2013), Chen et al. (2020), Gao and Zhang (2019), and others, the control environment is the supportive attitude, style, and philosophy of people associated with the organization, in addition to their expertise, morale, integrity, and ethical principles, and

consists of structures, methods, and measures that serve as a basis for assessing the internal control system (Vu & Nga, 2022; Chen, Yang, Zhang, & Zhou, 2020). Thus, through the control environment, LGs have been able to provide discipline and structure for attaining internal control system goals and improving system quality, which are essential aspects of improved PFM (Chiu & Wang, 2019).

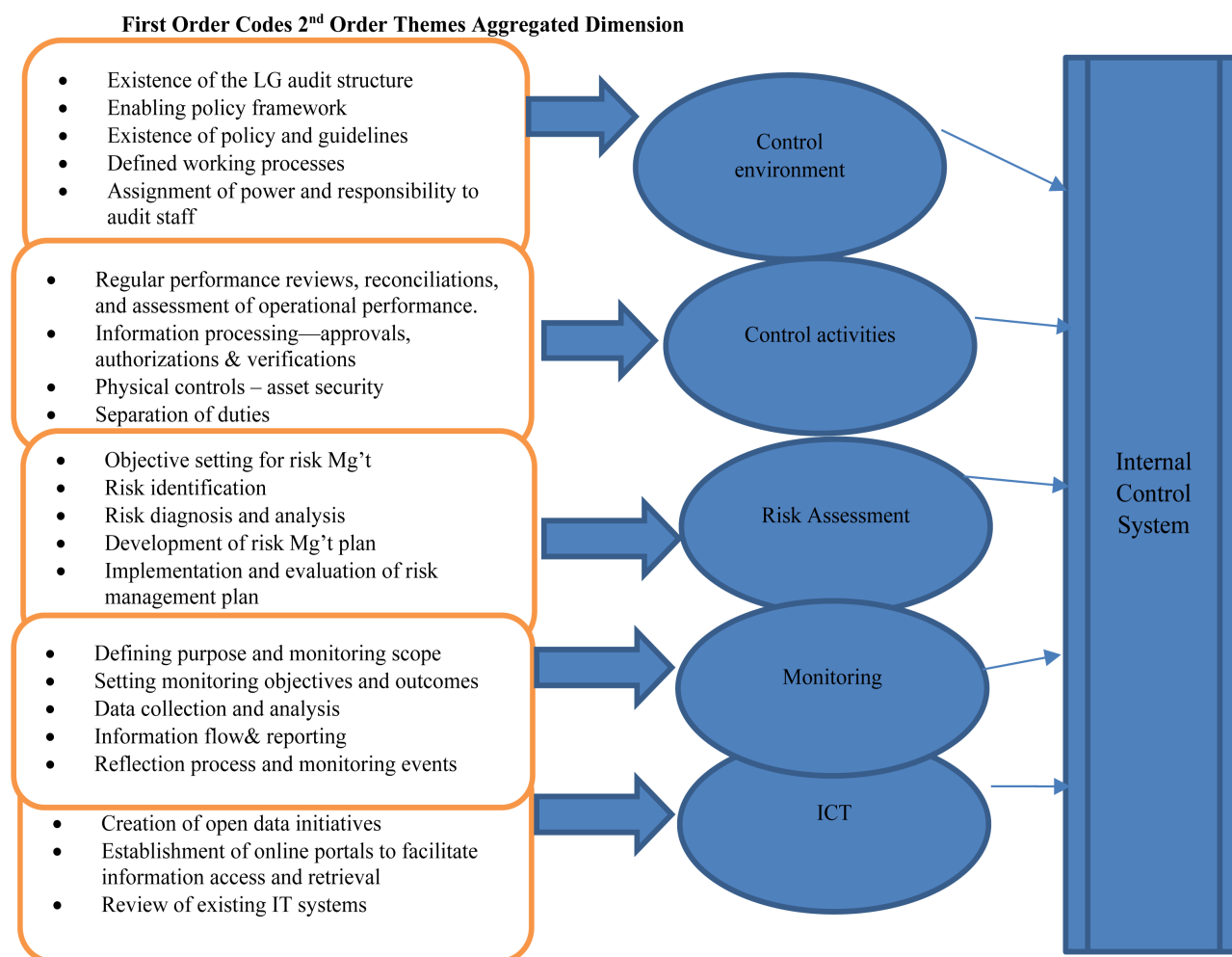


Figure 4. A real radial diagram of the internal control system.

Table 14. A matrix showing the aggregated dimension, 2nd order theme, and 1st order code for improved Public Funds Management—PFM.

1 st order code	2 nd order theme	Aggregated Dimension
Establishment of a robust expenditure framework; Enhancing reporting commitments; Strengthening procedural controls; Compliance with LG expenditure requirements	<ul style="list-style-type: none"> • Expenditure • Budgeting • Accountability 	Public Funds Management
Conducting needs assessment; consideration of departmental proposals; undertaking revenue projections; performing cost-benefit analysis; and ensuring public input		
Expenditure control; financial reporting mechanism; and ensuring better service delivery		

Continued

Existence of LG audit structure, enabling policy framework; existence of policy and guidelines; defined working processes and assignment of power and responsibility to audit staff	<ul style="list-style-type: none"> • Control Environment • Control Activities • Risk Assessment • Monitoring • ICT 	Internal Control System
Regular performance reviews—reconciliations and assessment of operational performance; information processing—approvals, authorizations, and verifications; physical controls—asset security, and separation of duties.		
Objective setting for risk management, risk identification, risk diagnosis and analysis, development of risk management plan, implementation and evaluation of risk management plan		
Defining purpose and monitoring scope, setting monitoring objectives and outcomes, data collection and analysis, information flow and reporting, and reflection process and monitoring events		
Developing functional websites, creation of open data initiatives, establishment of online portals to ease information access and retrieval, and review of existing IT systems		

Source: Primary qualitative data, 2023.

Moreover, the qualitative data highlighted that “*control activities are perceived as measures put in place by policies and procedures to assist in guaranteeing that LG management’s instructions to reduce risks to achieving goals are followed*” (Participant 7, October 2023). This complements the quantitative evidence demonstrating that control activities are instrumental in safeguarding public funds and ensuring accountability, as noted in the literature and supported by prior studies (Chalmers, Hay, & Khlif, 2019). Control activities denote systems, processes, and policies that ensure the implementation of directives on financial reporting as well as management controls (Le, Vu, & Nguyen, 2020). Through control activities, LGs have been able to take necessary actions, such as the separation of roles while performing financial and accounting duties, to reduce risk and assist businesses in achieving their goals (PFM).

From a risk assessment perspective, the results suggest that the control system enhances PFM, with interviewees noting that “*LGs need to regularly diagnose and analyze the material misstatement risk in relation to omissions, incomplete or inaccurate disclosure, and identify threats*” (Participant 3, October 2023). This qualitative insight reinforces the quantitative association between risk assessment practices and improved PFM, emphasizing that proactive risk identification helps LGs prioritize interventions and prevent misappropriation of funds. Thus, the results suggest that through risk assessment, LGs have been able to identify potential risks likely to affect the attainment of organizational objectives, in this context PFM. Also, besides reducing and eliminating risk, through risk assessment, LG leadership prioritizes specific objectives that have a substantial impact on organizations’ control systems for improved PFM. Moreover, the impact of internal controls on PFM has been registered through the monitoring element. Monitoring includes assessing how well the control systems are operating (Wali & Masmoudi, 2020). Through monitoring of LG government controls, LG management has ensured effectiveness and efficiency in LG system operation and design, a practice

that has promoted improvements in PFM (Wali & Masmoudi, 2020; Dowdell, Klamm, & Andersen, 2020). Finally, from an information and communication (IT) perspective, the findings suggest that internal controls have been crucial in supporting PFM enhancement. IT denotes procedures used in locating, gathering, and appropriately distributing crucial data within the boundaries established by management in order to satisfy the organization's need for financial reporting (Vu & Nga, 2022). Through IT, LG leadership has been able to disseminate relevant information to every significant LG department and section, which has aided the process improvement in PFM (Hamdan, 2019). Thus, an effective IT system has ensured prompt provision of accurate and pertinent information to diverse LG stakeholders, necessary for improved PFM.

Overall, this study provides substantial empirical evidence that internal control systems play a vital role in effective PFM in LGs. By implementing and adhering to key internal control factors such as monitoring, control activities, IT, control environment, and risk assessment, LGs can significantly enhance their PFM practices. It is imperative for LGs to prioritize the development and maintenance of a robust internal control system to ensure financial transparency, accountability, and the prevention of fund misuse. By following the recommendations highlighted in this study, LGs can improve their overall financial management practices and ultimately serve their constituents more effectively and efficiently.

5.2. Implications

This study has theoretical, practical, managerial, and policy implications. The aim of this study was to investigate the relationship between internal controls and PFM in LGs. This was motivated by the requirement to develop a rational and coherent model to improve PFM in Uganda's LGs. The theoretical (academic), managerial (practical), and policy implications of this study are discussed as follows.

First, by offering empirical evidence in favor of the theories relevant to the explanation of PFM, this study adds to the body of literature on PFM. A single theoretical approach has been employed in previous studies to explain PFM (DiMaggio & Powell, 1983). The study uses a multi-theoretic approach to explore the antecedents of the internal control system. Consequently, we provide and validate or confirm specific customized models in this research to assess the internal control system. Agency theory posits that principals delegate authority to agents such as local government officials, creating potential issues like moral hazard and information asymmetry, which can be effectively mitigated through internal control components like monitoring activities (such as audits and oversight) that enhance accountability and deter misconduct, and the separation of duties (such as dividing responsibilities among personnel) that reduces opportunities for collusion and fraudulent activities. Thus, explicitly linking these internal control mechanisms to the core agency problems within the local government context demonstrates their vital role as organizational safeguards that promote transparency, accountability, and efficient public financial management, enriching the theoretical framework

and empirical understanding of how internal controls address principal-agent conflicts.

Secondly, the focus of this specific study on factors for effective internal control system influences in a developing country, with a focus on Uganda's LGs, adds new insights into the roles of the internal control system in improving PFM. This contributes to the scarce literature on the role of the internal control system in shaping PFM initiative efforts using the viewpoint or outlook of Uganda's LGs.

Thirdly, prior studies on PFM have revealed inconclusive or mixed results about the relationship between internal control system elements such as information and communication, control environment, control activities, monitoring, and risk assessment and PFM in organizations. For instance, some studies reveal a significant relationship between internal control system and PFM (Moses et al., 2023; Daphine & Alex, 2023; Racheal et al., 2023; Moureen & Julius, 2023), whilst studies by Eton, Mwosi, & Ogwel (2022) and Lagat & Okelo (2016) posited contradictory results in which it was found that specific internal control elements, such as control activities, and information and communication, had no evidence of significant association with PFM. This study contributes to PFM literature by providing empirical evidence that internal control system underpinned by control environment, control activities, risk assessment, information and communication and monitoring accounts for unique and significant variance in PFM among organizations, thereby providing support for studies by Moses et al. (2023), Daphine & Alex (2023), Racheal et al. (2023), and Moureen & Julius (2023).

5.2.1. Managerial Implications

The study findings have several implications for practice. First, the findings are important for LG managers who wish to determine that the effectiveness of the internal control system can enable LGs to improve PFM by instilling a better control environment, the establishment of control activities, setting up an effective information technology and communication framework, promoting regular monitoring of institutional assets and activities, and the creation of a robust risk assessment framework that inspires and promotes PFM. Considering the relevance of the internal control system for the promotion of PFM, LG leadership is tasked to develop written policies and procedures, perform reconciliations regularly, undertake self-evaluation of the organization's internal controls, and provide adequate training to audit staff necessary to enhance their capacity in executing the necessary controls aimed at fraud detection and prevention for improved PFM. Thus, from the internal control perspective, LGs that undertake the required controls as highlighted above might evolve better strategies for improving PFM in contrast to those that do not follow this path.

Third, considering the significance of the LG sector to Uganda's socio-economic development, the government, business community, international development partners, and other interested parties ought to be concerned about the extent to which LGs venture into improved strategies for PFM, as advocated by our PFM model, 2024.

5.2.2. Policy Implications

Inappropriate PFM affects LG performance and the country's overall socio-economic development. The empirical evidence presented by this study provides insights into how institutional and contextual factors, such as an internal control system, are associated with PFM. This study identified the internal control system as a significant driver of PFM in LGs. Based on this, policymakers should develop plans, programs, and a robust agenda aimed at enhancing supportive mechanisms for institutional and contextual factors to improve LG behavior (PFM). Such programs and plans must consider the perception of LG leadership, audit independence, and the moral principles of LG auditors. For instance, the government should integrate campaigns aimed at strengthening ethical practices to promote PFM. The message should highlight the vital role of enhancing PFM in LGs.

Finally, the study findings inform policymakers of the need to set and adhere to financial management policies such as the LG financial and accounting manual, the Public Finance Management Act 2015 (as amended), which sets the legal framework for financial management practices in the country by defining the guidelines for budget preparation, expenditure control, accounting & reporting, and auditing, among others. Other reforms and guidelines include the implementation of the Treasury Single Account (TSA); upgrading the Integrated Financial Management System (IFMS) and the Integrated Personnel and Payroll System (IPPS); improving wage and payroll management; and improving budget formulation, implementation, monitoring, and reporting, all of which support PFM. These policies are expected to provide direction, continuity, and consistent focus on PFM. These policies might also provide a clear environment for setting a strong internal control system, as well as a moral compass and mission for PFM. The lack of robust financial policies on expenditure and revenue management demotivates LG practitioners as they are unsure of expected returns. LGs, thus, should develop policies that are critical in enhancing PFM.

6. Limitations of the Study

Despite the valuable insights provided by this research, several limitations should be acknowledged. First, the study adopts a cross-sectional design, which captures data at a single point in time. This approach limits the ability to infer causality between internal control systems and public funds management, as relationships observed may be correlational rather than causal. Longitudinal studies would be necessary to establish temporal sequences and causative effects more definitively.

Second, the regional focus on the Busoga sub-region of Uganda may affect the generalizability of the findings to other regions within Uganda or similar contexts in different countries. Local socio-economic, cultural, and political factors unique to Busoga may influence internal control practices and public financial management, thereby limiting the applicability of the results beyond this specific setting.

Third, the study relies on self-reported data from respondents, which may be subject to biases such as social desirability or recall bias. Although measures were taken

to ensure data reliability and validity, these biases cannot be entirely eliminated.

Lastly, resource constraints and logistical challenges limited the scope of data collection, particularly in accessing certain documents or conducting extensive fieldwork across all local government units within the region. Future research could benefit from a broader, multi-regional approach, employing mixed methods over an extended period to deepen understanding and enhance generalizability.

7. Conclusion

In conclusion, this research has established a significant relationship between internal control systems and public funds management in local governments. The findings indicate a robust positive correlation, suggesting that the implementation of a comprehensive and effective internal control system substantially enhances the management of public resources. The hypothesis testing further reinforced the notion that internal control not only correlates with but also serves as a significant predictor of effective PFM. This predictive capacity implies that local governments that prioritize establishing robust internal control frameworks are better equipped to monitor, allocate, and utilize public resources efficiently, thus fostering public trust and enhancing governance. Moreover, the findings resonate with the principles of agency theory, which advocate for rigorous monitoring processes to mitigate potential mismanagement of resources. By integrating robust internal control elements such as a strong control environment and advanced information technology systems, local governments can create an infrastructure conducive to effective financial management. Ultimately, this study emphasizes the need for local governments to prioritize the development and continual improvement of internal control systems as a strategic initiative to address the challenges of public funds management. By adhering to the evidence-based recommendations outlined in this research, local governments can augment their financial management capabilities, thereby enabling more effective service delivery to their constituents while assuring greater accountability and transparency in public spending.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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Appendices

Appendix 1

CODE	In dealing with CONTROL ENVIRONMENT
CET1	Attitude of management towards internal control is good in this local Government
CET2	Internal audit staff of this organization understand their responsibilities
CET3	All stake holders of the LG are committed to doing what is right
CET4	This organization has tight budgetary controls
CET5	This Local government has an organization chart
CET6	There is Separation of roles for all departments in the organization
CET7	Internal audit operates with a formal charter approved by the board.
CET8	Internal audit role in the charter accurately reflects the departments' current and future needs.
CET9	Internal audit is consistent with the company's size, complexity of operations, risk profile
CODE	In dealing with CONTROL ACTIVITIES
CAT1	This organisation has Policies, procedures, techniques in place to achieve the set objectives and address related risks.
CAT2	Employee job duties, roles, responsibilities have been assigned to qualified personnel to achieve Local Government control objectives.
CAT3	The Local Government has established performance measures and indicators.
CAT4	In this organisation Key duties and responsibilities are divided among different people to reduce the risk of error, waste, or fraud.
CAT5	Management regularly supervises to address the entity's risk
CAT6	Accounting reports are completed timely in the organisation
CAT7	This organisation does reconciliation of grant expenditures in time
CAT8	Internal audit identifies and profiles its stakeholders' needs and expectations.
CAT9	Internal audit of this organization is proactive and risk focused.
CODE	In dealing with MONITORING
ICM1	Internal Audit function of this organization has an established a baseline to monitor the internal control system.
ICM3	Regular management and supervisory activities, comparisons, reconciliations, and other routine actions performed by internal audit.
ICM4	Internal audit function of this organization carries out Separate evaluations of the Internal controls
ICM5	The organization has emphasised monitoring and review of internal controls
ICM6	Internal audit through its monitoring function has enhanced the company's corporate code of conduct.
ICM7	Internal audit function is coordinated to other risk monitoring functions like loan reviews, banking operational reviews, regulatory compliance.
CODE	In dealing with RISK ASSESMENT
ICR1	This organisation has a defined strategic plan, including a mission statement and defined objectives
ICR2	This organisation's plan identifies critical success factors related to achieving the defined objectives.
ICR3	Management has established a process to periodically review and update strategic plans and objectives.

Continued

ICR4	Specific measures are in place to determine a reasonable level of materiality for financial reporting objectives.
ICR5	This organisation has Specific antifraud policies in place
ICR6	Management of this organisation has a fraud response plan in place
ICR7	The organization has compensating controls are to deter fraud.
ICR8	Significant audit area is selected based on risk assessed in the organizations
ICR9	Allocation of scarce audit resources is according to the risk assessed
ICR10	Frequency, intensity and timing of audit is based on risk assessed
ICR11	Internal audit in this organization supports management to identify and codify the risk appetite
CODE	In dealing with INFORMATION AND COMMUNICATION
ICC1	This local government regularly reviews financial regulations, policies, procedures and updates to reflect changes
ICC2	This local government has open channels of communication for staff to easily notice any deficiencies in controls.
ICC3	An effective whistle blower protection program & fraud hotline exists in this local government
ICC4	Management of this organization reviews audit reports prior submission to external parties.
ICC5	Internal audit of this organisation regularly captures & reports information on public funds management.
ICC6	Management is updated with timely reliable & relevant quantitative and qualitative performance information
ICC7	Senior management of this local government responds positively to internal audit findings & recommendations
ICC8	The organization's senior management is receptive to all communications about controls, including bad news
ICC9	Internal audit utilizes the latest audit methodologies & related information technology-based solutions.

Appendix 2

CODE	In dealing with Public Expenditure
PET1	This LG adheres to the budget process as set in The PFMA 2015
PET2	Budget interventions of the LG are according to the district development plan
PET3	Revenue is realised as projected in the budget
PET4	Expenditure is implemented as planned in the budget
PET5	Finance committee meetings are held to discuss quarterly allocations
PET6	All expenditure is authorised by council
PET7	There is equitable distribution of resources
PET8	All stake holders are consulted during the budgeting process
PET9	Ready access to fiscal and budget documentation
PET10	The budget desk is in place to ensure that funds are equally distributed to all departments.
PET11	The internal audit ensures that expenditure is made according to the budget in this local government.
PET12	This LG has a Revenue risk management framework
PET13	Revenue audit and investigation conducted regularly
PET14	Revenue arrears monitored and recovered in the local government

Continued

PET15	Expenditure arrears are all known & payment plan is clear in this local government.
PET16	This local government has a payroll integrated with personnel records
PET17	Management of payroll change is adequate
PET18	Expenditure commitment controls in this organizations are effective
PET19	This local government ensures compliance with payment rules & procedures
CODE	Financial Accountability
FAR1	This local government declares all government revenue & expenditure.
FAR2	All resources are received by service delivery units in this local government
FAR3	This LG has a proper debt management policy in place
FAR4	Public Assets are all indicated in the asset register of this local government
FAR5	This organisation has an operations and maintenance asset plan
FAR6	There is not accumulation of domestic arrears
FAR7	Bank reconciliation done on monthly basis in this organisation
FAR8	Advance accounts highly monitored & retired when due in this organisation
FAR9	Coverage and comparability of reports
FAR10	This organisation prepares complete annual financial reports
FAR11	This organization adheres to accounting standards
FAR12	Internal audit ensures that no advance is given to any of the officers before accountability is processed for the first advance if any.
FAR13	Internal audit also ensures that value for money is received for all the funds released.
FAD14	LGPAC scrutinises audit reports
FAD15	The internal audit function ensures that the funds released from the ministry & donors serve their purpose & that there is no diversion
FAD16	Internal audit verifies accountability of previous advance before another advance
FAD17	Internal audit recommendations on public funds management are considered by the external audit committee
