International Journal of Financial, Accounting, and Management (IJFAM)
ISSN: 2656-3355, Vol 3, No 4, 2022, 359-372 https://doi.org/10.35912/ijfam.v3i4.810

Are internal controls important in financial accountability? (Evidence from Lira District Local Government, Uganda)

Marus Eton[1*], Fabian Mwosi[2], Bernard Patrick Ogwel[3]
Faculty of Economics and Management Sciences, Kabale University, Kabale, Uganda[1]
School of Postgraduate Studies, Bishop Barhum University College, Kabale, Uganda[2]
Kampala International University, Kampala, Uganda[3]
emarus@kab.ac.ug

Article History
Received on 3 September 2021
1st Revision on 10 September 2021
2nd Revision on 12 October 2021
Accepted on 18 October 2021

Abstract
Purpose: The study examined the importance of internal control systems in financial accountability in Lira District Local Government, Uganda. Specifically, the study determined the importance of control activities, control environment, and monitoring of controls on financial accountability.
Research methodology: A correlational design to establish the relationships between internal control systems and financial accountability, and regression analysis to explain the importance of internal controls on financial accountability were adopted.
Results: Internal control systems account for 55.4% of the variations in financial accountability. Specifically, control environment and monitoring controls bear significant effects on financial accountability while control activities do not.
Contribution: This is one of the original studies to assess Lira District Local Government. The study validates the contingent theory and extends its application in public administration.
Limitations: The input of stakeholders from the community was ignored. Future researchers should consider investigating the role of community participation on the performance of district local governments in Uganda.
Keywords: Control activities, Control environment, Financial accountability, Internal control, Monitoring of activities
How to Cite: Eton, M., Mwosi, F., and Ogwel, B, P. (2022). Are internal controls important in financial accountability? Evidence from Lira District Local Government, Uganda. *International Journal of Financial, Accounting, and Management*, 3(4), 359-372.

1. Introduction

This study examined the importance of internal control systems on financial accountability in the district local governments of Uganda, with reference to Lira District Local Government. Financial accountability relates to the provisions of information and disclosure on the activities and financial performance of local governments to those who are parties (Kewo, 2017). The concept measures the achievement of budget targets, inspection of work, monitoring the use of budgets, and timely reporting. Ogujiuba and Okafor (2013) use the concept to measure the implementation and the effect of the budgets and economic policies. The conceptualizations above show that financial accountability in local governments concerns the budget, its implementation, and timely reporting of budget outcomes. Zuraidah, Razana, Jamaliah, and Takiah (2015) conceptualized financial accountability in terms of compliance, transparency, and responsiveness. Compliance concerns with financial reporting while transparency and responsiveness are concerned with disclosure of both financial and non-financial information. In view of the current study, financial accountability will relate to systems' compliance in revenue collection, resource allocation, and reporting mechanisms. Abubakar, Dibal, Amade, and Pwagudsadi (2017)relate internal controls to activities of preventive, detective, and corrective. Preventive activities concern authorizing and approving procedures that prevent errors and fraud while detective control concerns a review of operations and supervision, while corrective activities concern helps the organization to reduce or eliminate errors of omission, misstatements, and any malicious practices. Internal control systems have gradually developed over the years with the greatest occurrence in 1940 (Lakis & Giriunas, 2012). The factors are known to have influenced the development of internal controls including the public's demand for auditing standards, and the role of managerial control in influencing a broader range of organizational controls (Hay, 1993).

American Institute of Certified Accountants presented the definition of internal control first time in 1949 followed by further clarifications in 1958 and 1972 (Lauren, 2017). They looked at internal control as a plan by an enterprise to keep safe its assets, check the covertness and reliability of data, and increase its effectiveness for management politics (Lakis & Giriunas, 2012). In 1987, the major accounting and auditing professional organizations formed a Committee of Sponsoring Organization (COSO) to study the numerous case of fraudulent financial reporting that marred business practices in the 1970s and 1980s. A factor shaping the development was the corporate failures witnessed globally. COSO defined internal control as the process, effected by boards of directors and other personnel by providing reasonable assurance regarding the achievements of objectives in operations, financial reporting, and compliance (Everson, et al., 2013). The COSO model of internal control has become the world's standard for organizations to control business and financial systems (Moeller, 1997). Since 1993, studies have been conducted globally, regionally, and locally on internal control systems and financial accountability nexus. However, empirical results from these studies are contradictory. For example, (Lotz, 2005) shows that while records system reasonably measures output, they lack a quantitative description of the output. Bina and Obah (2018) studied the impact of financial control on accountability in the public sector in Nigeria. The relationship between internal control and accountability was insignificant, suggesting that local governments focus more on internal auditing than internal control systems. On the other hand, Afiah & Azwari (2015) show internal control gives a significant and positive influence on good governance. Kasim (2015) shows that both internal control and accountant competency significantly affect financial reporting quality. While the findings are consistent with previous studies, they scale the internal control environment to include accountant competency. Aramide and Bashir (2015) sought a deeper understanding of the effectiveness of internal control systems on good financial accountability at local governments in Nigeria. The results show a positive and significant effect on internal control on good financial accountability.

Chalam and Ng'eni (2017) investigated the relationship between financial accountability and financial reporting in a decentralized environment in Tanzanian local government authorities. The quality of financial reporting was significant in enhancing financial accountability. While there is evidence of a significant relationship between internal control and financial accountability elsewhere globally, there is a dearth of empirical evidence in Uganda. In Uganda, Mukyala, Bananuka, Basuuta, Tumwebaze, & Bakalikwira (2017) examined the roles of internal controls and managerial competencies on the accountability of Local Governments in Uganda. Based on 64 local governments in Busoga, they show that internal controls and managerial competencies are significant in predicting accountability in local governments. However, they fail to explain how personal experiences contribute to reporting mechanisms and resource allocation. In a related study, Eton, Murezi, Mwosi, & Ogwel (2018) examine the contributions of internal control systems in supporting financial accountability in selected districts in western Uganda including Mbarara, Fort Portal, Kabale, Kasese, and Kanungu. They established a weak relationship between the internal control system and financial accountability, linking it to the system's inadequacy in accounting in the staff gaps in local governments and the release of financial reports was untimely.

Uganda has made strides towards public financial management to strengthen financial accountability mechanisms in public institutions, local governments inclusive. These include Public Finance and Management ACT 2015, which repealed the Public Finance and Accountability ACT 2003, the Budget ACT 2003, Treasury Single Account (TSA) in 2013, and Integrated Financial Management System (IFMS) (Eton et al., 2018:106; Mukyala et al., 2017). This notwithstanding, Local Government Performance Assessment Reports for the years FY2017/18 (Office of the Prime Minister, 2018), and

FY2018/19 had shown inconsistent performance in Uganda (Office of the Prime Minister, 2019; Office of the Prime Minister, 2018). Whereas the average performance of all local governments showed an improvement from 56% in FY2017/18 to 62% in FY2018/19, Lira District Local Government indicates a drop in performance. In FY2017/18, Lira District Local Government ranked the 14th out of 138 local governments (115 districts and 23 Municipal local governments). In FY2018/19, however, the local government ranked 43rd out of 144 local governments (inclusive of districts and Municipal local governments). The drop in the ranking of Lira District Local Government related to her non-compliance to all accountability requirements. Compliance with accountability requirements in FY2017/18 indicates that 6% (8 out of 138) complied with all accountability requirements. Lira district was among the best eight local governments that complied with accountability requirements. In FY2018/19, however, only 2% (3 out of 144) complied with all accountability requirements including Mityana district, Ngora district, and Nansana Municipal local government. Lira District Local Government did not comply with the submission of quarterly budget performance report on time (Office of the Prime Minister, 2019; Office of the Prime Minister, 2018). While the reports do not explicitly explain financial accountability as a challenge, non-compliance to all accountability requirements suggests a weakness in the internal control system at the district. If local governments do not adhere to provided statutes in their operations, they stand a risk of registering low financial accountability performance. The purpose of the study was to examine the effect of internal control systems on financial accountability in District Local Governments of Uganda in a case of Lira District Local Government. The study was guided by the following objectives; to determine the effect of control activities on financial accountability in Lira District Local Government, to ascertain the effect of control environment on financial accountability in Lira District Local Government, and to examine the effect of monitoring of controls on financial accountability in Lira District Local Government.

2. Literature review and hypothesis development

The Contingency Theory was developed by (Woodward, 1958). According to the contingency theorist, a number of variables that influence the performance of organizations are internal and external variables (Weill & Olson, 1887). Whatsoever one can consider as 'the best method to organize' would depend on how the organization relates to the environment (Mu'azu, 2017). Organizational effectiveness is predicted by the type of technology applied, work environment, organizational structure, size, and information system (Islam & Hu, 2012). The environment in which an organization operates determines how its performance organizationally and financially (Betts, n.d). The theory is based on the idea that a proper fit between organizational design factors and environmental factors results in the highest performance. The earliest researchers to apply the Contingency Theory include (Luthans & Stewart, 1977). In their study, specific environmental factors affect the organization directly, and significantly while general environmental factors have indirect influence, are contextual, and directly affect relevant specific factors. Donaldson (1987) used the theory to study organizational framework and designs. He establishes that organizations perform highly where structure designs and structures fit in the contingencies. Donaldson failed to expound on the contingencies that promote high performance. Rather he presents contingencies in generalities, thereby falling short of application to local governments. Rajesh & Jain (n.d) applied the theory to understand the extent to which a firm's strategy affects the management control systems and development of small firms in India. They concluded that while management controls are basic and exist in small businesses, their development and deployment depend on technology size and strategy. Given the present study, all local governments in Uganda operate according to some public policy and have similar objectives: Public Finance and Management ACT 2015, which repealed the Public Finance and Accountability ACT 2003, the Budget ACT 2003, Treasury Single Account (TSA) in 2013 and Integrated Financial Management System (IFMS) (Eton et al., 2018). However, the extent of policy outcomes and goal attainment differ from one local government to another. For example, some local governments utilize their resources more effectively than others; some collect enough revenue resources than others while some present sound and professional accountability reports than others. In view of compliance with standard rules and procedures, some local governments are more complaint than others are. The difference in compliance or non-compliance depends on both management and personal willingness to remain complaint. Today, all local governments are currently implementing IFMS in budgeting and accountability reporting.

However, (Office of the Prime Minister, 2019; Office of the Prime Minister, 2018) show inconsistency in the performance of local governments in Uganda. The Contingency Theory supports the assumption that much as all local governments operate under similar manuals and policies, and have similar administrative structures, the environments in which they operate (rural or urban; new or old local governments; districts or Municipals, attraction and retaining of human resource, etc.) will always affect the way they perform. This suggests that local governments must attend to both their internal and external environments to enforce internal controls towards sound financial accountability. Office of the Auditor General (2017) finds that different local governments report and account for funds differently. The difference could stem from the environment in which the local governments operate. Some operate under strict adherence to the Local Government Act while others operate under the influence of political heads and leaders, fueled by personal ethos. Based on this theorization, this study tested the following hypotheses:

H_{01}: Control activities do not have a significant effect on financial accountability in Lira District Local Government.

H_{02}: Control environment does not have a significant on financial accountability in Lira District Local Government.

H_{03}: Monitoring of controls does not have a significant on financial accountability in Lira District Local Government.

Effect of control activities on financial accountability

An investigation on financial accountability in Nigeria's public sector reveals that compliance with the required standards and guidance, internal control activities, procedures, and policies improve accountability(Bina & Obah, 2018). A study by Muraleetharan (2013) found that adequate records maintenance, duplication of systems, efficient control of staff, written responsibilities, and directions significantly improve performance. These studies however describe performance in generalities without a focus on financial accountability. They measure control activities and financial accountability in isolation. A study by Wach ira, Ngahu, and Wagoki (2014) found that control activities significantly relate to financial management. They characterized internal control to mean separations of roles, clear supervision, and total commitment of management. A related study in Kenya linked control activities, and monitoring of information technology with financial management (Kipkemboi, Ayuma, & Terer, 2016). While the studies focus on financial management, they reveal weaknesses in the implementations of financial controls, as the internal audit functions do not extend to departments. Given the current study, separation of roles and responsibilities in Uganda's local governments suffers political influence and tribalism. Even in organizations where internal controls are well established, the need to ensure adequate, efficient, and effective financial accountability remains core. For instance, Adeyemi & Olarewaju, 2019 observed that the internal auditors need to be independent of any person responsible for operations related to finance. Similarly, in organizations where internal control functions are highly followed, there is a significant linkage between internal control systems and financial performance (Phiri & Mbetwa, 2017). This study was particular on financial performance and not financial accountability. Internal control systems and financial reporting bear significant results if all parties involved would adhere to their duties (Agbenyo, Jiang, & Komla, 2018). Otherwise, internal control may not provide absolute assurance to an entity's management. In a related view, some staff in the organization might gain access to some useful information that is financial in nature without the knowledge of other staff(Ejoh & Ejom, 2014). The study, therefore, does find a significant relationship between internal control activities and financial performance but not financial accountability. In view of revenue collection, (Mwachiro, 2013)establishes that weak internal controls encourage embezzlement of revenue collected, loss of revenue, and collusion to fraud. This study examined how internal controls contribute to increased collected revenue in Kenya. The aspect of revenue collection in Kenya revenue Authority does not paint the right picture of revenue collection in local governments. Haas and Manwaring (2017)show that municipal revenues are insufficient to finance public infrastructure and targeted policy outcomes. The report recommends outsourcing of tax collection. Private firms have greater staffing and financial capacity, which expands tax collection potential. These two studies indicate loopholes in internal controls, with privatizing tax collection as the possible remedy.

Effect of control environment on financial accountability

In the local government context, control environment refers to rules and procedures (both internal and external) upon which local governments perform their daily operations (Benedek, Tubak, & Beres, 2014). It provides the background for employees' consciousness and actions. The control environment sets the tone for implementing effective internal control(Yurniwati & Rizaldi, 2015). The encouragement of a control environment by a local government would offer a springboard on which to control and manage fraud (Nuswantara, Maulidi, & Pujiono, 2017). In any case, if a controlled environment is absent, it would most likely increase higher chances of fraudulent practices in local government. A favorable control environment characterizes management's knowledge about internal controls, management's commitment to maintaining controls, and management's communication and support for internal controls to all staff (Government Finance Officers Association, 2007). The guide further notes that excessiveness or redundancy affects employees' perception on internal controls, which adversely affects the overall control environment. Therefore, there is a need for managerial balance. Similarly, a control environment has the following contexts: personnel integrity, management style, management idea, and organizational culture (Mwachiro, 2013). The staff creates, manage, implement and supervise the internal control system. Management influences decision-making while culture describes the powers an individual has in the organization. The quality of the control environment is essential in reducing the level of fraudulent activities in the organization (Saidu & Zabedah, 2013). These studies highlight the role of control environment but fail to recognize that implementation of these procedures varies from person to person. While some managers and employees might perceive these procedures as essential, they are affected by their redundancy or strictness. Even in institutions where whistleblowing exists, not all employees will appreciate its importance in fraud management (Maulida & Bayunitri, 2021; Heliantono, Gunawan, Khomsiyah, & Arsjah, 2020).

According to (Yurniwati & Rizaldi, 2015), environmental control is one of the hindrances to implementing good financial management. They link the weak financial control system to the lousy control environment condition. Specifically, the study links the lousy control environment to the leadership, which lacks managerial and technical competence in running public sector institutions. Similarly, strengthening the control environment in municipalities reduces opportunities for fraud, increases compliance with the regulatory environment, and the likelihood for efficient utilization of resources (Moreno-Enguix, Gras-Gil, & Hernandez_Fernandez, 2017). However, these studies do not provide a context of the environment to support their claims. Evidence from Northern Uganda reveals a significant relationship between the control environment and financial performance (Odongkara, 2012:9). The author shows that managerial commitment to the operations of the system and closely monitoring its implementation to the staff at all levels improves the control environment. However, (Idrissi & Alami, 2021) show that audit and nomination committees significantly affect financial performance while _(Bayunitri & Nugraha, 2020) found that internal control significantly prevents fraud. Njagi and Mwangi (2019) established a significant correlation between control environment and revenue collection. He observes that increasing environmental controls translates into high revenue collection. However, (Kipkemboi et al., 2016) found that control environment is not significant in predicting changes in financial management. The study does not account for this insignificant relationship. Whenever strong controls are lacking in an organization, they increase the opportunity for a fraudulent environment is increased. In essence, a weak control environment increases the opportunities for fraud to occur (Huefner, 2011).

In view of revenue collection, Kiplangat (2016) established that control environment has no significant influence on revenue collection. The study, which was conducted in hospitals in Kenya, reveals that the hospital sets unrealistic revenue targets that are unachievable. While public hospitals and local governments might have similar goals (service provision), their revenue targets are far different. Similarly, this study was based on a census, which might be impossible in the current study, given the aspect of time and resources. In view of resource allocation, (Agyapong, 2017) investigates internal control activities as a tool for managing finances in the public sector. The study establishes that continuous lapse exhibited in internal control systems in the public sector makes fertile ground for misallocating public resources. The study reveals that though internal controls exist, they are not effective, which makes it easier for people to commit fraud.

Effect of monitoring of activities on financial accountability

The need for monitoring and evaluation of public activities originates from the fact that fiscal decentralization requires strong institutions for financial accountability. In the absence of such institutions, local governments are prey to waste, corruption, and inefficiencies (Yilmaz, Beris, Serrano-Berthet, & Rodrigo, 2008; Makgatho, 2013).In any local government, accountability failures indicate that monitoring of activities is weak. Thus, organizations need to review their internal controls and establish strong monitoring mechanisms (Mukyala et al., 2017).Monitoring the operations of the organizations, internal control practices should be continued through training, enforcement of financial regulations, and feedback (INTOSAI, 2001; Makgatho, 2013).A study conducted in Ghana by (Ofori, 2011)shows monitoring as an effective internal control element in Ghana Post Company Limited. However, the staff appears to be failing in reporting weaknesses promptly. The research also indicates some gaps in effective follow-up procedures that would ensure the right change of action. Operationalizing effective and efficient monitoring and evaluation systems for local governments, (Kariuki & Reddy, 2017) found that low monitoring and evaluation capacity in Municipalities and inadequate resourcing of competent monitoring and evaluation personnel stifled delivery of monitoring and evaluation services. While these two studies examine operations of monitoring and evaluation in public sector institutions, they differ in context: higher education and local government.

Evidence from Uganda's public sector showed that standard procedures and effective accountability systems are necessary for promoting good governance (Ojok, 2016). In particular, monitoring and evaluation provide supportive information in decision-making, improves organizational skills and knowledge, and good governance. Okello (2017) establishes a positive significant relationship between monitoring the compliance by taxpayers and local revenue performance in Lira District Local Government. The study reveals that taxpayers lack relevant skills and knowledge, which are important in expediting tax obligations. Though many institutions in Uganda monitor the performance of public institutions, there are irregularities in local governments. Institutions such as the Auditor General, Inspectorate of Government, Parliament, Directorate of Public Prosecution, Judiciary, and the Anti-corrupt court, report numerous variations in financial accountability at the local government level (Kiyemba, 2018). Supporting, (Kiyemba, 2018) concludes that oversight institutions have the potential to ensure compliance to systems, standards, and procedures only if they prove strong and effective. The two authors, however, fail to consider political will in operating within the laws. More than often, local governments operate under the political influence than the legal procedure.

Additionally, both authors do not explain the circumstances that hinder local governments from operating within the laws. However, Ferry, Eckersley, & Zakaria (2015) note that too much monitoring of rules and procedures hinders decision-making resulting in negative operational performance. They explain that the cost of operating accounting procedures might outweigh the potential benefits they might deliver. For example, outsourcing, privatization, and private partnership have seen a reduction in accountability of public services because of the complexity of supplier contracts. While national institutions mandated to monitor government operations appear to be effective, community-based committees might be effective in monitoring local government budgets. For instance, (Schaeffer & Yilmaz, 2008) explain that in local governments where the budget expenditures stand a risk of meeting non-budget activities, community-based involvement is very useful in monitoring budget implementation. This level of monitoring and controlling of budget spending promotes some degree of flexibility in spending. Mahmoud (2017) analyzed internal control and revenue generation in the public sector in Nigeria. The study finds a significant effect between internal control and revenue generation. However, the study concludes with hiccups on monitoring of activities. The study indicates the inadequacy of monitoring of taxpayers, feedback, and periodic audit as hindrances to improved revenue generation and sustainable economic growth. In public institutions of higher learning in Kenya, (Kisanyanya & Omagwa, 2018) show that financial monitoring has a positive and significant effect on Much as these studies were conducted in non-local government institutions, the findings bear similarity with local governments in terms of revenue collection but the scope of operation differs greatly. Notwithstanding, (Kisanyanya & Omagwa, 2018) fail to bring out the contextual parameters that promote the independence of the audit department. Relatedly, European Union (2010) reveals that monitoring tax revenue can restore public finances in a sustainable and growth-friendly way. This study indicates the importance of monitoring tax revenues but does not link monitoring to financial accountability.

3. Research methodology

The study adopted a correlational design to relate internal control with financial accountability (Creswell, 2009). A quantitative approach helped in understanding numerical data and establishing relationships while qualitative approach helped in understanding non-numerical information on internal controls and financial accountability. The study used a cross-sectional survey strategy based on self-administered questionnaires and interviews to collect numerical and non-numerical from participants. The study population included156 study units composing 45 division staff and 111 sub-county staff. The study considered these staff for their role in internal control and financial accountability at municipality and sub-county levels. The study considered staff in the four divisions, and the eight sub-counties. A sample size of 112subjects was selected based on simple random sampling to select participants at both division level and sub-county level. The researcher used purposive sampling to select some staff from the accounts at both division and sub-counties, and audit departments at division levels. A printed set of questions detailing the extent of control activities, control environment, and monitoring on financial accountability was prepared. The questionnaire had three sections. Section A constituted of questions on demographic characteristics of respondents such as gender, age, level of education, and department. Section B, constituted questions on internal control, with sub-sections on control activities, control environment, and monitoring. Section C, constituted questions on financial accountability. These questions were both close-ended. The interview guide constituted of broad open-ended questions that required deeper explanations that relate to internal controls and financial accountability. The interview guide was administered to key informants, especially staff in the Accounts and Audit departments of the local government. A content validity index, which measured 0.916 showed that the instrument met the content validity requirements, and the conclusions thereon were used for prediction, and generalization. On the other hand, Cronbach's Alpha coefficient ($\alpha > .70$) for Likert-type scales test was performed indicated that the instrument was internally stable. The researcher used correlation tests to establish relationships, and multiple regression tests to establish the effect of internal control on financial accountability. SPSS V 20.0, software for data analysis, was used to aid quantitative techniques. Qualitative data from interviews were presented as direct verbatim augmented.

4. Results and discussion

The researcher examined the different demographic characteristics of the participants. Participation by gender shows that majority of the participants were male (65.5%) while the female was 34.5%. This suggests that more men than women dominated the study. The low response of women in the study relates to the fact that few women seem to respond to job adverts, which local government advertise in popular media. Participation by the department shows that majority of the participants had attachments to education (39.2%) and health (30.9%). The least participation appeared among administration, finance and planning, works and water, Community Based Services, and internal audit departments, all of which cumulatively represented 25.8%. In terms of age, participants were into 18 – 34 years, 35 – 49 years, and 50 and above. Accordingly, 51.5% of the participants fell within the 35 – 49 years age bracket and were the majority. This suggests that most of the participants were adults. The least participation was observed among the older persons who constituted only 12.4%. The study established that 55.7% of the participants had bachelors' degrees followed by those with masters' degrees (26.8%). The participants with university education are characteristic of the teachers, health workers, and head of the different departments. On the other hand, the participants with the diploma and certificate education might be characteristic of elected leaders at the sub-county level. The small percentage of the masters' degrees is indicative of participants at senior ranks and above, which positions require advanced degrees. However, there is also a possibility that the district lacks a staff development plan, where an interested employee can enroll for further studies and a career.

Correlation tests
Correlation is the statistical technique for testing the relationship between two numerical variables. Correlation uses the correlation coefficient to measure the degree of the strength between the variables. Correlation coefficients closer to 1.0 indicate a strong relationship while those close to zero indicate a weak relationship between the variables. A positive correlation coefficient indicates a positive relationship while a negative correlation coefficient indicates a negative relationship between the variables. A positive relationship means that the two variables change in the same direction while a positive relationship means that the two variables change in opposite directions. The following table shows the relationships between the different constructs.

Table 1. Correlations

Variable		1	2	3
1. Control Activities	Pearson Correlation	1		
2. Control Environment	Pearson Correlation	.106	1	
	Sig. (2-tailed)	.300		
3. Monitoring controls	Pearson Correlation	.185	.591**	1
	Sig. (2-tailed)	.070	.000	
4. Financial Accountability	Pearson Correlation	.047	.614**	.696**
	Sig. (2-tailed)	.646	.000	.000

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

The study shows a very weak association between control environment and financial accountability (r = .047; sig. >.05). This implies that a variation in control activities is associated with a very weak variation in financial accountability. The researcher observed a strong association between control environment and financial accountability (r = .614; sig. <.05). This implies that a variation in the control environment is likely to generate a strong variation in financial accountability. Finally, the researcher observed a strong association between monitoring controls and financial accountability (r = .696; sig. <.05). The statistics imply that a variation in monitoring controls is likely to produce a strong variation in financial accountability. Importantly, however, the association between control activities and financial accountability was statistically insignificant. The statistics suggest that efforts to streamline control activities in Lira District Local Government do not reflect significant changes in financial accountability. On the other hand, the associations between control environment and financial accountability, and monitoring controls and financial accountability were found to be statistically significant. In practice, local governments that pay attention to their control environments and monitoring controls are likely to register high levels of financial accountability than those that do not. Given the above, therefore, the researcher concludes that implementing internal controls in Uganda's local governments is associated with improved financial accountability. Local governments in Uganda should therefore tighten their adherence to internal control systems if they are to register effective financial accountability. Based on the significance levels (p-value- approach), this study accepted the null hypothesis that control activities do not have a significant effect on financial accountability. On the other hand, this study rejected the null hypotheses that control environment and monitoring controls do not have significant effects on financial accountability.

Regression tests
Regression is the statistical technique that establishes a functional relationship between the independent and dependent variables. The mathematical function takes the form of $y = a + bx$, where x and y are independent and dependent variables respectively, while a and b are regression constants. In the current study, financial accountability was treated as the dependent variable while internal control systems were treated as the independent variables. Regression uses beta coefficients to explain the level of effect in the dependent variable accounted for by the independent variable. The following table summarizes regression tests.

Table 2. Regression tests

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.838	0.220		8.368	0.000
Control Activities	-0.051	0.043	-0.083	-1.182	0.240
Control Environment	0.232	0.064	0.311	3.622	0.000
Monitoring controls	0.353	0.058	0.527	6.061	0.000
R = .744;	R = Square = .554;		Std. error of estimate = .333		

a: Predictors: (Constant), Monitoring controls, Control Activities, Control Environment
b: Dependent Variable: Financial Accountability

From (R square = 0.554), internal control systems appear to affect financial accountability in Lira District Local Government by about 55.4%. The statistics suggest that given all internal controls in place, the district is likely to realize a change in its financial accountability of 55.4%. By implication, local governments in Uganda are likely to realize significant effects if internal controls such as control activities, monitoring controls, and control environment are fully implemented and adhered to. From the (Beta = -0.083), control activities appear to reduce financial accountability by approximately 8.3% for a very unit-change in control activities. However, they do not have any significant effect on financial accountability. By implication, local governments in Uganda may not realize positive changes in their financial accountability by observing internal control activities. The survey agrees with (Adeyemi & Olarewaju, 2019) who suggested that the absence of independence between the internal auditors and the persons responsible for financial operations stifles the effectiveness of financial accountability. Similarly, (Agbenyo, Jiang, & Komla, 2018; Ejoh & Ejom, 2014; Mwachiro, 2013) who found the non-significant effect of control activities on financial accountability. These studies contend that weak internal controls encourage collusion to fraud and embezzlement of the revenue collected. This study observed this challenge in an interview: "…*our policy guidelines spell out who does what…but sometimes, you get one person crowded with everyone's responsibility, which undermines the performance of other departments*…" From the above excerpt, this study observes that some gaps exist in the way local governments conduct their duties. There seem to be challenged in the segregation of duties, and some staff is not contented with their duty allocations. The findings however appear to disagree with (Bina & Obah, 2018; Muraleetharan, 2013; Wach ira, Ngahu, & Wagoki, 2014) who show that organizations, which are compliant with appropriate standards and guidance, internal control activities, procedures, and policies, are likely to have improved financial accountability. The current study demonstrated some degree of compliance in the district local government's budgeting and financial reporting. However, the non-significant effect of control activities suggests that the levels of compliance with budgeting and financial reporting as claimed by participants are not generalizable to local governments in Uganda.

From the (Beta = 0.311), every unit-change in control environment is likely to affect financial accountability by 31.1%. Importantly, the effect of control environment on financial accountability is significant (sig. = .000), which is below 0.05. Implicitly, the internal control environment is significant in explaining variations in financial accountability. This is consistent with agrees with (Yurniwati & Rizaldi, 2015; Nuswantara et al., 2017; Saidu & Zabedah, 2013)who noted that the control environment helps employees to be conscious about fraudulent actions. Given that the current study was not particular on fraudulent practices in Lira District Local Government, the status of financial accountability demonstrates minimized levels of fraud. The findings however disagree with Yurniwati & Rizaldi (2015) who note that if the leadership lacks the managerial capacity and technical experience in managing government organizations, they are likely to fail in implementing good financial management. The findings disagree with (Kipkemboi et al., 2016; Kiplangat, 2016) who show that control environment is not significant in predicting changes in financial management. The current study established a significant effect of monitoring controls on financial accountability. The findings disagree with (Kariuki & Reddy, 2017) who found low monitoring and evaluation in municipalities, which was associated with inadequate resources, and competent personnel.

From the (Beta = 0.527), every unit-change in monitoring controls explain about 52.7% of the level of variations in financial accountability in Lira District Local Government. Importantly, the significant value (sig. = .000) is below 0.05, which suggests that the effect of monitoring controls on financial accountability is significant. Therefore, local governments in Uganda, which endeavor to implement monitoring controls in their operations, are likely to register significant changes in their financial accountability outputs. While the current study did not focus on the quality and quantity of resources including personnel resources in Lira District Local Government, the significant effect of monitoring controls on financial accountability demonstrates some adequate levels of resources. The findings also disagree with (Ferry et al., 2015) who argue that too much monitoring rules and procedures hinder decision-making and consequently negative performance. One key informant observed on budgeting, "… *I do not find it a problem to involve a number of stakeholders in the budgeting cycle. It is actually a very good practice to transparency. However, I find it very bureaucratic and rigid… you need to consult every time you wish to respond to an emergency…this delays the pace at which services are provided*…"According to the excerpt above, too much monitoring affects local government performance, especially in budget performance. While the budget is a very important tool for financial accountability, the presence of too many controls may limit the pace at which local governments provide services.

5. Conclusion and recommendation

The study examined the effect of internal control systems on financial accountability Lira District Local Government. There is a significant effect of internal control systems on financial accountability mostly pronounced from control environment and monitoring controls than control activities. While control activities do not have a significant effect on financial accountability, control environment, and monitoring controls have a significant effect on financial accountability. Therefore, local governments in Uganda that ensure sound control environments and monitoring controls are likely to register superior financial accountability. The timely audit and assessment reports to Council do not only promote transparency but also guide Council in implementing her mandatory and constitutional roles. Much as there are some indicators of not following action plans to the dot, the consensus among participants confirms that monitoring controls have a significant effect on financial accountability in Uganda's local governments.

Implications and limitations

Local government performance in Uganda has been measured from such dimensions as leadership, revenue collection, human resource management, decentralization, and financial performance. Measuring local government performance in terms of financial accountability has been documented by the Office of the Auditor-General and Office of the Prime Minister in generalities. However, studies on financial accountability and internal controls focusing on Lira district local government are scarce. This study contributes empirical-based results that validate the contingent theory and extends its relevancy in understanding the operational environments in local governments. Efforts to ensure local governments operate independently remain futile. The independence of many departments at the local government level remains lacking due to political influence and ambiance. These must stop for efficient performance and service delivery. For improved financial accountability and compliance, management should ensure crosschecking all transactions for accuracy before reporting as one of the measures to improve the internal control system at the District. Literature survey revealed that community participation improves the decisions of the council on budgeting and financial reporting. Future researchers should consider investigating the role of community participation on the performance of district local governments in Uganda. Some participants perceived the study as an investigation on corruption practices in local governments, which limited the objectivity of some responses.

Acknowledgment
Not applicable

References

Abubakar, A. A., Dibal, N. A., Amade, P., & Pwagudsadi, J. (2017). Effect of internal control on financial accountability and transparency in local government areas of Borno state, Nigeria. *European Journal of Business Management,* 9(30).

Adeyemi, F. K., & Olarewaju, O. M. (2019). Internal Control system and Financial Accountability: An Investigation of Nigerian South-Western Public Sector. *Economic Development models of emerging countries(Special Issue),* 245-261.

Afiah, N. N., & Azwari, P. C. (2015). The effect of implementation of government internal control systems on the quality of financial reporting of the local government and its impact on the principles of good governance in Indonesia. *Procedia Social and Behavioral Sciences,* 211(2015), 811-818.

Agbenyo, W., Jiang, Y., & Komla, P. C. (2018). Assessment of government internal control systems on financial reporting quality in Ghana: A Case study of Ghana Revenue authority. *International Journal of Economics and Finance*, 10(11), 40 -50.

Agyapong, K. E. (2017). International control Activities as a tool for financial Management in the Public Sector: A case of Ghana Post Company Limited. *Journal of the Advancement of Development Economies*, 6(1), 43-77.

Aramide, S. F., & Bashir, M. M. (2015). Effectiveness of internal control system and financial accountability at local government level in Nigeria. *International Journal of Research in Business Management*, 3(8), 1-6.

Bayunitri, B. I., & Nugraha, R. (2020). The influence of internal control on fraud prevention (Case study at Bank BRI of Cimahi City). *International Journal of Financial, Accounting, and Management*, *2*(3), 199–211.

Benedek, M., Tubak, K. S., & Beres, D. (2014). Internal controls in local governments. *Public Finance Quartely,* 2014(3), 296 - 309.

Betts, S. C. (n.d). Contingency theory: Science or technology? *Journal of Business & Economics Research,* 1(8), 123 - 130.

Bina, P. A., & Obah, D. (2018). The impact of financial control on accountability in the public sector in Nigeria. *IOR Journal of Economics and Finance*, 9(6), 37 - 56.

Chalam, G. V., & Ng'eni, F. B. (2017). financial accountability and financial reporting in a decentralized environment in Tanzanian local government authorities. *International Journal of Management (IJM),* 8(3), 14-31.

Creswell, J. W. (2009). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*. London: Sage Publications.

Donaldson, L. (1987). Strategy and Structural Adjustment to Regain Fit and Performance. In Defence of Contingency Theory (pp. 1-24). *Journal of Management Studies,* 24(1).

Ejoh, N., & Ejom, P. (2014). The impact of internal control activities on financial performance of tertiary institutions in Nigeria. *Journal of Economics and Sustainable Development*, 5(16), 133-143.

Eton, M., Murezi, C., Mwosi, F., & Ogwel, B. P. (2018:106). Internal control systems and financial accountability in Uganda: A Case of selected districts in Western Uganda. *International Journal of Commerce and Management Research,* 4(4), 106-111.

European Union. (2010, June). Monitoring Tax revenues and tax reforms in EU member States. European Economy. European Union.

Everson, M., Soske, S., Martnes, F., Beston, C., Harris, C., Garcia, J., . . . Perraglia, S. (2013). Internal control - Integrated framework. The committee of Sponsoring Organization of the Treadway Commission, p.3.

Ferry, L., Eckersley, P., & Zakaria, Z. (2015). Accountability and transparency in English Local Government: moving from 'Matching Parts' to 'Awkward Couple'. *Financial Accountability & Management*, 31(3), 345-361.

Government Finance Officers Association. (2007). *Evaluating Internal Controls: A Local Government Manager's Guide*. Chicago: Government finance Officers Association of the United States and Canada.

Haas, A. R., & Manwaring, P. (2017). Private VS Public collection in enhancing local revenues. Cities that Work. *International growth Center*.

Hay, D. (1993). Intenral contro: How it evolved in four English-speaking countries. *Accounting Historians Journal*, 20(1), 79-102.

Heliantono, H., Gunawan, I. D., Khomsiyah, K., & Arsjah, R. J. (2020). Moral development as the influencer of fraud detection. *International journal of Financial, Accounting, and Management, 2*(1), 1–11.

Huefner, R. J. (2011). Frau Risk in Local government: An Analysis of Audit Findings. *Journal of Forensic & Investigative Accounting*, 3(3), 111- 125.

Idrissi, E. I., & Alami, Y. (2021). The fiancial impacts if biard mechanisms on performance: The case of listed Moroccan banks. *International Journal of Financial, Accounting, and Management, 3*(2), 93–113.

INTOSAI. (2001). Internal Control: Providing a Foundation for Accountability in Government. Internal Control Standards Committee.

Islam, J., & Hu, H. (2012). A review of literature on contingency theory in managerial accounting. *African Journal of Business Management*, 6(15), 5159 - 5164.

Kariuki, P., & Reddy, P. (2017). Operationalizing an effective monitoring and evaluation system for local government: Considreations for best practice. *African Evaluation Journal*, 5(2), 1-8.

Kasim, E. Y. (2015). Effect of government accountants competency and implementation of internal control to the quality of government financial reporting. *International Journal of Business, Economics and Law*, 8(1), 97-105.

Kewo, C. L. (2017). The Influence of Internal Control Implementation and Managerial Performance on Financial Accountability Local Government in Indonesia. *Implementation internal control system will improve the financial issues*, 7(1), 293-297.

Kipkemboi, C., Ayuma, C., & Terer, E. (2016). Effect of internal systems on financial management in Baringo county government, Kenya. *Journal of Economics, Finance and Accounting*, Vol 3(Issue 1), 1 - 16.

Kiplangat, D. S. (2016). Assessment of internal control systems effects on revenue collection at Nakuru Five Hospital. *International Journal of Economics, commerce and Management*, 4(10), 1004 - 1022.

Kisanyanya, A. G., & Omagwa, J. (2018). Internal control systems and financial performance of public institutions of higher learning in Vihiga county, Kenya. *IOSR Journal of Business and Management*, 20(4), 31-41.

Kiyemba, R. (2018). *Determinants of financial accountability in local government in Uganda: A case study of Wakiso district local council*. Kampala: Makerere University.

Kothari, C. R. (2004). *Research Methodology: Methods and Techniques*. New Delhi: New Age Publishers.

Lakis, V., & Giriunas, L. (2012). The concept of internal control system: Theoretical aspect. *Ekonomika*, 91(2), 142–152.

Lauren, D. (2017, September 26). Business Operations: The history of internal control systems. Retrieved from bizfluent: https://bizfluent.com

Lotz, J. (2005). Accountability and control in the financing of local government in Denmakr. OECD *Journal of Budgeting*, 5(2), 56-67.

Luthans, F., & Stewart, T. I. (1977). A general contingency theory of management. *The Academy of Management Review*, 2(2), 181 - 198.

Mahmoud, I. (2017). Internal control and public sector revenue generation in nigeria: an empirical analysis. *IJSRSSMS*, 1(2), 35 - 48.

Makgatho, E. K. (2013). *Effectiveness of internal controll mechanisms in monitoring financial resources at Gauteng Department of Education*. Vaal Triangle Campus of North-West University.

Maulida, W. Y., & Bayunitri, B. I. (2021). The influence of whistleblowing system toward fraud prevention. *International journal of Financial, Accounting, and Management*, *2*(4), 275–294.
Moeller, R. R. (1997). Changing definitions of internal control and information systems integrity. In S. Jajodia, W. List, G. McGregor, & L. Strous, *Integrity and internal control in information systems (Eds)* (pp. 256-272). Chapman & Hall.
Moreno-Enguix, M. d., Gras-Gil, E., & Hernandez_Fernandez, J. (2017). An Explanation of Management of Local Government in Spain Based on the Structure of the Internal Control System. *Annals of Economics and Finance*, 18(2), 393 - 410.
Mu'azu, S. B. (2017). The relevancy of contingency theory and stewardship theory on the internal audit research. *Journal of World Economic Research*, 6(2), 17 - 22.
Mukyala, V., Bananuka, J., Basuuta, M., Tumwebaze, Z., & Bakalikwira. (2017). Accountability of local government authorities: A developing economy perspective. *African Journal of Business Management*, 11(12), 266-274.
Mukyala, V., Bananuka, J., Basuuta, M., Tumwebaze, Z., & Bakalikwira, L. (2017). Accountability of Local Government Authorities: A Developing Country Perspective . *Africa Journal of Business Management*, 11(12), 266-274.
Muraleetharan, P. (2013). Control activities and performance of organizations in Jaffna district. *International journal of Marketing, Financial Services & Marketing Research*, Vol 2(No. 4), 10 - 16.
Mwachiro, D. B. (2013). *Effect of internal controlc on revenue collection: A case of Kenyan Revenue Authority*. Nairobi: University of Nairobi.
Njagi, A. W., & Mwangi, M. (2019). Effect of internal controls on revenue collection of level five hospitals in Kiambu county. *International Academic journal of Economics and Finance*, 3(3), 98 - 116.
Nuswantara, D. A., Maulidi, A., & Pujiono. (2017). The efficacy of control environment as fraud deterrence in local government. *Management & Marketing: challenges for Knowledge Society*, 12(42), 59 1 - 613.
Odongkara, D. (2012:9). *Internal control systems and fiancial performance of Municipal Urban Councils in Northern Uganda*. Kampala: Makerere University.
Office of the Auditor General. (2017). Report of the Auditor general on the Financial Statements of Lira district Local Government for the Year ended 30th June 2017. Kampala: Office of the Auditor General .
Office of the Prime Minister. (2018). Local Government Performance Assessment, 2017/18. Synthesis Report. Kampala: Office of the Prime Minister.
Office of the Prime Minister. (2019). Local government Performance Assessment Report - FY2018/2019. National Synthesis Report. Kampala: Office of the Prime Minister.
Ofori, W. (2011). *Effectiveness of Internal conrols: A perception or reality? The evidence of Ghana Post company limited in Ashanti Region*. Kwame Nkurumah University.
Ogujiuba, K., & Okafor, H. (2013). *Public Financial Management and Fiscal Outcomes in Nigeria Empirical Evidence. Enugu*, Nigeria: African Heritage Institution (AfriHeritage).
Ojok, J. (2016). *Effective role of public sector monitoring and evaluation in promoting good governance in Uganda: Implication from the ministry of local Government*. Kampala: UTAMU.
Okello, A. (2017). *Monitoring taxpayers' compliance and local revenue performance in local government: A case of Lira district local government*. Semantic Scholars.
Phiri, J., & Mbetwa, S. (2017). Investigating the link between internal controls and financial performance in technical colleges in Zambia: A case of Kabwe institute of technology. *International Journal of Multidisciplinary Research and Development*, 4(10), 123-128.
Rajesh, A. E., & Jain, N. (n.d). Contingency Theory and Management control Packages in Small firms: Case Evidence from India.
Saidu, M. B., & Zabedah, S. S. (2013). Impact of the effective internal control system on the intenral audit effectiveness at local government level. *Journal of social and Development Sciences*, 4(1), 16-23.

Schaeffer, M., & Yilmaz, S. (2008, November). Strengthening Local government Budgeting and Accountability. Policy Research Working Paper 4767. The World Bank: Sustainable Development Network & Social Development Department.

Wach ira, J. W., Ngahu, S., & Wagoki, J. (2014). Effects financial control on financial management in Kenya's public sector: A case of national government departments in mirangine sub county, nyandarua county. *IOSR Journal of business and Management*, 6(10), 105-115.

Weill, P., & Olson, M. H. (1887). An assessment of the contingency theory of MIS. New York University: Center for Research on Information Systems Area.

Woodward, J. (1958). Problems of Progress in Industry. London: H.M. Stationery Off.

Yilmaz, S., Beris, Y., Serrano-Berthet, & Rodrigo. (2008, July). Local government Discretion and Accountability: A Diagnostic Framework for Local Governance. Social Development Working Papers: Local Governance and Accountability Series. The world Bank: Social Development.

Yurniwati, & Rizaldi, A. (2015). Control Environmnet Analysis at Government Internal control System: Indonesia Care. *Procedia - Social and Behavioral Sciences*, 211(2015), 844 - 850.

Zoltan, I. D., Gabor, G., & Margit, H. (2011). *Evaluation of the internal control system at Central budgetary institutions.* Hungary: State Audit Office of Hungary.

Zuraidah, M. S., Razana, J. J., Jamaliah, S., & Takiah, I. (2015). The effect of Internal control System, Financial Management and Accountability of NPOs: The Perspective of Mosques in Malaysia. *Procedia Economica and Finance,* 28, 156-162.