# INTERNAL CONTROL SYSTEMS AND FINANCIAL ACCOUNTABILITY IN GOVERNMENT BUSINESS ENTERPRISES: A CASE OF NATIONAL WATER AND SEWERAGE CORPORATION NTUNGAMO AREA

**BY**

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## DECLARATION

I, KUJUNA ALEXANDER, declare that this research report is my original work and has never been submitted to any other university or institution of higher learning for any academic award.

Signature

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## APPROVAL

This is to certify that this research report has been closely supervised by DR. MARUS ETON and is now ready for submission to the Directorate of Postgraduate Training.

Signature

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**DR. MARUS ETON(PhD)**

## DEDICATION

This research report is dedicated to my father, Mr. Peter Bataringaya, my loving mother Mrs. Miria Kyomugisha, my wife Mrs. Agnes Nuwampire and my son and daughter John Kenny Akampa and Mellisa Akankunda and all the Master's Class students at Kabale University.

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## ABBREVIATIONS

| | |
|---|---|
| AMF: | Financial Markets Authority |
| COSO: | Committee of Sponsoring Organizations |
| CPA: | Canada Public Sector Accounting |
| DV: | Dependent Variables |
| IAT: | Internal Audit Technician |
| ICPA(U): | Institute of Certified Accountants Uganda |
| ICS: | Internal Control System |
| INTOSAI: | International Organization of Supreme Audit Institutions |
| IV: | Independent Variable |
| NSSF: | National Social Security Fund |
| NWSC: | National Water and Sewerage Corporation |
| OACR: | Order Approving Compromise and Release |

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**ABSTRACT**

The purpose of the study was to establish the relationship between internal control systems and financial accountability in Government Business Enterprises with NWSC Ntungamo Area as the case. The study found out that the relationship between internal control systems and financial accountability in NWSC Ntungamo area appeared to be weak (40.94%) of all explained variables. The study was based on three specific objectives, that is, to examine whether internal control systems are followed in NWSC; to examine the level of financial mechanism used; and to establish the relationship between internal control systems and financial accountability. To achieve these objectives, the study adopted a cross-sectional research design and quantitative and qualitative research approaches were used. Data was collected using questionnaires and face-to-face interviews. Data was analysed using statistical methods (Epi-Data for data screen and STATA). The survey results showed that 55.56% of the respondents agreed that the staff are aware of the penalties for breaking internal control system procedures in the organization. The results showed that the mean of 2.015 of the risk are always assessed well in order to minimize fraud which can hinder financial accountability. Further, results indicated that financial accountability was rated good and this was indicated by the overall mean of 1.9946 which implies that financial accountability in NWSC is done through effective mechanism of reporting, budgeting and professional competences. Results also indicated that NWSC supports the policy of the Government to have audited books to avoid fraud and embezzlement of funds and there are good monitoring strategies at all times to check the internal control systems within the organization. Despite the achievements made by NWSC, the organization faces some challenges such as lack of training opportunities, lack of enough staff and changes in management hampering financial accountability. These challenges should be addressed. Recommendations were that NWSC should ensure the effective and strong internal control activities; to uphold ethical values in managing finance, risk assessment should be done to all projects and programmes; and, NWSC should come up with a system for E-billing which can perform the system of disconnecting and connectiing client without any delay of services like the system of YAKA of UMEME. The study also recommends that NWSC should monitor continuously the internal control systems of all branches and fight against absenteeism of staff, especially area managers.

# CHAPTER ONE

# INTRODUCTION

## 1.0 Introduction

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

## 1.1 Background to the study

The Internal Control System profession evolved steadily with the progress of management especially at the end of World War II. It is conceptually similar to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying Internal Control System is derived from management consulting and public accounting professions with the implementation in the United States of the Sarbanes (Oxley Act ,2002, p.773).

In the United States, there was little need for internal controls in the colonial period because there was little in the way of large industry. In fact, accounting textbooks of the period never referred to the subjects of internal control system. In government, however, the need for an audit function was recognized. The first U.S. Congress in 1789 approved an act that included a provision for the appointment of a Secretary of the Treasury, a Comptroller, and an Auditor (Gray et al., 2006). Although the roots of internal controls do date back to the nineteenth century, real expansion did not occur until the early part of the twentieth century with the growth of the large corporate form of business

The profession's growth accelerated as many internal auditors acquired the skills required to help companies and public institutions meet the requirements of the tales (SAS 300). According to Auditing Standard Board, Internal Control System is a measure of checks and balances, a method and procedure instituted by an organization to conduct a systematic approach that management can rely on to achieve its intended goals.

Recent development shows that there is need for public institutions or organizations to have the ability to improve the level of Financial Accountability in order to add value to their activities like development projects and progress of service delivery in their structures. This is contained in Financial Reporting and Auditing Practice (2006, p.206.)

The AMF Working Group (2007) looked at the components of internal control system as being the control environment, control activities, risk assessment, information and communication, and monitoring and evaluation. Whereas internal controls are thought to be the domain of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

Control activities are categorized into three, namely: preventive, detective and corrective. The preventive control is essentially to prevent errors and fraud from occurring and it includes the following control elements: authorization and approval procedures, segregation of duties, control over access to resources and records (Ahmad & Abubakar, 2017).

The detective control is to detect errors and fraud that have occurred. It includes control elements as verifications/reconciliation, review of operating performance and supervision (Labaran, 2008). The corrective controls help to identify and reduce or eliminate the causes of a problem that resulted into errors, omission, misstatement and any malicious act from happening. It is an adequate balance between detective and preventive controls necessary to complement control activities in order to achieve the organizational objectives. Errors that failed to be prevented and detected are corrected through corrective controls (Kamau, 2014; Aramide and Bashir, 2015).

Internal control activity ensures that the authorization procedure should be documented and clearly communicated to employees so as to reduce the risks of error, waste, or wrongful acts. It requires that no single person or office should carry out a transaction from the beginning to the end and that employees' schedule not to be fixed but rather that duties and responsibilities be assigned to separate individuals and office and schedules be rotated (INTOSAI, 2001; Ntongo, 2012; Minja, 2013). Aristanti, 2015).

Internal control systems consist of five interrelated components which are the responsibility of all employees from the management who design, implement and maintain them to the staff that executes the various control activities. These components are: control environment, risk assessment, control activity, information and communication and monitoring control (COSO, 1998; INTOSAI, 2001; Kamau, 2014; Aristanti, 2015). Control activity as a component is the concern of this study, while the other components are outside the study.

Anne (2010) says Internal Control is an accounting procedure or system designed to promote efficiency or assure the implementation of a policy or safeguard assets or avoid fraud and error. Internal Control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, support performance-based management. Internal Control which is equal with management control helps managers achieve desired results through effective stewardship of resources. Internal controls should reduce the risks associated with undetected errors or irregularities, but designing and establishing effective internal controls is not a simple task and cannot be accomplished through a short set of quick fixes (Hutter, 2001).

Kisanyanya (2018) found out that the institutions had adequate and effective control activities which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess allocated funds. Control activities were found to have a positive significant effect on the financial performance of the institutions under study. The study found that the institutions under study had proper risk assessment tools and risk assessment management system because they carried out continuous financial assessment of their organizations coupled with regular, timely and profound audits. Risk assessment was found to have a positive significant effect on the financial performance of the institutions under study.

Around the world, governments face pressures to provide public services effectively, efficiently and equitably (Van, 2012). However, the public sector has been controlled by numerous forces of change including; growing demand for quality services, rising costs, constrained resources, competitive pressures and monitoring by public and private groups with a markedly better informed client. Thus, extra pressure is being exerted on public sector managers to reassess their strategies. This strategy is geared towards financial accountability, which is the assessment of value for money and acceptance by individuals of personal responsibility for their actions in relation to quality of their outputs and decisions (Brinkerhoff, 2003).

Accountability can, therefore, bring efficiency in the management of public resources and delivery of services critical to Uganda's development goals (Munyambonera & Mayanja, 2015). It should be noted that accountability support in developing countries has not been successful as hoped: while the capacity of accountability actors have been strengthened, important weaknesses and gaps have not been addressed (OECD, 2014). As public organizations are accused of being inflexible in performing their daily activities and many red-tape procedures, the importance of strengthening the internal control system cannot be underestimated.

To ensure that employees' work provides checks on others and effective checks and balances to exist so that corrective action is taken to address weaknesses identified, it restricts access to resources and records of the organization to only authorized individuals who can account for the custody and/or use of the resources, transaction be verified before and after processing and also it ensures that actual accomplishment should meet the established standard or objectives (Labaran, 2008; Hannah, 2013; Wakiriba, Ngahu, and Wagoki, 2014).

When dealing with money on behalf of others, accountability is crucial. The people given responsibility to manage the money need to be able to show that they are being good stewards of what is entrusted to them. It is important that they are protected from being tempted to use the money for their own purposes (Rachel, 2008).

Aramide and Bashir (2015) opined that the process of financial accountability can only be effective through proper internal control activity which is supposed to be a useful mechanism for financial accountability and transparency at local government. Litvack (2016) documented that the higher the level of accountability, the more transparent the local government is perceived to be. Transparency depends on accountability and let alone the effectiveness of internal control activity in operation.

Apaza (2011) opined that an individual who is assigned a task needs to be constrained over the power exercised. The presence of sound public financial accountability has several indicators. For one, a country is likely to manifest public financial accountability if its legislative committees and audit committees provide for its citizens' crucial oversight of the country's public finances. Another indicator is the existence of budgeting and accounting systems that promote performance and that capture public organizations' economic transactions accurately and in a timely way. A country may be publicly accountable financially if it maintains internal control and performance reporting systems that check the bad recordkeeping and non-compliance with rules and regulations (Sahgal & Chakrapani, 2000).

Legislatures play a critical role in the management of public finances. As part of their budget decision-making responsibilities, legislatures approve the national budget and subsequently provide oversight as the executive implements the budget (International Budget Partnership, 2012). Auditing is a crucial component of most modernist conceptions of accountability since it legitimates the information on which formal, financial accountability rests (Gendron, Cooper, &Townley, 2001). The fundamental role of an auditor is to provide independent assurance to external users that a financial report of an entity is accurate and reliable.

Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Financial reporting is used in assessing accountability by comparing actual financial results with the legally adopted budget, assessing financial condition and result of operations, assisting in determining compliance with financial laws and assisting in evaluating efficiency and effectiveness (Wilson, Reck, & Kattelus, 2010).

Budget is a plan of financial operation embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them. In a much more general sense, budgets may be regarded as devices to aid management in operating an organization more effectively. Governments build budgets to demonstrate compliance with laws and to communicate performance effectiveness (Wilson, Reck, & Kattelus, 2010).

Public organizations receive funding from both internal and external sources and financial accountability is one way of providing evidence of how public organizations manage their finances. Such accountability includes but is not limited to annual financial statements (Doussy & Doussy, 2014). As the internal control system is not frequently reviewed, financial accountability becomes a serious challenge, which threatens the quality of services provided to the public.

This paradigm demands of government officials to become more responsive to the demands of their environment, so that the service provided gets better, transparent and accountable (Indra, 2006). Mardiasmo (2009), Kumolo (2015) complained about the poor performance of the government in planning of Government Business Enterprises. A government business enterprise is an organization that has all of the following characteristics: it is a separate legal entity with the power to contract in its own name and that can sue and be sued; it has been delegated the financial and operational authority to carry on a business.

Government of Uganda (GoU) has had enormous cases of mismanagement of public funds despite the establishment and existence of Internal Control System. Examples include: UG V ONEG OBEL, Anti-Corruption Criminal Case No. 153 of 2010, the NSSF scandals in which hundreds of billions of shillings were lost. In the case of David Chandi Jamwa in the NSSF (National Social Security Fund), (Case No. COA-00-CR-0020-2011) employees' monthly savings worth three billion one million shilling was misappropriated and in the case of Geoffrey Kazinda vs. Attorney General Crt. Pet. No.50 of 2012 Prime Minister's Office funds meant for Northern Uganda Recovery Programme were fraudulently transacted to personal accounts for personal gain. Lots of billions of shillings were diverted; these culprits have been convicted.

As part of an audit in accordance with ISSAI, the exercise of professional judgment and maintain professional skepticism throughout the audit. They also identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for any opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control (Auditor General Report, 2015).

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management. Conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to fail to deliver its mandate. Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation (Auditor General Report, December 2017).

### 1.2 Statement of the problem

The internal control system is an essential tool for corporate governance to enhance effective and reliability of financial reporting (Skaife et al., 2007). Such controls further provide total assurance that the targets set by the organization can be achieved (Gerrit & Abdolmohammadi, 2010). Normally, internal control systems (risk assessment, control activities, control environment and information and communication) are set up by the organization to aid them in meeting their objectives, ensure generation of reliable financial reports, increase organizational compliance to financial regulations as well as prevent loss of organizational resources (Emasu, 2010). Active involvement and proper financial Accountability of government business enterprises by their managements has fostered growth and prosperity of these business enterprises (Auditor General's Report 2016).

In spite of all the internal control systems and policies put in National Water and sewerage Corporation, the Auditor General's Report, 2016 indicated a sample of 76 ministries revealed cash withdrawals in excess of UGX 40 million per month by 49 of these entities even when these entities were not on the exempt list. A total of UGX10.7bn was spent as cash in contravention of this limit. The cash limit was put in place as a measure to control cash related expenditures since cash is considered to have a higher risk of fraud or misappropriation which affected internal Control systems and financial Accountability in Government Business Enterprises. The Auditor General's Report, 2017 indicated that National Water and Sewerage Corporation internal control system were not followed which led to poor accountability. And this formed a good basis for further empirical investigation and the persistence of these challenges could hinder the company's growth.

## 1.3 Purpose of the study

The purpose of this study was to establish the relationship between internal control system and financial accountability and propose strategies for strengthening the internal control systems which would result in improvement in accountability in NWSC Ntungamo Area.

## 1.4 Specific Objectives of the Study

i. To examine whether internal control systems are followed in National Water and Sewerage Corporation;
ii. To examine the level of financial accountability mechanism used in National Water and Sewerage Corporation;
iii. To establish the relationship between internal control system and financial accountability.

## 1.5 Research questions

i. How are internal control systems in National Water and Sewerage Corporation followed?
ii. What is the level of financial accountability mechanism being used by National Water?
iii. What is the relationship between internal control system and financial accountability?

## 1.6 Scope of the study

The scope of the study encompassed three main aspects which included the subject scope, the geographic scope and the time scope

### 1.6.1 Subject scope

The study focused on internal control system and financial accountability. The internal control system and financial accountability were the independent and dependent variables respectively. The variables were measured by employing the following measures: control environment, control activities, risk assessment and information and communication. Financial accountability entailed, among others, Reporting, Budgeting, Adherence to Fiscal procedures and Professional competences.

### 1.6.2 Geographical scope

The study was conducted in National Water and Sewerage Corporation- Ntungamo Area. NWSC Ntungamo area comprises eight branches and Ntungamo area, Ntungamo Municipality inclusiveof: Rwashamaire, Kagarama, Rubare, Kyepeene, Rwentoobo, Rwamabondo and Ruhaama. Ntungamo Area is East of Ntungamo District headquarters, Northwest of Kyamate ward and Southwest of Ruhanga. Location western Uganda, Uganda, East Africa and Africa.Latitude $0^0$ $52^{|}$ $47.2^{||}$($0.8798^0$) South, longitude $30^0$ $16^{|}$ $18^{||}$ ($30.2717^0$) East and Elevation 1434 Meters (4705 Feet).

### 1.6.3 Time scope

The study took three years, that is from 2016-2019 and the reason was that was when the Government started emphasizing financial accountability.

## 1.7 Significance of the study

The results of this study would help the policy makers to establish the linkage between internal control system and financial accountability.

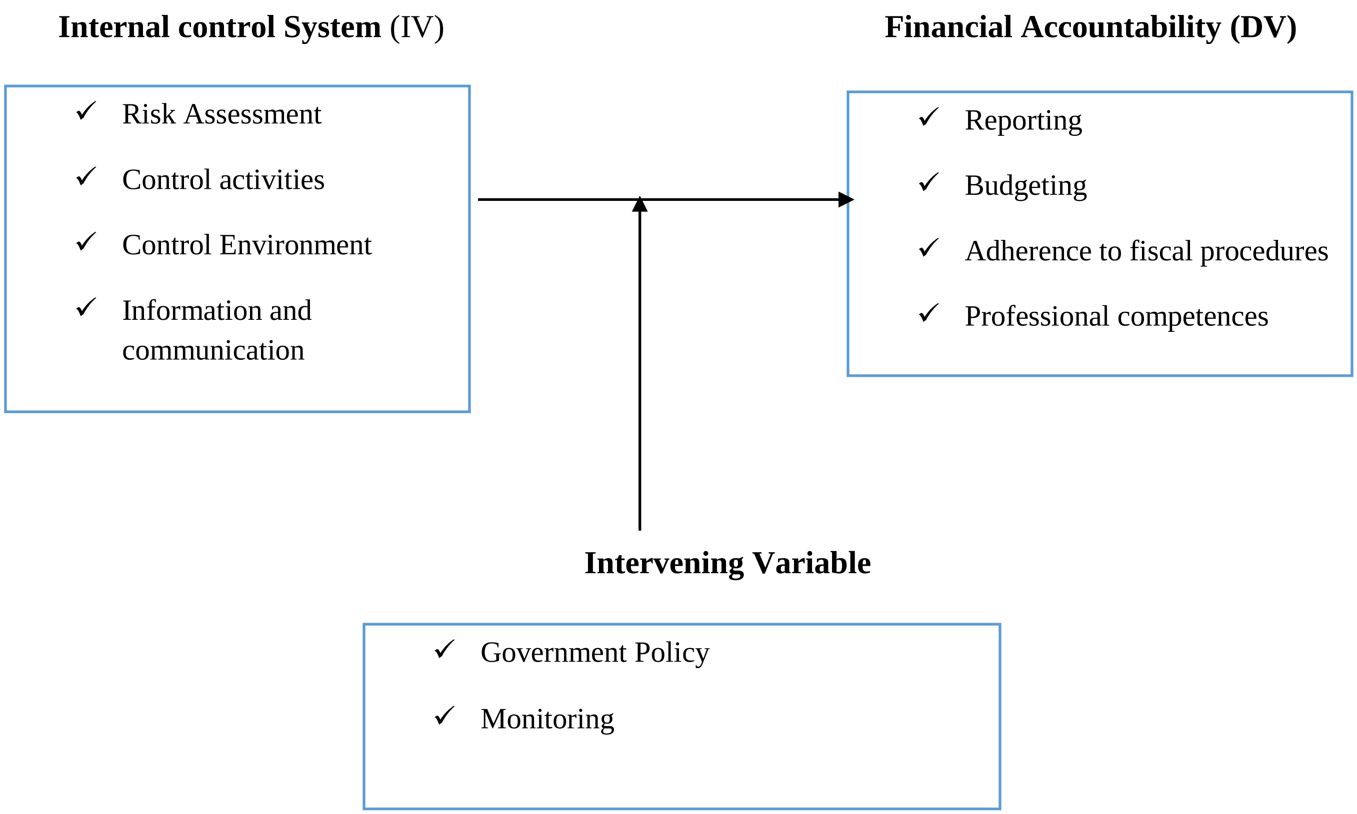
The study was generally based on the literature review of researchers and other scholars who were interested in financial accountability and internal control systems in organizations

The study would help the researcher to achieve Master of Business Administration and Management degree.

The study was meant to help finance managers, accountants, internal auditors and other accounting officers to know the risks involved and its management in a bid to maintain transparency and accountability levels of both variables high.

## 1.8 Conceptual Framework

**Figure 1: The conceptual framework**




***Source: Adopted from AMF Working Group, 2007 and Mawanda, 2008.Modified by the Researcher (2020)***

Miles and Huberman (2004) define a conceptual framework as the current version of the researcher's map of the territory being investigated. Implicit in their view is that conceptual frameworks may evolve as research evolves. Their notion accommodates purpose (boundaries) with flexibility (evolution) and coherence of the research (plan/analysis/conclusion) which all stem from conceptual frameworks.

Figure 1 above shows the conceptual framework illustrating the inter-relationship between the independent variables, intervening variables and dependent variables in the study on internal control system and financial accountability in Government Business Enterprises in National Water and Sewerage Corporation, Ntungamo Area.

The independent variable is the Internal control System and its components include Risk assessment, Control activities, control environment, information and communication. The dependent variable is the Financial Accountability which includes Reporting, Budgeting, and Adherence to fiscal procedures and professional competences.

Intervening variables are Government policies and Monitoring. The intervening variables are also called the controlling variables because they control the internal control system and Financial Accountability.

In this framework, internal controls should be the concern of every employee of the firm and should be the mainstay of the organization's culture in order to have effective and sound internal control systems leading to proper financial accountability in the organization. Each company is responsible for its own organization and hence its internal controls developed within an overall framework of sound governance (AMF Working Group, 2007).

Larry (2010) stresses that the advantages of financial accountability to include having professional advice on managing a person's finances and investments. Some of the others are accountability, knowledge, procedures, reporting mechanism and an offset of the cost of services. In addition, good financial accountability helps NWSC to create a plan and reach financial goals. This can be achieved by having good control, risk-free environment that enhances proper Budgeting and Reporting in an organization (Mawanda, 2008). The stronger the company's financial accountability, the easier it is for company to raise finance, and probably at a lower cost. This can be achieved by following all government policies and exact/strict monitoring manuals in the organization.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter looks at the works of other researchers regarding this topic and covers the key concepts and opinions of different authors, theoretical review and the review of other related literature.

## 2.1Theoretical Review

The study considered two theories namely, stewardship and attribution theories.

**Stewardship theory** emanated from the research done by Keay (2015), who defined a steward as a person who ensures that the investor's wealth is well protected in order to maximize organizational profits. Donaldson and Davis (1991) stated that this theory focuses on the ability of the management of the organization to align their goals with the institutional goals. They further stated that stewards' satisfaction and motivation is driven by the success of the organization. They argued that effective stewardship requires employee empowerment and provision of independence based on trust. This theory states that for maximum wealth creation, there should be maximum independence between employees or management and investors. Fama (1980) opposes that myth that advancement career development is necessary for managers to be good overseers, while Shleifer, Andlei and Vishny,(1997) claimed that the financial return given to the investors by the managers creates good reputation and it also encourages the investors to re-invest with them. In Agency theory, Meckling and Jensen (1994) stated that agency cost is usually lower when the investors form part of the management of the organization for monitoring purposes. However, stewardship theory is the complete opposite of the agency theory since it does not advocate for investors monitoring of the organizational performance through internal audit. Nonetheless, Donaldson and Davis (1991) further noted that better financial returns are experienced when these theories are jointly exercised in an organization. Based on this theory, this study works on the view that managers of institutions of higher learning act as caretakers of suppliers, shareholders, consumers, creditors and employees of these institutions.

According to positive accounting theory, accounting research can either be positive or normative. Positive accounting researches forecast and explain certain accounting elements. Theories aligned to positive accounting research are normally called positive theories. They are based on observations that can be tested and improved over time; normative theories are anchored on beliefs and they describe how certain accounting practices should be executed (Deegan & Unerman, 2006). Watts and Zimmerman (1986) developed positive accounting theory and it states which accounting method a firm is supposed to use and which one it is not supposed to use. This theory assumes that people are opportunistic and they are driven by self-interest in wealth creation and maximization (Deegan & Unerman, 2006). Based on this, organizations embrace internal control systems that will cater for the needs of the managers and investors to monitor operational costs of the organization. This theory explains the existence of monitoring, risk assessment, control activities as well as control environment in the public institutions of higher learning.

**Attribution theory** explains how behaviour and events are interpreted as well as their causes (Schroth& Shah, 2000). Reffett (2007) asserted that assessors attribute difference in handling similar situations to difference in personality while the difference is attributed to situational behaviour. Similar sentiments were shared by Wilks and Zimbelman (2004) and Schroth and Shah, (2000). Similarly, assessors often deduce internal control failure on auditors' negligence as well as generation of revenue. Bonner et al. (1998) said that when fraud that could affect the financial performance of an organization is not pointed out by the auditor, he/or she is likely to be sued. Reffett (2007) further stated that auditors' inability to detect fraud risk can be very detrimental for an organization. Attribution theory stated that auditing determines the efficiency of internal control systems of the organization. Therefore, they need to have an adequate understanding of the organizational internal control for proper revenue generation. This theory is relevant to the study since it proposes that control activities like internal audits are key elements of control systems that they help to prevent fraud.

## 2.2 Internal Control System

According to the Office of the Audit and Compliance Review (2010), the internal control system comprises the whole network of systems established in an organisation to provide reasonable assurance that organisational objectives was achieved, with particular reference to risk management, the effectiveness of operations, the economical and efficient use of resources, compliance with applicable policies, procedures, laws and regulations, safeguards against losses, including those arising from fraud, irregularity or corruption, the integrity and reliability of information and dataand Internal audit should not have responsibility for executive functions or for the development or implementation of systems. Internal audit may, however, serve as a valuable source of advice on systems of risk, governance and control without impairing its objectivity and independence

The administrator who is responsible for the accomplishment of goals and objectives is also responsible for establishment, maintenance, and monitoring of the internal control system which helps ensure the accomplishment of those goals and objectives. He or she is responsible for the sound financial condition of the unit, protection of the university's assets including its human resources, and compliance with federal, state, and University rules, regulations, and procedures. He or she must ensure that the funds entrusted to the unit are used appropriately (OACR, 2010).The administrator may delegate some of the related duties but cannot delegate accountability.

Good internal controls are essential to assuring the accomplishment of goals and objectives. They provide reliable financial reporting for management decisions. They ensure compliance with applicable laws and regulations to avoid the risk of public scandals. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process transactions and add no value to the activities (Mesnov, 2009).

Controls are any action by management to increase the likelihood that established goals and objectives achieved. Adequate control is present when management has planned and organized in manner that provides reasonable assurance that goals and objectives are achieved effectively and efficiently (Glover, 2010).

Efficiency and effectiveness of operations: As pointed out earlier, to be efficient means the ability to optimize resource utilization, i.e. ensuring that there is a rewarding relationship between resources employed and the results achieved, while to be effective implies attaining the specific objectives set and achieving the intended results. Controls within an organisation are meant to encourage efficient and effective use of resources, including personnel, to optimise the company’s goals (Arens, Elder & Beasley, 2003).

An important part of these controls is accurate information for internal decision making.Another important part of effectiveness and efficiency as pointed out by Arens, Elder & Beasley (2003) is safeguarding of assets and records. The physical assets of an organisation can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The same is true of non-physical assets such as accounts receivables, important documents (confidential contracts), and records (general ledger and journals). Thus, internal controls are designed to enable an organisation execute its operations in an orderly, efficient and effective manner.

Reliability of financial reports: Financial reports communicate information about an entity's resources, obligations and owners' equity. To ensure financial reports contain and communicate valid information to assist users in making informed economic decisions, control measures are necessary. Internal controls ensure that information is fairly presented in accordance with applicable reporting requirements such as generally accepted accounting principles (GAAP), international financial reporting standards (IFRS), etc.

Compliance with applicable laws and regulations: Organisations are required to comply with many laws and regulations within (and even outside) the jurisdictions they operate. Examples of laws and regulations an entity may be required to comply with include environmental protection laws, civil rights laws, income tax regulations, money laundering regulations, etc. Internal controls are required to identify applicable laws and regulations, prevent non-compliance with such laws and regulations and as such avoid penalties and damages to the organisation arising from non-compliance with relevant laws and regulations (Eke Gift, 2018)

In another study, Etengu and Amony (2016) examined the role of internal control system on the financial performance of non-governmental organisations in Uganda. The purpose of the study was to establish the effect of control environment, control activities and monitoring on the financial performance of non-governmental organisations in Uganda using International Union for Conservation of Nature as case study. The survey design was adopted for the study and data were obtained using structured questionnaire and interview; hence, the study was a primary data study. The findings of the study revealed a significant relationship between each of the measures of internal control (control environment, control activities and monitoring) and financial performance. The study recommended that control environment, control activities, and monitoring should be enhanced in order to further improve the financial performance of International Union for Conservation of Nature.

Njeri (2014) investigated the effect of internal controls on the financial performance of manufacturing firms in Kenya. The primary objective of the study was to determine the effect of internal control system on financial performance of manufacturing firms in Kenya. Twenty (20) manufacturing firms constituted the sample of the study. The study used primary and secondary data. Primary data were obtained using structured questionnaire while secondary data were obtained from the financial statements of the manufacturing firms surveyed. The study which adopted the multiple regression approach to data analysis found that most of the manufacturing firms surveyed had a strong control environment which impacted positively on the financial performance of the firms. The study concluded that manufacturing firms that had invested on effective internal control systems had improved financial performance as compared to those manufacturing firms that had a weak internal control system. Consequently, it was recommended that the governing body (the board) of manufacturing firms, supported by the audit committee, should ensure that the internal control system is periodically monitored (Marus, (2018).

The relationship between internal control systems and financial accountability in local governments appeared to be weak, and the actual contribution of internal control systems in the financial operations of the district is negligible. Though the role of internal control systems appeared to be negligible, participants confirmed the importance of internal control systems in promoting financial accountability and ensuring reliable records.

### 2.2.3 Components and Measurement of Internal control system

Internal control is made up of five interrelated components which can be used to measure the strength and quality of internal controls in any organization. These components as pointed out by COSO (1992) and cited in Meisser (2000), Millichamp and Tailor (2008), Eke (2015), Arens, Elder and Beasley (2003), BPP Learning Media (2010) and their measurement bases are discussed below.

#### 2.2.3.1 Risk Assessment

Audit risk has been taken as a composite of inherent risk, control risk and detection risk (Blockdijk, 2004). This is based on the audit risk model which essentially assumes that an auditor's detection risk is influenced by inherent risk and control risk thus: AR= IR*CR*DR.

Colbert and Alderman (1995) analysed audit risk as risk that exists for each of three types of audits, which the internal auditor must perform: financial, operational and compliance

Risk depends on a particular audit failure. Beckmerhagen et al (2004) analysed risk in terms of audit effectiveness and can be summarized as a function of severity (consequences) and probability of detection and occurrence of an audit failure.

Considering risk assessment, particularly in public administration, IT security management can be used for risk management in supporting public administration if risk management supporting tools are developed (Baginski, 2014). Organizations that often create contingency risk plans, and implement internal control systems are less at risk. Their risk-buffer strategies towards perceived risks help them to achieve higher risk performance (Dubihlela & Nqala, 2017).

In McNamee and Selim (1999), it is argued that the risk management paradigm, expressly including strategic risk, increasingly permeates the audit planning process of internal audit organizations. The internal audit profession is responding to the paradigm shift from compliance and control-oriented model to a risk managing model

But I think that, with very limited exceptions, it is in the best interest of strong corporate governance to have separate internal audit and external audit functions, only one of which reports routinely to outside parties and at the same time, I recognize that there are real benefits to transparency (Chambers, 2011).

An internal control system should be able to address risks relevant to achieving corporate goals.
Business risk is any factor, pressure or force that may prevent an entity from achieving its objectives, operating profitably and surviving. Risk assessment is the identification and analysis of risks relevant to the achievement of corporate objectives, determination of how such risk should be managed and implementation of a process to address such risks (BPP Learning, Media, 2010). Factors which may pose risk to an organization and which serve as bases for the measurement of risk include: incompetent management and staff; legislation; poor strategy and

financial structure; political changes; competition; technological changes; accounting pronouncements; natural disaster; etc.

Every organization has a certain tolerance for risk. Risks for successful ventures, risks of losses from fraud or error, market risks and legal risks all have different “preference curves”' in any given organization. A preference curve maps out a relationship between the probability of a risk occurrence and the amount of economic value at a point where an organization would be indifferent to the occurrence. So, if a 50 percent probability for a $20,000 loss was on the indifference curve for Company A, then the company may live with that risk without spending resources to create controls to lower the probability of the occurrence. Using SOD control concepts generally lowers risk and helps keep an organization at or under its preference for a given risk type (Association of International Certified Professional Accountants, 2019).

Muhammad (2018) researched on effect of internal audit function and internal control system on financial performance of an institution of higher education in Pakistan. The findings were that there was a positive relationship between internal audit, internal control environment and financial performance of higher education institution. The research focused on 3 elements of internal control that is, internal audit, internal control environment and failed to show the contribution of risk management and corporate governance in the financial performance of a company.

Risk assessment is among the components of internal control. Risks threaten the achievement of objectives. An entity’s risk assessment process is the process of identifying and responding to business risks and the results thereof (Mary et al., 2014). Risk Assessment is also defined as identification of potential errors and implements procedures, policies, and control to detect those errors and prevent them. Risk assessment can also be the identification and analysis of risks relevant to the achievement of objectives (Frazer, 2012). In order words, risk assessment is the process of detecting, assessing and determining how to succeed in these things.

An organisation principally establishes an early warning system to identify risks with low-probability, and take the necessary steps to minimise or remove such risks
(Hayali et al., 2013). Norton Rose Fulbright (2016) identified the following risk assessment principles which organisations should consider:

a) The organisation should assess and detect changes that could significantly impact the system of internal control. Control operations consist of a variety of activities. According to Frazier and Spradling (1996), these activities are: Physical controls (such as controlling whether necessary measures are taken in order to reach assets and records or not, controlling the physical presence or absence of assets, comparison between accounting records and periodic inventory); Performance assessment (to compare between the actual operations and objectives of a corporate); Information processing controls; Should also: assess changes in leadership; assess changes in the business model; assess changes in the external environment; Segregation of duties (for instance registration procedures, and custody of assets; assigning different employees with different tasks such as procurement of assets) (Janvrin et al., 2012; Norton Rose Fulbright, 2016).
b) The organisation should consider the potential for fraud in assessing risks to the achievement of its objectives. The organisation should specify objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. Should: consider toleration for risk and required a level of precision/materiality comply with externally established standards and frameworks and laws and regulations reflect management's choices; reflect entity activities; include operations and financial performance goals; form the basis for committing of resources. Should also consider various ways that fraud can occur; consider risk factors; assess incentive and pressures; assess opportunities; assess attitudes and rationalisations (Janvrin et al., 2012; Norton Rose Fulbright, 2016).

c) The organisation should identify risks across the entity to the achievement of its objectives and should also analyse those risks as a basis for determining how the risks should be managed. This can be achieved through the following attribute; involve appropriate levels of management; division, subsidiary, functional levels, and operating unit; analyse both external and internal factors; the determine how to respond to risks, and estimate the significance of risks identified (Janvrin et al., 2012; Norton Rose Fulbright, 2016).

d) The organisation specifies objectives with sufficient clarity to enable the assessment and identification of risks relating to objectives. Attributes: consider toleration for risk and required level of precision/materiality; comply with externally established standards and frameworks and laws and regulations; reflect management's choices; reflect entity activities; include operations and financial performance goals; form basis for committing of resources (Janvrin et al., 2012; Norton Rose Fulbright, 2016).

#### 2.2.3.2 Control Activities

Control activities are policies and procedures that ensure that management directives are carried out. They are on-going actions that organizational members take to ensure proper execution of operations and are particularly designed to support accurate, complete and reliable financial transaction processing. Examples of control activities which also serve as indices for measurement of internal control include: segregation of duties, authorization, supervision, physical controls (security measures), performance reviews (Eke, 2015).

Control activity is categorised into three, namely; preventive, detective and corrective. The preventive control is essentially to prevent errors and fraud from occurring and it includes the following control elements: authorization and approval procedures, segregation of duties, control over access to resources and records. Detective control is to detect errors and fraud that have occurred (Labaran, 2008). It includes such control elements as verifications/reconciliation, review of operating performance and supervision. The corrective controls help to identify and reduce or eliminate the causes of a problem that resulted into errors, omission, misstatement and any malicious act from happening. It is an adequate balance between detective and preventive controls necessary to complement control activities in order to achieve the organizational objectives. Errors that failed to be prevented and detected are corrected through corrective controls (Kamau, 2014; Aramide and Bashir, 2015).

According to Katkus (1997), Drury (2009), Bičiulaitis (2001), Patrick and Fardo (2009), K. H. S. Pickett (2010)**,** during a long-term period, control is usually related to achieving the already settled goals, their improvement and insurance. In other information sources (Dictionary of International Words, 2002; Sakalas, 2000; Buškevičiūtė, 2008; Lee Summers, 1991) control is emphasized as a certain means of inspection which provides a possibility to regulate the planned and actual states and their performance. Despite these different opinions, control might be reasoned and revealed as a traditional function of any object of control, emphasized as one of the main self-defense means from the possible threats in the daily performance of an organization. There is also a more modern approach. For example**,** Navickas(2011) and Gupta, (2010), presenting the concept of control, name it not only as one of the main factors that influence the organization's performance and influences its management, but also as one of the assessment means of the taken decisions and achieved values. Such interpretation of the conception of control shows the main role of control. For example, Kanapickienė (2008) has analysed a big number of control definitions and says that only an effective and useful control should exist in an enterprise because each enterprise tries to implement its purposes and avoid possible losses, i.e. mistakes and frauds.

According to Pfister (2009), there are several types of control, and they can be grouped into strategic, management, and internal control. Thus, different researchers give different definitions of control, their descriptions have different goals, but different control definitions lead to numerous variations in the analysis of the conception of control. Thus, to create an effective control, the presence of its unified concept becomes a necessity and the basis for ensuring effective control of the organization's performance. The existence of different conceptions of control also indicates that there might be different types or kinds of control.

Related to this point, another preventive element is segregation of duties. In cases where such control activities are operating efficiently, employees are provided with clear duties and responsibilities. Personnel involved in authorization are segregated from those responsible for inventory and those involved in recording transactions. Such segregation of duties is one aspect of an effective internal control system (Sampson, 2015).

**2.2.3.3 Control Environment**

The control environment includes the governance and management functions as well as the attitudes, awareness and actions of those charged with governance and management towards internal controls and its importance to the organisation. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is a foundation for all other components of internal control, providing discipline and structure. Thus, the control environment is the atmosphere created by management that shapes the way things are done and how organisational members behave towards the achievement of the organization's objectives ( Drury, 2009).

Factors which are often used to measure the strength and quality of an organsation's control environment include: integrity and ethical values; a commitment to competence; management philosophy and operating style; involvement of the board and audit committee; organizational structure; assignment of authority and responsibility; and human resource policies and procedures (Eke Gift, 2018).

Anthony (2004) noted that control environment sets the tone for the organization, influencing the consciousness of its people. It is the foundation for all the other components of internal controls. Success (2004) states that control environment is the consciousness of the organization, thus, the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives. According to Lower (2009), an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way.

Jenny and Pamela (2006) assert that "a governing board and management enhance an organization‟s control environment when they establish and effectively communicate written policies and procedures, a code of ethics, and standards of conduct". They also enhance the control environment when they behave in an ethical manner -- creating a positive tone at the top – and when they require that same standard of conduct from everyone in the organization.

The Institute of Internal Auditors looks at control environment as one that dictates upon organizational members a feeling of consciousness that their continued stay at an organization is assured by demonstration of their expected level of competence as well as their comprehension of authority and responsibility limits. In this respect, organizational members feel and realize that they are accountable to the organization (Dublin, 1999).

Control environment sets the tone for the organisation, impact on the consciousness of the employees; it is the foundation for all the other components of internal control system. The control environment includes the attitudes, awareness, integrity and ethical values of all the employees, and actions of management and directors, management and those charged with governance concerning the entity's internal control and their importance in the entity (Gamage et al., 2014; Mary, Albert, & Byaruhanga, 2014). In another study, Control environment refers to all factors which are effective in determining, increasing or decreasing the effectiveness of policies, procedures, and methods specific to a process. Control environment stands out with the basic understanding adopted by the senior management of the corporation to control the organisation, its attitude toward problems and approach to solving problems and their perspective of the importance of moral values (Hayali et al., 2013).

The element of control environment includes communication, enforcement of integrity, and ethical values. Furthermore, Amudo and Inanga (2009) revealed that control environment is the control consciousness and attitude toward internal control build and maintained by the management and the employees of an organisation. It may be viewed as the foundation for other components of internal control providing discipline and structure. According to Gamage et al. 2014) and Norton Rose Fulbright (2016) seven factors are identified that affect control environment: integrity and ethical values, human resource policies and practices, assignment of authority and responsibility, commitment to competence, organisational structure, and management's philosophy and operating style, and board of directors or audit committee. The following are control environment principles which an organisation should consider: (i) the organisation should demonstrate commitment to ethical values and integrity.

Okwach (2000) disclosed that under such an environment, the organizational members utilize the available resources efficiently and effectively, hence achieving the expected organizational performance. On the other hand, Okwach (2000) views control environment as an enabler of execution of tasks by organization members as set by the board members and departmental managers through attitudes and actions that encourage the highest level of integrity, appropriate leadership philosophy, operating style and personal and professional standards, thereby leading to reasonable compliance and operational efficiency levels.

Ishumgisa (2011) also noted that control environment makes organizational members aware of the job requirements and efficiency expected of them to carry out tasks that translate in the overall organizational performance. Spillane and Reimer (2000) subscribed to the view that control environment exists when the responsibility to execute assigned task is not directed by anyone but rather consciously dictated upon organizational members, and also when members find themselves obeying, observing and responding to the desired organizational culture, operations and activities as efficiently and effectively

An effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following an organization's policies and procedures and its ethical and behavioural standards. The control environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control (Sampson, 2015).

#### 2.2.3.4 Information and Communication

Another component of the internal control system is to be able to obtain information both horizontally and vertically and ensure communication among employees. These are only possible if the management information system and its information subsystems are arranged in a disciplined and responsive manner (Hayali et al., 2013).

Information and communication system is the component of internal control which ensures that the organisation obtains pertinent information and communicates it to interested users. It involves communicating within the organization and with external parties. The information and communication system produces reports, containing operational, financial and compliance related information, that makes it possible to run and control the business (Wakiriba, Ngahu, 2014). The financial aspect of the information system includes procedures for initiating, recording, processing and reporting on the entity’s financial operations or transactions. The effectiveness of an entity’s information and communication system can be measured on the basis of timeliness, use of internet or computer-based devices in processing transactions and transfer of information, ease of dissemination of information as well as proper storage and retrieval of processed information (Eke Gift, 2018).

Internal control activity ensures that the authorization procedure should be documented and clearly communicated to employees so as to reduce the risks of error, waste, or wrongful acts. It requires that no single person or office should carry out a transaction from the beginning to the end and that employees' schedule not to be fixed but rather that duties and responsibilities are assigned to separate individuals and office and also schedules be rotated **(**INTOSAI, 2001; Ntongo, 2012; Minja, 2013; Aristanti, 2015). This is to ensure that employees' work provides checks on others and effective checks and balances to exist so that corrective action is taken to address weaknesses identified. It restricts access to resources and records of the organization to only authorized individuals who can account for the custody and/or use of the resources, transaction be verified before and after processing and also it ensures that actual accomplishment should meet the established standard or objectives **(**Labaran, 2008; Hannah, 2013 and Wagoki, 2014; Yee, 2015).

Muhammad (2018) said the information and communication is essential to the orderly operation of financial management because it is essential to the making and directing of decisions. Information may be a representation of or collateral to the transfer of value. Organisations need information at all levels to assist the management in meeting its objectives (Ndamenenu, 2011). This information should be communicated from top to bottom level that needs it within a specific time that helps them to carry out their objectives. Communication is also used by outside parties such as customers, suppliers, and regulators. Control environment, control activities, risks, information about an organisation's plans, and performance must be communicated down, up, across an organisation. Reliable and relevant information from both external and internal sources must be processed, captured, identified and communicated to the people who need it in a form and timeframe that are useful.

Information and communication can reduce the risk of fraud in two ways. First, the possibility of fraudulent concealment is reduced using the accuracy of information and integrity, thus that a person who commits a fraud cannot have the opportunity of hiding it for a long time. Secondly, an active and open communication adopted in an organisation helps to detect and prevent the possibility of fraud in advance (Hayali et al., 2013). The following are information and communication principles organisation should consider:

i. The organisation obtains or generates and uses relevant, quality information to support the functioning of other components of internal control. Attributes: identify information requirements; capture internal and external courses of data; process relevant data into information; maintain quality throughout processing; consider costs and benefits (Janvrin et al., 2012; Norton Rose Fulbright, 2016).

ii. The organisation internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of internal control. Attributes: communicate internal control information with personnel; communicate with the board of directors; provide separate communication lines; select the relevant method of communication (Janvrin et al., 2012; Norton Rose Fulbright, 2016).

iii. The organisation communicates with external parties regarding matters affecting the functioning of other components of internal control. Attributes: communicate to external parties; enable inbound communications; provide separate communication lines; communicate with the board of directors; select the relevant method of communication (Janvrin et al., 2012; Norton Rose Fulbright, 2016).

**2.3 Financial Accountability**

Financial accountability, therefore, is concerned with tracking and reporting on allocation, disbursement and utilization of financial resources, using the tools of auditing, budgeting and accounting (Brinkerhoff, 2001).

The concept of accountability refers to the manner in which resources are used in relation to objectives (Mohammed, 2015). Accountability draws its origin from financial accounting which is focused on checking the way the books are kept and how the money is spent (Rabrenovic, 2007). It is the obligation for public officials to report on the usage of public resources and to achieve performance standards as it relates specifically to the public sector. However, Khan (2010) construed it as the obligation to render an account for responsibility conferred. Apaza (2011) opined that an individual who is assigned a task needs to be constrained over the power exercised.

One indicator of financial accountability is the existence of budgeting and accounting systems that promote performance that captures economic transactions accurately in a timely way. Budgets can be regarded as one form of expressing organizational priorities in financial terms, explaining the planning and management of the anticipated revenue and expenditure

(Government of Quebec, 2018). In public organizations, financial accountability provides appropriate management of public funds, ascertaining whether there is sufficient transparency to determine how funds were spent or managed (Financial Management Sector Board, 2003). Financial accountability is about assuring stakeholders regarding the use of public resources as well as to underpin decision-making about how to allocate scarce resources like time, personnel, space, equipment and money. Owing to the fact that public organizations derive their revenues from internal sources and external sources, particularly government grants and quarterly allocations from central government, there is a responsibility of public organizations to ensure accountability in the disbursement of this revenue in providing services to the public (Aramide & Bashir, 2015).

Preparation of financial statements is a stewardship role in the accountability for application of resources entrusted to accounting officers to report to all the stakeholders and failure to present financial statements properly impairs interpretation and analysis of entity performances, which is attributed to lack of training, low levels of practical experience by clerks and non-adherence to the guidance provided in accounting standards (Office of the Auditor General, 2011). In Uganda's domain, financial accountability has two dimensions: public audit, which involves the scrutiny of expenditures by the Auditor General and parliamentary accountability, which involves elected representatives holding government to account for its actions and intentions. Within parliamentary accountability, funds are granted to government in form of a financial bill and ensuring that those funds have been used efficiently and effectively in the intended fashion. Even in the midst of such accountability dimensions, financial accountability is lacking in effectiveness due to inappropriate and unaccommodating cultural, political and constitutional environment (Hedger & Blick, 2008).

Accountability is generally defined as accepting and meeting one's personal responsibilities, being and feeling obligated to another individual as well as oneself, and having to justify one's actions to others (London, 2003). Accountability has frequently been presented as rational practice to ensure responsibility by individuals and institutions, which should be implemented in all civil societies, economic institutions and organizations (Velayutham and Perera, 2004). The traditional tools of accountability are often considered by non-profit organizations as unnecessary formal tasks and excessive bureaucracy, which can have important consequences both organizationally and managerially (Berardi and Rea, 2010). According to Rutkowski and Steelman (2005), accountability focuses on the extent to which feedback recipients perceive they are responsible for utilizing feedback information for development.

An effective system of accountability of the Executive to Parliament, backed up by rigorous processes of audit, reporting and scrutiny, is fundamental to the proper operation of a Parliamentary democracy. The Government therefore welcomes the emphasis which Lord Sharman's report (2012) places on accountability and agrees with the view ("Holding to Account", paragraph 3.26) that "there is no doubt that there are greater expectations (in Parliament, Government and amongst the public) of openness and transparency when dealing with public, rather than private, funds and assets."

This type of accountability refers to the ability to account for allocation, use and control of public monies and public assets and properties from beginning to the end. This should be in accordance with legally mandated and or professionally accepted rules, principles and practice for each phase of monitoring process through the final audit (Glynn, 1996).

In another study, Etengu and Amony (2016) examined the role of internal control system on the financial performance of non-governmental organisations in Uganda. The purpose of the study was to establish the effect of control environment, control activities and monitoring on the financial performance of non-governmental organisations in Uganda using International Union for Conservation of Nature as case study. The survey design was adopted for the study and data were obtained using structured questionnaire and interview; hence, the study was a primary data study. The findings of the study revealed a significant relationship between each of the measures of internal control (control environment, control activities and monitoring) and financial performance. The study recommended that control environment, control activities, and monitoring should be enhanced in order to further improve the financial performance of International Union for Conservation of Nature.

(Nyakundi, Nyamita and Tinega (2014) carried out an investigation on the effect of internal control system on financial performance of small and medium-scale business enterprises in kisumu city, Kenya. The major purpose of the study was to assess the relationship between internal control system and return on investment. The study which was a primary data study adopted the cross-sectional survey research design and was conducted on one hundred and seventeen (117) small and medium-scale business enterprises in Kisumu city, Kenya. Stratified and simple random sampling techniques were used while data were collected using structured questionnaire and interviews. Building on robust financial accountability system is an essential step in making an effective public institution that is able to deliver basic public services to the citizens. Upgrading internal financial reporting systems, publishing significant budget information in a regular timely manner to the public, promoting public participation in the budget process and strengthening the auditor general to carry out its functions are key in promoting financial accountability (Abdirisaq & Ali, 2014).

Makgatho (2013) indicates that internal control systems did not implement Financial accountability. It only gave a detailed outline on the purpose and functions of directorates and chief directorates that are responsible for the internal controls, as reflected on the 2013 organogram.

### 2.3.1 Reporting

According to Gale, (2003), financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. It is an undeniable fact that local government financial reporting is very important and contributes significantly to the success of financial accountability. The foremost objective of financial reporting is to facilitate public expenditure control by demonstrating accountability for compliance with approved budget (Hughes, 2013). Financial reporting assures the operational transparency which is mostly demanded by the taxpayers and other stakeholders to build confidence on the proper use of the collected public finances. According to Adeolu and David (2012), the successful operation of financial accountability requires good financial reporting, strong management system and effective organizational arrangements. The improvement of financial accountability also demands strong institutional arrangement to enable apparent working environment in local government dealings. Thus, all internal stakeholders of local governments have strong contributions to the success of financial accountability. In a similar vein, Mande (2015) expounds on the relevance of strong mechanism of financial reporting in enhancing financial accountability as a key instrument of controlling misappropriations of public funds. Also, comprehensive financial reporting is enforced by demanding accountability on what local governments have done with public finances (Schaeffer and Yilmaz, 2008). Financial accountability helps to control misuse of public resources by focusing on those entrusted with public funds in order to facilitate smooth provision of public social services.

The published financial statements are the hub of public accountability because they draw attention for stakeholders to discuss the public expenditure (Ayobami, 2014). Good financial reporting helps local governments to control efficiency and economic use of public resources towards provision of public services. Also, the idea of improving the political system and public administration should be paramount in government operations. Hladchenko (2016) argues that government financial accountability and transparency contributes significantly on the performance of political system and quality of public administration. The main focus of financial accountability is not only to control public resources but also to stabilize good governance at the local government and public sector in general. Good governance ensures smooth operation and stabilization of social economic structures at the local governments. Therefore, the efforts of improving financial accountability should also correspond with the enhancement of good governance at local government authorities.

FASB on its Statement of Financial Accounting Concepts (2008) have stated the objectives of financial reporting. The objectives of financial reporting underlie judgments about the qualities of financial information, for only when those objectives have been established can a start be made on defining the characteristics of the information needed to attain them. In Concepts Statement 1, the Board set out the objectives of financial reporting for business enterprises that will guide it. The information covered by that Statement was not limited to the contents of financial statements. "Financial reporting," the Statement said, "includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system—that is, information about an enterprise's resources, obligations, earnings, etc."

### 2.3.2 Budgeting

The Local Government Act 2007 defines budget as an annual plan of a local government's income from councils' revenue, government grants and all other revenue sources and how such total revenue will be spent in accordance with objectives, needs and priorities and this has been in accordance with the Local Government Act, Section 77(1) which states that no appropriation of funds by a local government can be made unless approved in a budget by its council (the Local Government Act, Section 82, sub section 1). Thus, the local government budget including explanation notes constitutes the decisive financial management tool as it forms the legal and operational basis for the implementation of the policies set by council. (Thingan, 1998: pp. 935 and 936).

Budget played the roles of correlation, comparisons and coordination of financial departments and it acts as an effective tool for financial management. It was through the budget that legislature exercises an effective control over the executive since the absence of budget, every ministry and department collect and spend money in an arbitrary manner. The presence of budget enforces effective financial control and management in an organization. The budget not only from the government but also was a statement of economic policies for the coming year". Budget was the most important fiscal document relating to the socio-economic problems and programmes which outlines the purposes, measures of the government for their solution and implementation or execution. It reflects the entire economic and fiscal programmes and policies of the government for the coming year.

The reconstruction work on the forms of Participatory Budgeting (Allegretti & Sintomer, 2009) must be taken as an initial point of reference; more generally on the logic of shared administration in which the citizen is the protagonist.

Furthermore, it is appropriate to clarify which the main aspects are that characterize the traditional participation to better understand in which different declinations this real concept can extend. Participatory democracy, with the strength that the adjective assumes from being used as a qualifier of the concept of democracy, differs from the generic concept of participation within which it was born. Participation, as a notion deriving from politics and as an ancient need for fullness of implementation, required by the idea and by democratic practice, is normally conceived within the institutions, which will be elective on the one hand and on the other hand purely of the administrative organization. This second meaning must not be forgotten, as an equally essential element of the former, in the way of being of the modern-contemporary state (Rosanvallon & Goldhammer; 2008). This can be seen as the quality, that is, present or desirable of both the components of democracy that we call representative. There are numerous ways that enrich the way of being representative institutions, think of a rich participation in the elections, the action in the functioning of the institutions made in parties, the unions, concentration procedures with associations and categories, the presence of associative or even corporate representatives in numerous administrative bodies and finally the participation of those involved in the administrative procedure, which thanks to a social element (Allegretti, 2010) are able to value those institutions that are representative in nature, sometimes linked by excessive bureaucracy.

Being part of the control environment relating to efficient, effective and economic utilization of resources, budgets are also an indistinguishable part of the broader planning and policy environment (Berner & Smith, 2004). Similarly, Miskesell (2007) expresses that a budget's importance in a democratic setting should be aligned to both the legislative and executive management environments and emphasizes publicity, amongst others, as a core principle of any budget ( Neblo,Estering,Kennedy,Lazer and Sokhey, 2010).

For good financial management, each organization needs to prepare accurate budgets, in order to know the amount of money needed to execute the planned tasks. However, Mostashari, (2005) explains that a budget is only useful if it is worked out by carefully forecasting the amount of money expected to be spent on the planned activities. Therefore, the first step in preparing a good budget is to identify exactly what the organization hopes to do and how it will do it. Management accounting information can facilitate the preparation of meaningful budgets, which in turn provide useful measures for monitoring financial performance (Abt Associates, 2003).

### 2.3.3 Adherence to fiscal procedures

Fiscal accountability: This means that the government should account, through its elected representatives, for its intentions, objectives and strategies, the cost of its strategies and actual results (Abedian et al., 2008).

Fiscal Transparency: This is a policy of providing information to the public about the functions and organisation of the government, its economic and fiscal goals and objectives, its financial forecast and public sector accounts (Allen &Tommasi, 2001).

Non-profit organizations should adopt written financial procedures to monitor major expenses such as payroll, investments, contracts, and consultants (Minnesota Council of Non-profits, 2010). The board should be responsible for developing and authorizing these procedures, with the board treasurer ensuring that they are regularly reviewed (McNamara, 2012). Assessment of risk and development of systems to ensure separation of financial duties to serve as checks and balances to prevent theft and fraud also need to be considered at this point (Minnesota Council of Non-profits, 2010).

The transparency laws provide that information on financial dealings of government should be managed and published in time and to be accurate, complete, up to date, reliable and made available in sufficient time to permit analysis, evaluation by relevant stakeholders (Transparency and Accountability Initiative, 2016). Transparency and accountability are mutually reinforcing, because both enable citizens to have a say about issues that matter to them and a choice to influence decision-–making and hold those making decisions to account (Folscher, krafchik and Idada, 2010). Each of the concepts is part of a strategy used for and by citizens to have the means, resources and opportunities to influence decision-making and affect development outcome (Shende and Bennett, 2004; Transparency and Accountability Initiative, 2016).

Systems must be established whereby all financial information is recorded accurately and presented clearly, and can be easily disclosed to those who have a right to request it (Lewis, 2003). If this is not achieved, it can give the impression that there is something to hide. According to Singh (2009), the institution must be open about its work, making information about its activities and plans available to relevant stakeholders. Otherwise, if an organization is not transparent, then it may give the impression of having something to hide.

### 2.3.4 Professional competences

The Internal Auditor must have professional competence to conduct his/her duty and responsibility (Pickett, 2010; McIntosh, 1999; Government Auditing Standards/ GAS, 2007; Yazid and Suryanto, 2016; Setyawati et al., 2017). Furthermore, Cheng, et al. (2002) stated that the auditor’s competence consists of two factors, which are knowledge and behaviour. It is strengthened by Institute of Internal Auditors (IIA) in 2010, stating that there are 3 dimensions for auditor’s competence, which are knowledge, behavioural skill and technical skill/ ability. Behn et al. (1997)

Competence is related to adequate education and experience owned by public accountant in the field of auditing and accounting. Furthermore, Libby and Frederick (1990) stated that auditor competence obtained from experience and knowledge plays an important role in increasing audit quality. It is in line with Pickett and Spencer (2010), stating that competence is related to adequate education and experience owned by public accountant in the field of auditing and accounting.

Bonner (1990) obtained a study result showing that knowledge on specific duty that can increase the performance of an experienced auditor, even though only in the determination of analytical risk. In the Regulation of Head of BPKP No.PER-211/K/JF/2010 about functional competence of the auditor states that in order to conduct duty and responsibility of auditor professionally, auditor competence qualification is needed to conduct supervisory duty in accordance with his/her level of position.

**2.3.5 Monitoring**

The Institute of Internal Auditors (2015) considers monitoring to encompass activities such as periodic evaluations, internal audits and management self-assessments. COSO (1998), Dublin (1990), Magala (2001) and Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organization's policies (Spillane, & Reimer, 2000).

Walker, Shenkir and Buton 2003) said that monitoring processes are used to assess the quality of internal control performance over time. Monitoring is the assessment of internal control performance over time. It is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits and properly executed if all the five control components (control environment, control activities, risk assessment, information and communication and monitoring) are present and functioning as designed.

Olken (2007) highlights the limits of increasing monitoring to reduce corruption, noting that, in practice, the very individuals tasked with monitoring and enforcing punishments may themselves be corruptible. He also notes that monitoring public projects is a public good, which can lead to free-rider problems. That is, individuals lack the incentive to engage actively in monitoring themselves, knowing they can just ‘free ride’ on the monitoring efforts of others. However, such a scenario can lead to the under-provision of monitoring. Grassroots monitoring may also be prone to capture by local elites

Academics have also voiced concern about the *efficiency* of enhanced participation and monitoring. For instance, Kaufman (cited in Ackerman, 2004: 458) argues, ‘although some forms of inclusion, such as partnerships with NGOs, may enhance capacity, others, such as popular assemblies, may be a step backward in terms of the efficiency, effectiveness and even the accountability of state organizations’.

### 2.4 Empirical Review

Ademola and Alade (2015) examined the effect of internal control system in Nigeria public sector using the Nigeria National Petroleum Corporation as a case study. The questionnaire elicited measures on segregation of duties, internal verification, physical control and due process variables using 150 respondents drawn from finance, administration, marketing and purchasing departments of the corporation. The study reveals that the establishment of internal control plays a vital role in prevention of fraud and irregularities.

Adewale (2014) examined internal control system: A managerial tool for proper accountability in the Nigerian customs service. The study recognizes two main groups of players in the Nigeria Customs Service namely, administration and enforcement from which 100 officers responded to a validated questionnaire was used. Also, effective utilization of information technology plays important role in the collection of custom duties. The study also ascertains that effective internal control system ensures high revenue generation. These findings provide vivid evidence for recommendations such as adequate motivation of officers to avoid financial fraud; information technology gadgets should be provided for all commands and competent team, of experts to work out the logic of standard internal control should be put in place.

Munene (2013) investigated the effects of internal controls on financial performance in Kenya. Internal controls were looked at from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as its measures. The research was conducted using survey, correlation and case study as research designs. Data was collected using questionnaires as well as review of available documents and records from a population of 37 government training institutions in Kenya. Data was analysed using the Statistical Package for Social Sciences. The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the government training institutions in Kenya. It was further revealed that there is a clear separation of roles, weaknesses in the system are addressed. The investigation recommends competence profiling in the internal audit department and that the institution establishes and manages knowledge/information management system to enable all parties within the institution to freely access and utilize the official information.

Aramide and Bashir (2015) examine the effectiveness of internal control system and financial accountability at local government level in Nigeria. Data were gathered through the distribution of one hundred and fifty (150) copies of questionnaire, and the responses were analyzed and were tested using chi-square statistics. Findings from this study show that the internal control system is positively significant for the good financial accountability in the local government area council in Nigeria. The study recommends that local government authority should increase efforts to ensure that proper and highly effective internal controls system is put in place within local government to enhance their financial accountability.

In another study, Morelo (2011) examined the importance of internal control in the Brazilian public administration. Using a content analytical method, the study reveals that there is existence of records of bribe payments from suppliers to an employee of the organization; existence of an off-the-books payroll scheme; service providers hired without the proper selection procedures or execution of a formal contract, and staffed with significant numbers of family members of institution personnel; overbilling and overcharging of civil construction projects; uncompleted projects and continued illicit payments to third parties for advantages not authorized in the legislation governing the execution of contracts.

## CHAPTER THREE

## METHODOLOGY

### 3.0 Introduction

This chapter presents the methodology that was used to collect data from the field. It also outlines the population that was studied, the survey sample size that was chosen, sample selection techniques, data collection procedures and data processing.

### 3.1 Research design

The researcher used descriptive cross-sectional survey design because it allows researchers to compare many different variables at the same time. Descriptive surveys were used to discover causal relationships (descriptive correlation) to provide precise quantitative description and to observe behaviour (Amin, 2005), and both qualitative and quantitative research Approaches were considered in order to get an in-depth understanding of the phenomenon under investigation and to confirm completeness of instruments (Amin, 2005). According to Mbabazi (2008), a design is a plan, a means, or an approach of obtaining data for a specific study and it explains in details how the study is to be organized and completed.

### 3.2 Study Population

The study population consisted of 200 employees. The target population was 130 employees but only a sample size of 90 respondents of employees was considered. The study considered only employees of National Water and Sewerage Corporation. Both men and women were considered in the study.

### 3.3 Sample Size

The sample size was determined using the Slovene's formula (Amin, 2010)

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

Where n = the sample size, N= target Population, e= level of significance which is 0.05(5%). this ensures a 95% confidence interval in the findings of the study. Therefore, from that formula a sample portion/ sample size was determined as shown in the Table below.

**Table 1: sample size**

| Categories | Population | Sample size | Sampling techniques |
|---|---|---|---|
| Administrative officers | 50 | 38 | Purposive Sampling |
| Accounting department | 10 | 06 | Purposive Sampling |
| Finance department | 10 | 09 | Purposive Sampling |
| Procurement officers | 04 | 04 | Census |
| Auditors | 03 | 03 | Purposive Sampling |
| Commercial | 53 | 30 | Purposive Sampling |
| TOTAL | **130** | **90** | |

Source: Primary data, 2020

**Sample size determination**

The sample size of respondents was 90 as calculated using Neuman 2(000) formula as follows

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

$$\mathbf{n} = \frac{130}{1+130(0.05)^2} = \frac{130}{1+130(0.0025)} = \frac{130}{1+0.325} = \frac{130}{1.325} = \mathbf{90.}$$

**3.4 Sampling technique**

The researcher used probability and non-probability techniques. Sekaran (2003) suggests that when using probability sampling, the elements in the population have equal chances of being selected as samples for the study. Purposive sampling was used to select the respondents who had specialized knowledge concerning the internal control systems and Financial Accountability in Government Enterprises especially employees of National Water and Sewerage Corporation.

**3.5 Data Collection Methods**

Data collection methods included data sources like primary which is collection of data directly from the field and secondary sources which is the collection of data from already published in journals, textbooks and organization’s end-of-year abstracts. The data collection tools included questionnaires, interviews and documentary review.

### 3.5.1 Questionnaires

A questionnaire is the research instrument consisting of a series of questions for the purpose of gathering information from respondents. The questionnaires were made up of closed ended questions. The questionnaire was the main research instrument because it is more appropriate for collecting data for a social survey research (Kaplan, 1995) and where the target population is literate and capable of filling the questionnaire (Moser, 1979). The questionnaire was designed with reference to variables of the study consisting of both structured and open ended questions. The structured questionnaire type enabled simple data analysis through tabulation with regard to frequencies and percentages. Structured questionnaire included use of Likert rating scale method as they were easy to complete and did not put off respondents. They also helped the researcher to compare responses given to different items and hence minimize subjectivity and make possible to use quantitative analysis (Mugenda and Mugenda, 2003). The unstructured questionnaire type provided chance for free expression and brought out areas uncovered for better elaboration. The questionnaires enabled the researcher to get more information on the Internal Control System and Financial Accountability in Government Business Enterprises.The researcher used self-administered questionnaires that was given to 130 respondents and collected after a week, and only 90 returned questionnaires for analysis.

### 3.5.2 Interview guide

A researcher used an interview guide while collecting the relevant information for research. There was face-to-face interaction with the respondents in the Ntungamo Area and the research was guided by the present questions depending on the purpose, objectives and research questions of the study. It was a face-to-face encounter with the respondents. The notion of saturation guided the selection of the total number of key informants who were interviewed (Tirivanhu, et al., 2015; Mason, 2010). The stage of saturation was only attained when no more new knowledge was generated from the interviews (Tirivanhu et al., 2015).

### 3.5.3 Documentary review

According to Kane (2013), documentary review is a process whereby each part analyses the documents and data they possess to determine which sensitive or otherwise relevant to the case. This method was applied to gather secondary data. It was guided by a documentary checklist. Sources of secondary data were included in public and private libraries and documents from NWSC containing information relevant for the study. Data from the literature was also used to obtain useful information necessary for the study. Documentary review enabled the researcher to gather information which might be difficult to obtain using questionnaire, interview or any other method. This method was considered because it allowed the collection of data over a long period of time compared to questionnaires and interviews. It was also relatively low-cost mainly when documents were easily accessed.

### 3.6 Reliability and Validity of the Instruments

To establish validity, the designed instruments were availed to supervisors for review and they gave an approval for administration in a survey in NWSC.Validity is the degree to which a test measures what is supposed to measure, it is the accuracy and meaningfulness of inferences, which are based on research results (Orodho, 2009). Content validity was determined by making logical links between questions and the conceptual framework. The researcher made sure that the items in the instruments were well balanced so as to capture all that the study intended, that is it should have similar and equal representation of the questions.

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials, thus giving it accuracy or precision (Sekaran, 2003). The study was carried out in the NWSC Ntungamo Area. The study ensured suitability and clarity of questions on the instruments designed, relevance of the information being sought and the language from responses given. The computations for reliability can be shown in the Table below.

**Table 1: Reliability statistics.**

| Variable list | Cronbach's Alpha | Number of items |
|---|---|---|
| Internal control systems | 0.7971 | 25 |
| Financial Accountability | 0.7667 | 25 |
| Intervening Variable | 0.8514 | 10 |
| **overall** | **0.805** | **60** |

Source: Field data, 2020

The reliability of the instruments used in the study was established. Cronbach's alpha coefficient was used to establish the reliability. Accordingly, the overall reliability was identified with

[$\alpha$ =0.805 about 80.5%, which is above the recommended 70%.This suggests that the instruments used in this study were internally stable and thus could be relied on for generalization of findings. In particular, highest level of reliability was evident among items on intervening variables, internal control systems and financial accountability.

### 3.7 Data entry and data coding

The exercise involved editing, coding and tabulating the collected information. Data from Employees of the NWSC Ntungamo area was entered in the Epi-data for a data screen, the data that was entered in the data screen was exported to analysing tool STATA for data analysis.

### 3.8 Data processing

This involved processing of data into a more useful, clear and understandable pattern. The exercise involved the use of statistical methods, which yielded proof according to the analysis. It involved the use of Epi-data software for data input and Statistical Package for Social Scientists (SPSS) and STATA software were used for data processing and analysis. The following data analysis methods were used: Descriptive analysis, frequencies and tables to help categories the responses in the form of percentages and ranks for cross tabulation of various variables of interest and testing using the multiple regression due to the categorical nature of variables.

The multiple regression model was used to determine the relationship between the dependent variable (Financial Accountability) and independent variables (Internal Control Systems)

$$Y_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + \beta_4 x_{4i} + \varepsilon_i$$

$Y_i$The dependent variable (Financial Accountability)

$X_1, X_2, X_3, X_4 \dots \dots \dots . X_k$ Were the independent variables (internal Control Systems)

$X_1$-Risk Assessment

$X_2$-Control Activities

$X_3$-Control Environment

$X_4$-information and Communication.

$\beta_0$ Was the intercept term which gives the mean or average effect on dependent variable Y.

$\beta_1$Measures the change in the mean value of Y per unit change in $X_1$.

$\beta_2$Measures the change in the mean value of Y per Unit change in $X_2$.

$\beta_3$Measures the change in the mean Value of Y per unit change in $X_3$.

$\beta_4$Measures the change in the mean value of Y per unit change in $X_4$.

## CHAPTER FOUR

## PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

### 4.1 Introduction

This chapter contains the presentation, analysis, and interpretation of results in line with the study objectives. The chapter presents the descriptive statistics of the items under study and statistics comprising correlation and regression results for the variables under study. Statistical tools such as tables showing frequencies and percentages were used to summarize findings from the survey. The presentation was guided by the research objectives and statistics were generated with the aim of generating responses for the research questions.

### 4.2 Response rate

The study targeted a sample size of 130 sampling units though 90 was realized. This translated into a response rate of 70% as shown below.

$$\text{Response rate} = \frac{\textit{sample size realized}}{\textit{sample size targeted}} * 100 = \frac{90}{130} * 100 = 69.782\% \cong 70\%$$

The response rate was greater or equal to 70% which suggests that the response realized was adequate for generalizability of the results.

### 4.3 Descriptive statistics

This section presents findings in relation to characteristics of the respondents and the organization. Frequencies and percentages were used to reflect the findings.

#### 4.3.1 Respondent Characteristics

The characteristics of the respondents considered included: gender, age group, level of education, and the length of service in the organization. The analysis was as shown in Table 2 below

**Table 2: Characteristics of respondents**

| **Characteristics of respondents** | Frequencies | Percentage (%) |
|---|---|---|

| | | |
|---|---|---|
| **No of respondents of which** | | |
| **Gender** | | |
| Male | 58 | 64.44 |
| Female | 32 | 35.56 |
| Total | 90 | 100 |
| **Age** | | |
| 20-30 | 41 | 45.56 |
| 31-40 | 35 | 38.89 |
| 41-50 | 13 | 14.44 |
| 51-60 | 1 | 1.11 |
| 0ver 60 | 0 | 0.00 |
| Total | 90 | 100 |
| **Marital status** | | |
| Single | 43 | 47.78 |
| Married | 46 | 51.11 |
| Divorced | 1 | 1.11 |
| Widowed | 0 | 0.00 |
| **Education** | | |
| Primary | 0 | 0.00 |
| Secondary | 0 | 0.00 |
| Tertiary | 30 | 33.33 |
| University | 60 | 66.67 |
| Total | 90 | 100 |
| **Length of Service in NWSC** | | |
| Less than 1 year | 12 | 13.33 |
| More than 1 year | 55 | 61.11 |
| More than 5years | 21 | 23.33 |
| I have just started | 2 | 2.22 |
| Total | 90 | 100 |

Source: Primary data, 2020

According to Table 2, the Gender characteristics shows that male respondents were the majority, constituting 64.44% in the sample as compared to their female counterparts who were 35.56 % of the entire sample.

Age Group – characteristics; the results in Table 2 above revealed that most of the respondents were in the age-group of 20-30 years, comprising 45.56 % and were followed by those in the age-group of 31-40 years representing 38.89% of the sample. The minority were in the age-group of 51-60 years constituting 1.11% of the sample.

Education level – characteristics: Table 2 above indicate that 66.67% of the respondents had attained university education, 33.33% had attained tertiary education. The implication is that the respondents were well knowledgeable of the subject matter and as such made informed decisions.

Length of service in Organization – characteristics: Table 2 above shows that the majority of the respondents had served the organization for more than one year comprising 61.11% of the sample and were followed by those who had served more than 5 years constituting 23.33% while those who had served less than one year and those who had just started constituted the minority of 13.33% and 2.22% respectively of the sample.

**4.4 To examine whether internal control systems are followed in NWSC**

According to the data collected from the respondents, the researcher found out that 42.05% of the respondents agreed that the internal control system exist in NWSC and 36.56% strongly agreed, while 12.72% of the respondents were not sure about the internal control systems in the organization and 7.43% disagreed and 2.48% strongly disagreed that there are no internal control systems in place to enhance financial accountability in the organization. This implies that the internal control system exists in NWSC and this could lead to financial Accountability in the National water and sewerage corporation as a government business enterprise. This is in line with Gendion, Cooper &Townley (2000),Kakuru (2001) and Odongkara (2016) who argued that internal control systems enhance proper financial accountability.

**Table 3***:Showing the result of internal control systems in the NWSC*

| Components of internal control | Mean | SD | (%) response and (frequencies) |
|---|---|---|---|

| **systems** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | SA | A | N | D | Sd |
| There are mechanisms in place to identify and react to changes that can have dramatic effects on the NWSC | 1.589 | 0.652 | 48.89 (44) | 44.44 (40) | 5.56 (5) | 1.11 (1) | 0.00 (0) |
| Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods. | 1.856 | 1.055 | 36.67 (33) | 51.11 (46) | 7.78 (7) | 3.33 (3) | 0.00 (0) |
| Risks are assessed in relation to changes in the operational environment | 2.089 | 1.355 | 32.22 (29) | 46.67 (42) | 13.33 (12) | 4.44 (4) | 1.11 (1) |
| Changes of new staff is clearly examined for the risks it may cause | 2.033 | 1.361 | 36.67 (33) | 43.33 (39) | 11.11 (10) | 6.67 (6) | 0.00 (0) |
| Internal audit has appropriate controls for service delivery | 2.511 | 2.255 | 40.00 (36) | 32.22 (29) | 11.11 (10) | 5.56 (5) | 2.22 (2) |
| Staff are given up to date internal control manuals for reference purposes | 1.911 | 0.919 | 35.56 (32) | 46.67 (42) | 11.11 (10) | 4.44 (4) | 2.22 (2) |
| Staff are aware of the penalties for breaking internal control procedures | 1.733 | 1.216 | 55.56 (50) | 30.00 (27) | 8.89 (8) | 1.11 (1) | 3.33 (3) |
| Accounts are reconciled on monthly basis to detect errors and fraud | 1.967 | 1.175 | 37.78 (37) | 42.22 (42) | 12.22 (12) | 5.56 (5) | 1.11 (1) |
| The internal auditor works independently | 2.400 | 1.535 | 31.11 (31) | 33.33 (33) | 15.56 (15) | 13.33 (13) | 4.44 (4) |
| There is internal check which operates continuously as part of the system | 1.989 | 0.966 | 34.44 (34) | 42.22 (42) | 15.56 (15) | 5.56 (5) | 2.22 (2) |
| Staff have good working relationship between themselves | 1.756 | 0.891 | 47.78 (42) | 34.44 (30) | 13.33 (13) | 3.33 (3) | 1.11 (1) |
| Staff is committed to their jobs | 1.878 | 1.235 | 35.56 (30) | 54.44 (53) | 7.78 (7) | 0.00 (0) | 0.00 (0) |
| The hiring process for contract staff is transparent | 2.711 | 1.684 | 16.67 (15) | 37.78 (34) | 30.00 (27) | 6.67 (6) | 4.44 (4) |
| There is a mechanism to monitor regular attendance of staff | 1.978 | 0.994 | 34.44 (31) | 45.56 (41) | 11.11 (10) | 5.56 (5) | 3.33 (3) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Activities are performed in an atmosphere of creativity and innovation. | 1.944 | 1.369 | 41.11 (37) | 42.22 (38) | 11.11 (10) | 1.11 (1) | 2.22 (2) |
| Information flows freely without any interference | 2.044 | 1.315 | 42.22 (38) | 32.22 (29) | 13.33 (12) | 7.78 (7) | 3.33 (3) |
| Staff have information on internal controls and accountability | 2.133 | 0.974 | 26.67 (24) | 45.56 (41) | 17.78 (16) | 7.78 (7) | 2.22 (2) |
| All channels of communication are utilized by staff | 2.189 | 1.059 | 28.89 (26) | 38.89 (35) | 20.00 (18) | 8.89 (8) | 3.33 (3) |
| There is good communication between departments | 1.889 | 1.185 | 41.11 (37) | 44.44 (40) | 6.67 (6) | 4.44 (4) | 2.22 (2) |
| Staff have access to information | 2.022 | 0.936 | 27.78 (25) | 53.33 (48) | 11.11 (11) | 4.44 (4) | 3.33 (3) |
| Total Average | **2.0311** | **1.2066** | **36.556** | **42.053** | **12.721** | **7.427** | **2.4811** |

Source: **Primary data from the field.**

From the Table 3 above respondents strongly agreed that the staff are aware of the penalties for breaking internal control procures in the organization with the 55.56% from all the components of the internal control systems in NWSC and the minority of 16.67% respondents strongly agreed that the hiring process for contract of supplying pipes to the organization was transparent. The respondents also agreed that staff were committed to the job with 54.44% so the working environment favoured the internal control systems in the organization which enhanced financial accountability. This is in line with Ntongo (2012) who argued that control environment enhances good working environment conditions for the staff to improve and follow internal control systems procedures.

The findings also indicated that 30% of the respondents were not sure whether hiring of the contractors was transparent which can hinder the procurement process and hence can contribute to poor financial accountability and 4.44% of the respondents disagreed that staff are not given update internal control manuals for reference purposes.

With respect to risk assessment, this variable was rated good and this was indicated by the average mean of 2.015, hence implying that risks are always assessed well in order to minimize fraud. Risks relevant to the organization financial accountability have been managed (mean=1.856), the potential for the mechanisms in place have been identified due to fraud is explicitly considered in assessing risk (mean=1.589), the organization identifies and analyzes risks for determining how the risks should be managed (mean=2.089), one item was rated disagreed which implied that but there has been no actions taken to address risk to the achievement of financial accountability and internal controls objectives (mean=2.511). This was also indicated in line with Mohamed Mus (2018).

The overall mean (2.0311) indicated that respondents generally agreed that internal control systems are being followed in National Water and Sewerage Corporation with data variables spread out over a wider range of values with the standard deviation of 1.20655 so the higher the standard deviation the wider range of values.

**4.5 To examine the level of financial accountability mechanism used in NWSC**

Results in Table below indicated that financial Accountability was rated good and this was indicated by the overall mean of 1.9946, which implies that Financial accountability in the National Water and sewerage Corporation is done through effective mechanism of reporting, Budgeting, Adherence to Fiscal procedures and professional Competence. This is in line with Gendion, Cooper and Townley (2000), Kakuru (2001) and Odongkara (2016) who argued that internal control systems enhance proper financial accountability.

***Table 4*: Showing the result of financial accountability Mechanism used in NWSC**

| Variable list | Agreement | Not sure | Disagreement | Ranks |
|---|---|---|---|---|
| Ability to keep accurate financial records | 92.2 | 4.4 | 3.3 | 1 |
| The budget/Expenditure analysis reports are prepared by management. | 90.0 | 6.7 | 3.3 | 2 |
| Internal Control procedures safeguards NWSC assets. | 88.9 | 5.7 | 4.4 | 3 |
| Ability to develop skills of keeping accounting records of small-scale business | 86.7 | 11.1 | 2.2 | 4 |
| Structure for coding customer and supply records | 85.2 | 6.7 | 5.6 | 5 |

| | | | | |
|---|---|---|---|---|
| Reports contain all relevant information. | 84.4 | 13.3 | 2.2 | 6 |
| There is an approval system for all transactions by the authorized managers | 84.4 | 12.2 | 3.3 | 6 |
| Large expenditures for purchases and travel are prepared ahead of time for availability of funds. | 82.2 | 7.8 | 10.0 | 8 |
| NWSC are aware of strong internal control systems. | 82.2 | 12.2 | 4.4 | 8 |
| Budgeted reports are reviewed and action is taken for errors. | 80.0 | 14.4 | 4.4 | 10 |
| The system is in place for significant variations between budgeted and Actual financial status. | 78.9 | 7.8 | 8.9 | 11 |
| Auditor's recommendations are implemented by the Management. | 78.9 | 11.1 | 6.7 | 11 |
| Departmental accounting procedure manuals are given to personnel's. | 77.8 | 16.7 | 5.6 | 13 |
| Standards of Auditing & Disclosure are generally Accepted. | 77.8 | 13.3 | 7.8 | 13 |
| Ability to interpret simple financial statements | 77.8 | 14.4 | 7.8 | 13 |
| Reports incorporate all key issues from Previous Auditor's reports. | 74.4 | 14.4 | 11.1 | 16 |
| Correction of errors made while posting transactions | 73.3 | 17.8 | 4.4 | 17 |
| The financial reports are understandable. | 72.2 | 16.7 | 11.1 | 18 |
| Current link of financial services & procedures are available to staff for key | 70.0 | 23.3 | 6.7 | 19 |

| | | | | |
|---|---|---|---|---|
| business activities. | | | | |
| Information in the financial reports are accurate. | 68.9 | 21.1 | 8.9 | 20 |

**Source: Primary data.2020**

Participants indicated that there was some professional competence shown in National Water and Sewerage Corporation. This was shown by keeping accurate financial records (92.2%) which was the highest mechanism used in the organization. Ensuring prepared budget/expenditure analysis reports for use by the management (90.0%), internal control procedures of National Water and sewerage Corporation ensures safeguard of the organization's Assets (88.9%) and ability to develop skills of keeping accounting records of small-scale business (86.7%). On the other hand the respondents realized that there was weak mechanism in financial Accountability where the information in the financial reports was not accurate (68.9%), the reports are not understandable by the respondents (72.2%) and that the NWSC current financial services link policies and procedures Manuals, Purchasing policies and other procedure manuals available to staff with responsibility to key business activities (70.0%).

**Table 5:Analyzing the intervening variables**

| **Variable list** | **Agreement** | **Not sure** | **Disagreement** | **Ranks** |
|---|---|---|---|---|
| Government needs the Audited books of account to avoid fraud and embezzlement of funds | **85.6** | **10.0** | **3.3** | **1** |
| There is a reporting mechanism for all activities in NWSC | **84.4** | **7.8** | **4.5** | **2** |
| Monitoring strategies are used and followed during monitoring process | **82.2** | **13.3** | **2.2** | **3** |
| The Government supports proper internal control system for better accountability? | **81.1** | **14.4** | **1.1** | **4** |
| Clear rules and procedures are followed in | **77.8** | **14.4** | **5.6** | **5** |

| | | | | |
|---|---|---|---|---|
| preparation of financial statements | | | | |
| The government has a clear reporting system | **74.5** | **14.4** | **8.9** | **6** |
| The international standards of accounting is followed | **74.4** | **10.0** | **7.8** | **7** |
| External auditors can rely on the work of internal auditors when auditing | **70.0** | **18.9** | **10.0** | **8** |
| Segregation of duties or Mitigating controls exists within processing and recording functions. | **68.9** | **21.1** | **7.8** | **9** |
| Separation of Duties exists between procurement, account payable and disbursements | **67.8** | **15.7** | **14.4** | **10** |

**Source: Primary Source, 2020**

The respondents indicated that National Water and Sewerage Corporation supports the policy of the Government to have the Audited books to avoid fraud and Embezzlement of funds (85.6%) which harmonizes proper Financial Accountability in the organization, the reporting Mechanism for all activities in NWSC (84.4%), also there was a very good Monitoring Strategies at all times (82.2%) to check in the internal control systems within an organization. On the other hand, the organization did not follow the procedures and policies of having a separation of duties, procurement, accounts payable and disbursements (67.8), separation of duties or mitigating controls within processing and recording functions (68.9%) and (70%) of the work of internal Auditors can be relied on by the External Auditors.

**4.6 To establish the relationship between internal control system and financial accountability**

Regression analysis was used to establish whether the independent variables (Internal Control Systems) and Dependent Variables (Financial Accountability) cause variation and predict the dependent variable, and if so to what extent.

### 4.6.1 Regression Analysis

In this study, regression analysis was used to determine the level of prediction of the independent variable (internal control Systems) and the Dependent variable (financial accountability). The regression model was used and results of the analysis were as shown in Table 6 below.

**Table 6: Regression Analysis of internal control and Financial Accountability**

| Source | SS | df | MS | |
|---|---|---|---|---|
| | | | | Number of obs = 90 |
| | | | | F (4, 85) = 11.04 |
| Model | 16.9342825 | 4 | 4.23357064 | Prob> F = 0.0000 |
| Residual | 32.6057169 | 85 | .383596669 | R-squared = 0.3418 |
| | | | | Adj R-squared = 0.3109 |
| Total | 49.5399994 | 89 | .556629207 | Root MSE = .61935 |

| finacc | Coef. | Std. Err. | t | P>\|t\| | [95% Conf. Interval] | |
|---|---|---|---|---|---|---|
| risk | .0040163 | .0995972 | 0.04 | 0.968 | -.1940097 | .2020423 |
| cactv | .4000894 | .1398709 | 2.86 | 0.005 | .1219886 | .6781901 |
| cenv | .1962824 | .1158627 | 1.69 | 0.094 | -.0340837 | .4266484 |
| infco | .1531926 | .111588 | 1.37 | 0.173 | -.0686742 | .3750594 |
| _cons | .5071305 | .260854 | 1.94 | 0.055 | -.011517 | 1.025778 |

Source: Primary Data, 2020

Results from Table 6above show that the model is significant in predicting Financial Accountability. The combination of internal control Systems and financial accountability significantly predicted or explained up to 31.09% of Financial Accountability (Adjusted R Square=0.3109). This means that 68.91% of variations in Financial Accountability are predicted by other variables not considered in this study. In addition, the results form Table 7 also indicate that control Activities ($\beta_2$ = 0.4000894, sig. =0.005) was the only significant predictor of

Financial Accountability. This means that a positive unit change in the Internal Control Systems leads to 0.400 change in Financial Accountability.

Risk Assessment ($\beta 1 = 0.004,$ P>|t|=0.968), Control Environment ($\beta_3 = 0.1963, \mathrm{P} > |t|) = 0.094)$ and information and Communication ($\beta_4 = 0.1532$,P>|t|=0.173) are not significant because the probability is more than 0.05 (P>|t|)

## CHAPTER FIVE

## DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This chapter presents the discussion, conclusions, limitations to study and recommendations drawn from the study findings of the previous chapter. The chapter is organized in five sections: the first section deals with discussion related to the research objectives, the second section focuses on conclusions, the third section provides the recommendations, the fourth section outlines the limitations to the study and finally, the fifth section presents areas for further study.

### 5.2 Discussion

This study aimed at assessing the internal control systems and financial Accountability in Government Business Enterprises and NWSC was the case study. Three specific objectives guided this study and these were: (i) to examine whether Internal control Systems are followed in NWSC, (ii) to examine the level of financial accountability mechanism used in NWSC and (iii) to establish the relationship between internal control system and financial accountability.

#### 5.2.1 To examine whether internal control systems are followed in NWSC

The findings indicated there exists internal control systems within National Water and Sewerage Corporation. Respondents strongly agreed that staff are aware of the penalties for breaking internal control procures; the respondents indicated that staff are committed to the job so the working environment favours internal control system which enhances financial Accountability. This is in line with Ntongo (2012 and Sampson (2015) who noted that an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following the organization's policies and procedures and its ethical and behavioural standards. The control environment encompasses technical competence and ethical commitment.

On the risk assessment, respondents indicate that risks are always assessed well in order to minimize fraud, the potential mechanism are in place to identify explicit fraud in risk assessment. This was also indicated in line with Mohamed (2018) and COSO (2010) where it was noted that risk assessment is a vital exercise for all-size organizations since every entity faces a variety of risks from external and internal sources that must be assessed. A requirement for sound risk assessment is the identification of clear objectives. Operations of the organization can be put in danger and its objectives remain unattained by uncontrolled risk-taking.

On information and Communication, the findings indicated that the information flows freely without any interference which means internal control can be easily assessed for proper accountability in the organization. The findings agree with (Ddumba (2017) who indicated that for an internal control to be an effective one, pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities, effective communication is central to effective internal control. Muhammad (2018) says the information and communication is essential to the orderly operation of financial management because it is essential to the making and directing of decisions. Information may be a representation of or collateral to the transfer of value.

### 5.2.2: To examine the level of financial accountability mechanism used in NWSC

The findings indicated that the best mechanism used in National Water and Sewerage Corporation was professional competence which enabled the workers to show highly in keeping financial records thus proves that all international and national standards are followed, the internal control procedures safeguards the organization’s assets. The study findings are in agreement with the World Bank Report (2015, p.28).The findings support Upgrading internal financial reporting systems, publishing significant budget information in a regular timely manner to the public, promoting public participation in the budget process and strengthening the auditor general to carry out its functions are key in promoting financial accountability. This is in line with Abdirisaq and Ali (2014).

### 5.2.3 The Relationship between internal control systems and financial accountability

The results from the study revealed that there is a significant positive relationship between internal controls and financial accountability. The regression analysis indicated that it is only control activities which was significant predictor of Financial Accountability because the rest of the variables were not significant. This is in line with Sampson (2015), Jegers (2014) and Dumba (2017) internal control activities were retained for further analysis the results indicated that internal control activities exist. The findings are consistent with the view that internal control is a management function that is critical for proper accountability (Gendion &Townley, 2017).

Accountability for all funds should be maintained at all times (Chen, 2004). Shungisa (2001) also noted that a lot of benefits can be derived through the implementation of an effective ICS. It prevents errors and irregularities by detecting them in a timely manner thereby promoting reliable and accurate accounting records (Lame &Tan, 2000). It can also quickly resolve issues arising as a result of reporting errors. It protects the interests of employees by cleary specifying to them their duties and responsibilities and safeguarding them against being accused of irregularities or misappropriations (Dess & Shou, 2010). According to Adler and Kwoh (2012), when proper internal controls are exercised, it helps in preparation of sound statistics that help in planning of the way forward.

The findings indicated the existence of staffing gaps and lack of staff trained in Financial Accountability since most of the staff in the National Water and Sewerage Corporation are on contract terms. The respondents agreed that the collected revenue often falls short of the approved estimates due poor system link of the NWSC financial Services policies and procedure manuals, purchasing policies and other related procedures available to the staff with the responsibility for the key business activities. The results agree with Frazer (2016). However, the study disagrees with Financial Management Sector Board (2003) where one indicator of financial accountability is the existence of budgeting and accounting systems that promote Performance, and Makgatho (2013) where he indicates that internal control systems did not implement Financial accountability. It only gave a detailed outline on the purpose and functions of directorates and chief directorates that are responsible for the internal controls, as reflected on the 2013 organogram.

## 5.3 Conclusions

According to the study, the relationship between internal control systems and financial accountability in the National Water and Sewerage corporation appeared to be weak with the correction ($r = 0.409$) about 41% of the explained variables by the respondents. This is in line with Marus (2018), and the actual contribution of Control activities which found to be the only significant in predicting the internal control and financial accountability. Participants confirmed the importance of internal control systems that staff can get committed to their jobs, working environment also can favour the system and staff are aware of the penalties for breaking the internal control procedures.

The research also showed that there was a significant positive relationship between financial accountability and reporting which means that financial accountability increases the efficiency and effectiveness in reporting procedures in the organization. Also, there was another positive relationship between financial accountability and Budgeting, as an organization’s budgeting should be harmonized for effective planning in an organization like NWSC.

The study found out some professional competences although it showed the weakest positive correlation of 31% of the explained variables; so the profession should be increased a little bit for effective financial accountability.

## 5.4 Recommendations

The following recommendations were made by the researcher in relation to the findings and Conclusions thereof:

### 5.4.1 To examine whether internal control systems are followed in NWSC

The administration of NWSC should ensure that there exists effective and strong internal control activities and good financial policies, the right number of employees to enable segregation of duties, professional Accountants in audit and Finance departments to uphold ethical values in managing finances of the Organization. This comes where more workers are employed in collecting revenues (commercial officers) from clients before first training them the purpose and the reason for having an improved internal control system; this comes where more workers are not sure about internal control systems.

The NWSC should also establish strong and effective internal control procedures as provided for in the Accounting Regulations 2007 and Public Finance Management Act, 2015 that can help to minimize risk. Clear procedures that can prevent misstatement in the financial statements before they occur are preferable, and these can only be enforced through strict adherence to the control systems that are put in place to improve financial Accountability. This can be achieved by employing professional members of the Institute of Certified Public Accountants of Uganda as stipulated in the Accountants Act 2013.

Risk assessment should be done to all projects and programmes of the NWSC on a regular basis. The implementation of a risk assessment would enable the Department to develop risk management plans, which would serve as mitigation or intervention strategies for any unforeseen circumstances that might occur. Furthermore, the NWSC should also conduct a risk assessment for projects that are to be rolled out by its branches. This would enable the Ntungamo area to use other alternatives in the event Agencies fail to deliver on the given projects.

The NWSC should hire employees on permanent basis as, currently, staff are working on pressure not to lose their contracts with the organization, hence hindering the internal control system.

ICS needs a conducive environment for efficient implementation to minimize fraud; efficiency and effectiveness of performance including management integrity and ethics are emphasized and strongly adhered to as they determine the strength of control environment and improved financial performance in public institutions. Appropriate means should always adopted to correct mistakes in operations of the accounting systems and feedback be provided to junior officers about the operations of the system. This can be achieved by close monitoring of the implementation of internal control systems.

Management should make sure staff are aware of internal audit functions and their implications; internal audit reports should address weaknesses in ICS and be regularly produced.

### 5.4.2: To examine the level of financial accountability mechanism used in NWSC

The National Water and Sewerage Corporation staff should be trained on the current link of the financial services policies and procurement manuals to be responsible on the business activities and even to speed up financial reporting systems.

The budgeted reports should be reconciled by the management and action taken to correct errors such that there is timely release of financial reports.

The budgeted /expenditure analysis reports should be availed to the management for consideration before the planning.

NWSC should stay away from Political leaders and other interest groups as others start dictating on funds that should be spent thus ending up without focusing on the customer demands other than organizational demands.

The organization should improve on the system of E-billing, Connection and disconnection System, review the new connections procedures in order to avoid delays of disconnection and connection Procedures. The system needs to be Automatic like Yaka of UMEME.

### 5.4.3 The Relationship between internal control systems and financial accountability

The findings revealed that there was a significant positive relationship between internal control and financial accountability. Researcher therefore recommends that:

Ministry of Water and Environment in Uganda should promote effective internal controls that facilitate financial accountability through constant supply to reduce shortages and extend current water supply to other areas that are lacking.

National Water and Sewerage Corporation should continuously monitor the internal control system to ensure high level of financial accountability within an organization.

NWSC should set goals and those in authority must adhere to those goals so that performance is not compromised and information should be availed to the stakeholders for better control of the system.

## 5.5 Limitations to Study

Constraints that were faced while compiling literature and conducting the study were as below:

Some questionnaires were ignored while others were not returned or lost due to lack of interest. The researcher had to print more and laboured to explain the importance of the study to the respondents in order to motivate them in participating in the study.

Some respondents filled the questionnaire halfway thinking that their responses may be leaked to upper departments of the Authority in NWSC while other respondents could not understand some of the questions despite efforts made to explain to them and hence non-response. This was solved by meeting the respondents again and making further interpretations.

Other respondents gave non-working telephone contacts; this was solved by physical visits and follow up.

Some of NWSC branches under Ntungamo Area could not be located as they had shifted to other areas like Rubare Branch. However, the researcher had to locate them and followed up most of the questionnaires that were supplied. This happened in branches of Rwentoobo and Kyempene.

The long distance travelled to the respective NWSC branches under Ntungamo Area: This was solved by hiring a motor vehicle for the rest of the days while collecting data.

A limiting factor was that the design of an internal control system faces resource constraints. The benefit of controls was consequently be considered in relation to their costs. Maintaining an internal control system that eliminates the risk of loss is not realistic and would probably cost more than is warranted by the benefit derived. In determining whether a particular control should be established, the likelihood of the risk occurring and the potential effect on the entity are considered along with the related costs of establishing a new control.

Organizational changes and management attitude can have a profound impact on the effectiveness of internal control and the personnel operating the system. Thus, management needs to continually review and update controls, communicate changes to personnel, and set an example by adhering to those controls

## 5.6 Suggested Areas for Further Research

i. Internal control systems and accountability in selected Local Governments in Uganda

ii. Risk assessment and financial performance in Government Enterprises

iii. Effects of internal control systems and control Environment in selected banks in Uganda.

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# APPENDICES

## APPENDIX I: Questionnaire

Dear sir/Madam,

I am a student of Kabale University pursuing Master of Business Administration and Management undertaking the study on the topic; **internal Control System and financial accountability in Government Business Enterprises National Water and Sewerage Corporation and Ntungamo Area** was the case study.

This questionnaire is designed to help gain a clear understanding of how to develop and maintain an effective and transparent Internal Control System function in organizations to facilitate transparent financial accountability and other organizational objectives. You are considered as one of the resourceful persons and as such you are KINDLY requested to spare some time and respond to the questions/ statements frankly and honestly. Their responses wastreated with utmost confidentiality and they were not supposed to write their nameson the questionnaire nor to disclose any answers to other respondents. This research is intended for academic purposes only. Thank you for contributing to the success of this study!

**For official use**

Date of interview: ____________________Data Entry ID No: ----------------------------

Division---------------------------

**SECTION A: BACKGROUND INFORMATION (Indicate a number of your choice in the box provided)**

**1. Gender distribution of respondents**

1. Male
2. Female

☐

**2. Respondents' age**

1. 20-30
2. 31-40

☐

3. 41-50
4. 51-60
5. Over 60 years

**3. Respondents' marital status**

1. Single
2. Married
3. Separated/Divorced
4. Widowed

**4. Respondents' education**

1. Primary
2. Secondary
3. Tertiary
4. University
5. No Education

**5. How long have you been in this NWSC?**

1. Less than 1 year
2. More than 1 year
3. More than 5 years
4. I have just stated
5. Others (specify) …………………………..

**SECTION B: INTERNAL CONTROLS SYSTEMS**

For each of the following statements, please indicate (by ticking) the extent to which you agree with them, using the following scale: Strongly Agree (5), Agree (4), Not Sure (3)and Disagree (2) Stronglydisagree (1)

| **i.** | **Risk Assessment** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| There are mechanisms in place to identify and react to changes that can have dramatic effects on the NWSC | | | | | |
| Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods. | | | | | |
| Risks are assessed in relation to changes in the operational environment | | | | | |
| Changes of new staff is clearly examined for the risks it may cause | | | | | |
| Internal audit has appropriate controls for service delivery | | | | | |
| **(ii) Control Activities** | 1 | 2 | 3 | 4 | 5 |
| Staff are given up to date internal control manuals for reference purposes | | | | | |
| Staff are aware of the penalties for breaking internal control procedures | | | | | |
| Accounts are reconciled on monthly basis to detect errors and fraud | | | | | |
| The internal auditor works independently | | | | | |
| There is internal check which operates continuously as part of the system | | | | | |

| **(iii) Control Environment** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Staff have good working relationship between themselves | | | | | |
| Staff is committed to their jobs | | | | | |
| The hiring process for contract staff is transparent | | | | | |
| There is a mechanism to monitor regular attendance of staff | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Activities are performed in an atmosphere of creativity and innovation. | | | | | |

| **iv) Information and communication** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Information flows freely without any interference | | | | | |
| Staff have information on internal controls and accountability | | | | | |
| All channels of communication are utilized by staff | | | | | |
| There is good communication between departments | | | | | |
| Staff have access to information | | | | | |

**SECTION C: FINANCIAL ACCOUNTABILITY**

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| They prepare financial statements on budget versus actual and /or comparative basis to achieve a better understanding of our finances | | | | | |
| The accounting practices conform to accepted standards | | | | | |
| Stakeholders are knowledgeable about most tasks we have to perform | | | | | |
| There is  preparation of cash flow projections | | | | | |
| Preparation for accountability meetings is satisfactory | | | | | |
| **i) Reporting** | | | | | |
| The information in the financial reports is accurate. | | | | | |
| The financial reports are understandable. | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| The reports contain all relevant material information (about debtors, creditors, accruals etc.) | | | | | |
| The reports are designed to incorporate key issues or changes derived from previous auditors' reports. | | | | | |
| The NWSC prepares budget/expenditure analysis reports for use by management | | | | | |
| **ii) Budgeting** | | | | | |
| Are written departmental accounting, policy, and procedural manuals regularly updated and distributed to appropriate personnel? | | | | | |
| Is a current link of the NWSC Financial Services Policies and Procedures Manual, Purchasing Policies and Procedures Manual, and other related policies and procedures manuals available to the staff with responsibility for the key business activities? | | | | | |
| Are large expenditures for the purchases, travel etc,obligated a head of time to ensure budgeted funds are available | | | | | |
| Is a system in place to provide appropriate management with explanations of significant variations between budgeted and actual financial status? | | | | | |
| Are budgeted reports reconciliations reviewed by management, and is action taken to correct errors and answer questions? | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **iii) Adherence to fiscal procedures** | | | | | |
| There is an approval system for all transactions by the authorized managers | | | | | |
| Auditor's recommendations on issues of policies and procedures are implemented by the NWSC management | | | | | |
| There is adherence to the generally accepted standards of Auditing and Disclosure | | | | | |
| The internal control procedures of NWSC ensure safeguard of the organization's assets | | | | | |
| The management are aware that it is responsible for ensuring strong internal control systems | | | | | |
| **iv) Professional competences** | | | | | |
| Ability to keep accurate financial records | | | | | |
| Ability to develop skills of keeping accounting records of small-scale business | | | | | |
| Correction of errors made while posting transactions | | | | | |
| Structure for coding customer and supply records | | | | | |
| Ability to interpret simple financial statements | | | | | |
| **SECTION D: INTERVENING VARIABLES** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **i) Government policy** | | | | | |
| Does the Government supports proper internal control system for better accountability? | | | | | |
| The international standards of accounting is followed | | | | | |
| Government needs the Audited books of account to avoid fraud and embezzlement of funds | | | | | |
| The government has a clear reporting system | | | | | |
| Clear rules and procedures are followed in preparation of financial statements | | | | | |
| **ii) Monitoring** | | | | | |
| Monitoring strategies are used at any time during monitoring process | | | | | |
| There is a reporting mechanism for all activities in NWSC | | | | | |
| External auditors can rely on the work of internal auditors when auditing | | | | | |
| Segregation of duties or mitigating controls exist within transaction processing, authorization custody, and recording functions | | | | | |
| Separation of duties exists between procurement, account payables and disbursements. | | | | | |

What do you recommend that would improve service delivery in this NWSC?

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THANK YOU FOR YOUR COOPERATION

## APPENDIX II: Interview Guide

Interview Guide: **Internal control systems and financial Accountability in Government Business Enterprises case study of NWSC Ntungamo Municipality**

Dear Respondent: My name is KUJUNA ALEXANDER

I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master of Business Administration andManagement of Kabale University. You have been selected to participate in this studydue to the importance of your position in the Institution. The information you provide will onlybe used for the purpose of this study and will be treated with utmost confidentiality. Kindly helpme generate solutions to the following Questions:

1. Imagine a situation where you suspect that a company is exposed to a major risk. What risk management procedures would you employ?
2. Imagine that someone asks you to do something unethical like covering up a fraud. What would you do?
3. How has your experience/education prepared you to be an internal auditor?
4. What are important elements of internal control systems? What process would you follow to review them?
5. How do you keep up with changes in regulations and laws? Do Monitoring strategies followed in monitoring process?
6. How do you spend the money, do you spend according to the budget or tell us any other way of spending the money in the company?

**Thank you for your time.**