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Internal control systems and financial accountability in Uganda: A case of selected districts in western Uganda

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Abstract
The study sought to examine the role of Internal Control system in supporting financial accountability in Uganda. The study found out that 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. The study however, revealed that internal control system is inadequate in accounting for the staffing gaps in local governments and the untimely release of financial reports. Staff in the local governments investigated, particularly those handling finance related matters had low training in financial accountability. Underpinning this truth is the fact that government grants are not allocated in accordance with grants procedures and later funds diversion. It was revealed for example, that withholding tax deductions are unaccounted for. These deductions are made by the finance department, yet the records indicating their remittance to Uganda Revenue Authority are lacking. The study therefore recommends that Political leaders and other interest groups should stay away from dictating on how public funds should be used. Instead of rigidly interfering with the actual implementation of local government programs, they should execute their constitutionally defined role of supervising and monitoring government programs for the benefit of the masses. There should be urgent recruitment of staff in local governments to bridge the staffing gap and staff should be trained on the current finance management systems to speed up financial reporting system and timely release of financial reports. The Local government staff who did not remit the withholding tax and misused it, should be made to refund the misused funds or be disciplined immediately.

Keywords: internal control, financial accountability

1. Introduction

The enactment of a number of Public Finance Management (PFM) reforms since the 1990s has been aimed at reducing the level of misappropriation of public funds, which remains a challenge in Uganda. Among the key reforms are: Treasury Single Account (TSA) in 2013; the Integrated financial Management System (IFMS), the Budget ACT 2003, as amended; and the Public Finance and Management ACT 2015, which repealed the Public Finance and Accountability ACT 2003. The comprehensive new laws have strengthened the internal and external expenditure controls and accountability procedures. The current PFM reform strategy has a holistic approach, focusing on strengthening budget credibility, improving internal controls and compliance. Over the last decade, a number of legal, institutional and operational reforms have been undertaken to enhance accountability systems, strengthen the oversight functions and streamline public financial management processes in Uganda. Despite the commendable progress, limited funding of key accountability institutions is constraining the ability of these institutions to fulfill their mandate (Civil Society Budget Advocacy Group, 2017). 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 inflexible in performing their daily activities and many red-tape procedures, the importance of strengthening the internal control system cannot be under estimated. A good internal control system benefits an organization by preventing the incidence of poor financing and helping organizations to work effectively and in harmony while detecting errors. Failure to establish a reliable and dependable system could harm the organization in many ways and expose the risks of the efforts of nurturing accountability in public sector. 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 not limited to annual financial statements (Doussy & Doussy, 2014) [8]. 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. The provisions in Public Finance and Accountability ACT (2003) provide the framework for Uganda and state enterprises to regulate the financial management in the government and consequently provide accountability (Ministry of Financing and Economic

Development, 2003). The ACT ensured efficient allocation and accountability for public resources so as to achieve the most benefit for all Ugandans.

1.1 Problem statement

Effectiveness of internal control system on financial accountability should be considered most important in every organization because the task of internal controls is to prevent and detect fraud in the organization. It should control effectiveness and influence the reliability of financial accountability. The citizens of Uganda over the years have advocated for a proper internal checks in all government establishment which will detect and control fraud for the citizens to enjoy better service delivery. Government departments and ministries have internal control systems put in place to avert any possible fraud. However, The Auditor General's report since 2015 clearly indicated that the organizational internal control and financial accountability were faced with challenges to mention but a few viz; liquidity problems, financial reporting not made timely, accountability for the financial resources is still wanting, fraud and misuse of institutional resources have been unearthed and a number of decisions made have not yielded the expected results. This clearly showed a weakness in the internal control system and it's based upon this that is why the researcher conducted this study and probably come up with a remedy to this challenge.

1.2 Objective of the study

The purpose of the study was to examine the role of Internal Control system in supporting financial accountability in Western Uganda.

2. Literature review

2.1 Internal control

Most organizations no longer set up internal control system as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out (Kenyon and Tilton, 2006). Internal control system is defined as all the financial, operational and other control systems which are carried by internal controllers and which involve monitoring, independent evaluation and timely reporting to management levels systematically in order to ensure that all activities are performed by management levels in accordance with current policies, methods, instructions and limits (Bayyoud, Mohammed, & Sayyad, 2015) [6]. The definition elaborates the concept from a broader coverage, examining its role in identifying and assessing practices aligned to performance. Internal control is also noted as a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations; the reliability of financial reporting; and the compliance of applicable laws and regulations (Mohd-Sanusi, Mohamed, Omar, & Mohd-Nassir, 2015) [15]. Potentially, the system of internal control prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations.

Internal controls are methods and procedures used to authorize transactions and safeguard assets, encourage adherence to company policies, promote operational efficiency and ensure accurate and reliable accounting record (Al-Hazmi, 2013) [2]. Internal controls include policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations to achieve effective and efficient operations (Office of NYS Attorney General, 2015) [18]. Ideally, these controls should address accounting reporting policies and the organization's communication process, internally and externally. If internal control system is weak, a significant deficiency or significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected (Doyle, Ge, & Mcvay, 2007) [9]. In real practice, identifying of weakness in internal control precludes from reporting that controls are effective and must disclose the identified weaknesses. In public enterprises however, a reasonable corporate structure of governance is the guarantee of internal systems and the implementation of the maximization of the enterprise value must have a sound foundation of internal control system (Chen & Shi, 2012) [7].

The scope of internal control structures includes control environment, accounting system and control policies and procedures. According to (Montri, Sirisuthi, & Lammana, 2015) [16], the scope of internal control system consists of five components, that is, control environment, risk assessment, control activities, information and communication, and monitoring. Internal control systems helps in building up reasonable confidence, that is, work implementation which will achieve the set objectives. In view of organizational effectiveness, control environment, risk assessment, information and communication, control activities and monitoring could affect the effectiveness of internal control in an organization (Ho, 2016). The same study also indicated that political institutions and interest groups impact the effectiveness of internal control systems. Effective internal control system provides reasonable assurance that the organization's objectives and goals will be achieved (Muhamud, 2013) [17].

Considering risk assessment, particularly in public administration, IT security management can be uses for risk management in supporting public administration if risk management supporting tools are developed (Baginski, 2014) [5]. 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) [10]. Not all organizations fail due to weak internal control systems but inefficient cost controls. Development plans as well as implementation of effective control systems within an organization can sustain organizational stability and growth (Shabri, Saad, & Bakar, 2016) [19]. The development of proper internal controls helps organizations ensure accountability. Accountability requires that the organization comply with all applicable laws and ethical standards; adhere to the organization's mission; create and adhere to conflict of interest, personnel, whistleblower and accounting policies; and protect the rights of members (Office of NYS Attorney General, 2015) [18]. While the effectiveness of internal control is challenged with limitations such as costs, few employees and other constraints, it is worthwhile to note that effective internal controls can still be possible (Frazer, 2016) [12].

2.2 Financial accountability

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) [1]. The term "accountability" is commonly found in modern public administration theory and practice and is defined as the fact or condition of being accountable. It means the duty or obligation of those given responsibilities and resources to explain and justify how they have used the responsibility and resources in the achievement of agreed objectives (Doussy & Doussy, 2014) [8]. 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) [13]. In public organizations, financial accountability provides appropriate management of public funds, ascertaining whether there is sufficient transparency to determine how funds were spend or managed (Financial Management Sector Board, 2003) [11]. 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) [3].

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). Beyond tracking financial flows, increasing accountability for finance requires a deeper understanding of the institutional dynamics that affect the ways in which these resources flow are subsequently put to use (Terpstra, Carvalho, & Wilkinson, 2013).

3. Methodology

The study conducted was based on cross sectional survey design. This design was chosen to ensure that the study accurately described the true nature of the existing conditions at that time. Data was collected from some of the selected districts in western Uganda which were slightly bigger in size and had bigger government programs/projects and they included Mbarara, Fort Portal, Kabale, Kasese and kanungu among others. Using both purposive and simple random sampling a Sample of 113 respondents was chosen from the respondents and the response rate was 100%. The five likert scale was used to rate the answers from 1-5 which indicated (Strongly disagree to, disagree, neutral, agree and strongly agree). The questionnaire was tested for validity and the results were credible and reliable.

4. Results and interpretation

Results

The gender composition indicates that 59.3% were male while 40.7% were female. The age composition indicates that 73.5% were below 40 years of age while 26.5% were 40 years and above. In view of their marital status, 58.4% were married 36.3% were unmarried; while 5.3% indicated the "others" option. The "others" options indicated those who were divorced and separated. According to their level of education, 44.2% had diplomas, 30.1% had bachelor's degrees, and 15.0% had master's degrees while 10.6% indicated the "others". The specifics of the "others" option indicated to be certificates and professional qualifications. In relation to the nature of the organization, 39.8% worked with district local governments, 42.5% worked with municipalities while 17.7% worked with town councils. Considering their professional experience, 31.0% had worked for not more than five years, 43.4% had worked for not more 6 years but not exceeding 10 years while 25.7% had worked for over 10 years. Of the participants with master's degrees, 52.9% were male while 47.1% were female. Of those with bachelor's degrees, 55.9% were female while 44.1% were female; on the other hand diploma participants indicated 56.0% were male while 44.0% were female. In view of allocating government grants in accordance with grants guideline, 59.3% of participants from Municipal council, 37.05 from district local government and 3.7% from town councils agreed to allocate government grants in accordance with grant guidelines.

Table 1: Regression tests

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2.517	.273		9.236	.000
	Internal control system	.301	.074	.361	4.076	.000
	R	.361(a)				
	R Square	.130				
	Adjusted R Square	.122				
	Std. Error of the Estimate	.47392				

a Predictors: (Constant), Internal control system

The study indicated a correlation coefficient of (r =. 361; sig. <. 05). This indicates a weak relationship between internal control system and financial accountability. The significant value of the test indicates a statistically significant linear relationship between internal control system and financial accountability in the districts investigated. Assuming that internal control system and financial accountability were to be related in similar units, a change in internal control by one 1-unit influences financial accountability by 36.1%. However, (Adjusted R square =.130) indicates 13.0% to be overall contribution of internal control system on financial accountability in the districts investigated.

Table 2: Analysis of the roles of internal control

Variable list	Disagreement	Not Sure	Agreement	Rank
Financial accountability	20.4	2.7	77.0	1
Reliable accounting records	19.5	4.4	76.1	2
Confidence of financial reports	17.7	7.1	75.2	3
Compliance with institutional policies	22.1	3.5	74.3	4
Operational stability	18.6	8.8	72.6	5
Detecting errors	22.1	6.2	71.7	6
Political influence	19.5	8.8	71.7	7
Governing system	20.4	8.8	70.8	8
Compliance with financial regulations	22.1	7.1	69.9	9
Safeguarding organizational assets	27.4	2.7	69.9	10
Members' rights	21.2	8.8	69.9	11
Monitoring financial reporting process	27.4	3.5	69.0	12
Communication	25.7	6.2	68.1	13
Organizational objectives	24.8	7.1	68.1	14
Interest groups influence	17.7	14.2	68.1	15
Accurate accounting records	26.5	7.1	66.4	16
Timely release of financial reports	23.0	12.4	64.6	17
Sustainable budget	27.4	8.0	64.6	18
Adequate staffing	31.0	5.3	63.7	19
Frequency of application	49.6	6.2	44.2	20

Participants indicated the role of internal control systems in the district. Majority pointed to its role promoting financial accountability (77.0%), ensuring reliable accounting records (76.1%), and ensuring public confidence in the financial reports produced by local government institutions (75.2%) and ensuring local governments are compliant with local government policies and ACT (74.3%). On the other hand however, internal control system is inadequate in explaining staffing gaps in local governments (63.7%) and timely release of financial reports (64.6%). This is perhaps due to the fact that internal control systems are infrequently used at local government institutions (44.2%), the budget allocations cannot sustain internal control systems (64.6%), and are highly influenced by interest groups (68.1%).

Table 3: Analysis of the challenges of financial accountability

Variable list	Disagreement	Not Sure	Agreement	Ranks
Training in financial accountability	17.7	1.8	80.5	1
Revenue collection	15.0	5.3	79.6	2
Financial reporting system	16.8	5.3	77.9	3
Management of public funds	15.9	6.2	77.9	4
Efficiency of service delivery	16.8	5.3	77.9	5
Independency of accountability system	18.6	4.4	77.0	6
Timeliness of government funds	19.5	6.2	74.3	7
Experience in accounting standards	18.6	9.7	71.7	8
Adequacy of government funds	24.8	5.3	69.9	9
Misappropriation of funds	22.1	8.0	69.9	10
Provision of basic services	22.1	8.0	69.9	11
PPDA compliance	23.0	4.4	69.9	12
Budgeting system	22.1	10.6	67.3	13
Allocation of public funds	24.8	8.8	66.4	14
Approved expenditures	30.1	3.5	66.4	15
Spending of government funds	25.7	7.1	66.4	16
Payment vouchers	32.7	3.5	63.7	17
Remitting funds to lower councils	31.9	5.3	62.8	18
Withholding tax remittance	34.5	6.2	59.3	19
Public Accounts committee meetings	31.0	11.5	57.5	20
Funds diversion	41.6	8.0	50.4	21
Grants guidelines	42.5	8.8	48.7	22

The participants indicated inadequate training in financial accountability (80.5%), failure to realize all the revenues as approved in the budget estimates (79.6%), no streamlined financial reporting system, failure to manage public funds, inefficiency of service delivery, and non-independency of the accounting system (77.9%). The inadequacies are felt when allocating grant resources in accordance to grant guidelines (48.7%), diversion of public funds (50.4%), holding regular meeting by Public Accounts Committee (57.5%) and remitting all deductions in form of withholding tax to URA (59.3%).

5. Discussion

The study revealed that there is a weak positive significant relationship between internal control systems and financial accountability. The findings support (Abdirisaq & Ali, 2014) [1] who stated 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. In a related view, (Office of NYS Attorney General, 2015) [18] noted that proper internal controls help organizations ensure accountability. Accountability requires that the organization comply with all applicable laws and ethical standards; adhere to the organization's mission; create and adhere to conflict of interest, personnel, whistleblower and accounting policies; and protect the rights of members. The study indicated the existence of staffing gaps and the lack of staff trained in financial accountability. The results agree with (Frazer, 2016) [12] who advanced that effectiveness of internal control is challenged with limitations such as costs, few employees and other constraints. The study also indicated the collected revenue often fall short of the approved estimates. The findings agree with (Aramide & Bashir, 2015) [3], who noted 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. The study also noted the influence of interest groups in affecting financial accountability. This disagrees with (Office of the Auditor General, 2011), where it is indicated that the role of interest groups is to hold government accountable for its actions and inactions, but not to influence their actions. In a related view, financial accountability lacks effectiveness due to the influence of inappropriate and unaccommodating cultural, political and constitutional environment (Hedger & Blick, 2008). The study also revealed that Public Accounts Committees meet irregularly. The findings disagree with (Financial Management Sector Board, 2003) [11], where it is stipulated that one indicator of financial accountability is the existence of budgeting and accounting systems that promote performance. The study also indicated a non-compliance with the laws and regulations governing the use and allocation of public funds. These results disagree with (Office of NYS Attorney General, 2015) [18], where it is indicated that an effective internal control creates reliable financial reporting that promotes compliance laws and regulations to achieve effective and efficient operations.

6. Conclusion

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, ensuring reliable records, which give confidence to the public in as far as financial reports produced by local governments are concerned. In addition, internal control systems ensure that local governments' financial operations are in conformity and in compliance with local government policies. The study however, revealed that internal control system is inadequate in accounting for the staffing gaps in local governments and the untimely release of financial reports. While staffing gaps could be bearable as the case is with most government departments, the existing staff in the local governments investigated, particularly those handling finance related matters had low training in financial accountability. No wonder, internal controls systems are very rare, leave alone the small budget allotments that cannot sustain their operations and maintenance. While local governments are answerable to a mammoth of stakeholders, the influence interest groups and politicians is very particular in affecting the financial reporting system in these institutions. The failure to manage public funds and the consequential low service delivery to the public concretizes the claim. Underpinning this truth is the fact that government grants are not allocated in accordance with grants procedures and later funds diversion. It was revealed for example, that withholding tax deductions are unaccounted for. These deductions are made by the finance department, yet the records indicating their remittance to URA are lacking.

7. Recommendations

Political leaders and other interest groups should stay away from dictating on how public funds should be used. Instead of rigidly interfering with the actual implementation of local government programs, they should execute their constitutionally defined role of supervising and monitoring government programs/projects for the benefit of the citizens. There should be urgent recruitment of staff in local governments to bridge the staffing gap. In addition, local government staff should be trained on the current finance management systems to speed up financial reporting system and timely release of financial reports. Local government staffs that are culpable in regard to public funds diversion, non-remittance of withholding tax to URA should be made to refund the misused funds or be disciplined immediately.

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