

**Relationship between Internal Control Environment and Financial Accountability in Selected NGO's In
Kampala District, Uganda**

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Abstract

Non-Governmental Organizations (NGOs) in Uganda play a crucial role in development initiatives, yet concerns about financial accountability persist. The internal control environment serves as a foundational mechanism for ensuring transparent resource management and stakeholder confidence. This cross-sectional study examined five NGOs in Kampala District between January and March 2024. Using a mixed sampling approach, 118 respondents were selected from a population of 168, comprising NGO administrators, procurement officers, internal auditors, staff members, and beneficiaries. Data were collected through structured questionnaires and analyzed using SPSS version 25, employing descriptive statistics and Pearson correlation analysis. The study revealed a significant positive relationship between internal control environment and financial accountability ($r=0.742$, $p<0.01$). Control activities showed the strongest correlation ($r=0.698$, $p<0.01$), followed by monitoring mechanisms ($r=0.651$, $p<0.01$). Approximately 55% of variance in financial accountability was explained by the internal control environment. However, 32% of respondents reported inadequate segregation of duties, while 28% cited weak monitoring systems. A robust internal control environment significantly enhances financial accountability in NGOs. Organizations with comprehensive control frameworks demonstrated superior financial reporting accuracy, resource utilization efficiency, and stakeholder trust. NGOs should strengthen control activities through clear segregation of duties, implement continuous monitoring systems, invest in staff capacity building on internal controls, and adopt technology-driven financial management systems to enhance accountability.

Keywords: Internal control environment, financial accountability, non-governmental organizations, Kampala District, control activities, monitoring mechanisms

1.0 Introduction

1.1 Background of the Study

The proliferation of Non-Governmental Organizations in Uganda has transformed the development landscape, with over 14,000 registered NGOs contributing significantly to poverty alleviation, health service delivery, education provision, and community empowerment initiatives (Irumba et al., 2024). Kampala District, as the administrative and commercial hub of Uganda, hosts numerous national and international NGOs managing substantial financial resources from diverse donors and stakeholders (Jul et al., 2024). The effectiveness of these organizations in achieving their mandates depends critically on sound financial management practices underpinned by robust internal control systems (Deus, 2023).

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Internal control environment represents the foundation of organizational governance, encompassing the collective effect of various factors that establish, enhance, or mitigate the effectiveness of specific policies and procedures (Alex et al., 2023). According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, the internal control environment includes organizational structure, assignment of authority and responsibility, human resource policies and practices, management's philosophy and operating style, and the competence and integrity of personnel (Ntirandekura & Christopher, 2022). These elements create the organizational climate that influences the quality of internal control and establishes the discipline and structure for achieving accountability objectives (Christopher et al., 2022).

Financial accountability in NGOs extends beyond mere compliance with donor requirements to encompass transparent resource utilization, accurate financial reporting, effective asset management, and demonstrable achievement of programmatic objectives with allocated resources (Irumba et al., 2024). Stakeholders, including donors, beneficiaries, regulatory authorities, and the general public, increasingly demand evidence of prudent financial stewardship and tangible development outcomes (Sarah & Audrey, 2024). The absence of robust accountability mechanisms has previously resulted in donor withdrawal, organizational closure, and erosion of public trust in the NGO sector (Promise et al., 2024).

Despite growing recognition of internal controls' importance, many NGOs in Kampala District continue to experience financial management challenges, including misappropriation of funds, inadequate documentation, weak authorization procedures, and insufficient monitoring mechanisms (Deus, 2023). These deficiencies compromise organizational credibility, threaten sustainability, and undermine the sector's contribution to national development. Understanding the relationship between internal control environment and financial accountability therefore constitutes a critical research priority for strengthening NGO governance and enhancing development effectiveness (Alex et al., 2023).

1.2 Problem Statement

Non-Governmental Organizations in Kampala District have faced persistent questions regarding their financial accountability despite managing billions of shillings annually in donor funds and domestic contributions (David et al., 2023). Reports from the NGO Bureau and various audit investigations between 2022 and 2024 revealed recurring weaknesses in financial management systems, including inadequate documentation of expenditures, unauthorized fund diversions, weak oversight mechanisms, and insufficient financial reporting to stakeholders (Racheal et al., 2023). These deficiencies have resulted in donor fund suspensions, organizational deregistration, and diminished public confidence in the NGO sector's capacity for transparent resource stewardship (Alex et al., 2024).

While existing literature acknowledges the theoretical importance of internal controls, empirical evidence examining the specific relationship between internal control environment and financial accountability within Kampala's NGO context remained limited (Alex & Kazaara, 2023). Previous studies focused predominantly on public sector entities or commercial enterprises, leaving a knowledge gap regarding NGO-specific dynamics (David et al., 2023).

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Furthermore, the unique operational characteristics of NGOs including multiple stakeholders, diverse funding sources, mission-driven orientation, and varying organizational capacities necessitated context-specific investigation (Nancy & Prudence, 2024). This study addressed this gap by systematically examining how internal control environment components influence financial accountability practices in selected NGOs within Kampala District, providing evidence-based insights for strengthening governance frameworks.

1.3 Main Objective

To examine the relationship between internal control environment and financial accountability in NGOs.

2.0 Methodology

2.1 Research Design and Study Area

This study employed a cross-sectional descriptive correlational design to examine the relationship between internal control environment and financial accountability in selected NGOs operating within Kampala District, Uganda. The cross-sectional approach enabled simultaneous data collection from multiple respondent categories, facilitating comprehensive assessment of current practices and perceptions (Nafiu et al., 2017). Kampala District was purposively selected due to its concentration of NGO headquarters, diverse organizational types, and representation of both international and local NGOs. The study was conducted between January and March 2024, covering five purposively selected NGOs operating in health, education, and community development sectors with operational histories exceeding five years (Olanrewaju et al., 2021).

2.2 Population, Sample Size, and Sampling Techniques

The target population comprised 168 individuals across five categories directly involved with or affected by NGO financial management practices. Using Krejcie and Morgan's (1970) table for determining sample size, 118 respondents were selected to ensure statistical representativeness and adequate power for correlation analysis (Abiodun et al., 2022). The sampling strategy employed a mixed approach combining census and probability techniques to capture diverse perspectives while ensuring comprehensive coverage of key informants.

Table 1: Population, Sample Size Determination and Sampling Procedure

Category	Population (N)	Sample Size (S)	Sampling Procedure
NGO administrators	10	10	Census
Procurement officers	05	8	Census
Internal auditors	15	10	Census
Staff members	50	20	Stratified Random Sampling
NGO beneficiaries	88	70	Simple Random Sampling
Total	168	118	Mixed Sampling Approach

Source: Krejcie, R. V., & Morgan, D. W. (1970). *Determining sample size for research activities*.

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Census sampling was applied for administrators, procurement officers, and internal auditors due to their small populations and critical roles in internal control implementation. Staff members were selected through stratified random sampling based on departments to ensure proportional representation. NGO beneficiaries were chosen using simple random sampling through beneficiary lists to capture end-user perspectives on accountability.

2.3 Data Collection and Analysis

Data were collected using structured questionnaires with closed-ended items measured on a five-point Likert scale. The instruments were pre-tested with 15 respondents from non-participating NGOs to establish reliability (Cronbach's alpha = 0.87). Quantitative data were analyzed using Statistical Package for Social Sciences (SPSS) version 25 (Nelson et al., 2022). Descriptive statistics including frequencies, percentages, means, and standard deviations characterized respondent demographics and variable distributions. Pearson correlation coefficient tested the relationship between internal control environment and financial accountability, with significance determined at $p < 0.05$. The study received ethical approval from the relevant institutional review board, and all participants provided informed consent.

3.0 Results and Discussion

3.1 Response Rate

Out of 118 distributed questionnaires, 106 were returned and deemed valid for analysis, yielding a response rate of 89.8%. This high response rate was attributed to the researcher's personal follow-up, the relevance of the study topic to respondents' professional interests, and organizational leadership support for the research.

3.2 Demographic Characteristics

The majority of respondents (62.3%) were aged between 30-45 years, with 58.5% holding bachelor's degrees and 26.4% possessing postgraduate qualifications. Gender distribution showed 54.7% male and 45.3% female respondents. Work experience revealed that 41.5% had served their organizations for 3-5 years, while 28.3% had over five years of experience.

3.3 Internal Control Environment and Financial Accountability

The correlation analysis revealed a statistically significant positive relationship between internal control environment and financial accountability in the selected NGOs ($r = 0.742$, $p < 0.01$). This strong positive correlation indicated that improvements in internal control environment corresponded with enhanced financial accountability practices.

Table 2: Correlation Between Internal Control Environment Components and Financial Accountability

Internal Control Component	Pearson Correlation (r)	Significance (p-value)	Interpretation
Control Activities	0.698**	0.001	Strong positive
Risk Assessment	0.563**	0.003	Moderate positive
Information & Communication	0.621**	0.002	Strong positive
Monitoring Activities	0.651**	0.001	Strong positive

Control Environment (Overall)	0.742**	0.000	Strong positive
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**Note: Correlation is significant at the 0.01 level (2-tailed)

Source: Primary Data, 2025

Table 3: Regression Analysis - Internal Control Environment Predicting Financial Accountability

Model Summary	R	R Square	Adjusted R Square	Std. Error	
Model 1	0.742	0.551	0.547	0.428	
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	23.641	1	23.641	128.93	0.000
Residual	19.052	104	0.183		
Total	42.693	105			

Source: Primary Data, 2025

The regression analysis demonstrated that internal control environment explained 55.1% of the variance in financial accountability ($R^2=0.551$, $F=128.93$, $p<0.001$). This substantial explanatory power confirmed the predictive validity of internal control environment as a determinant of financial accountability outcomes.

Control activities exhibited the strongest correlation with financial accountability ($r=0.698$, $p<0.01$), suggesting that well-defined authorization procedures, segregation of duties, physical controls over assets, and performance reviews constituted the most influential mechanisms for enhancing accountability (Nelson et al., 2023). Monitoring activities showed the second strongest relationship ($r=0.651$, $p<0.01$), highlighting the importance of continuous oversight, internal audits, and corrective action systems. Information and communication systems demonstrated significant positive correlation ($r=0.621$, $p<0.01$), emphasizing the critical role of timely, accurate financial reporting and transparent communication channels. Risk assessment showed moderate positive correlation ($r=0.563$, $p<0.01$), indicating that organizations with systematic risk identification and mitigation strategies exhibited better accountability practices.

However, qualitative observations revealed implementation challenges. Approximately 32% of respondents reported inadequate segregation of duties due to limited staffing, while 28% cited weak monitoring systems attributed to insufficient internal audit resources. These findings suggested that while the relationship between internal control environment and financial accountability was statistically significant, practical constraints affected optimal implementation in resource-constrained NGO settings.

4.0 Conclusions

The study conclusively established that a robust internal control environment significantly enhances financial accountability in NGOs operating within Kampala District. The strong positive correlation ($r=0.742$, $p<0.01$) provided empirical evidence that organizations investing in comprehensive internal control frameworks encompassing effective

control activities, systematic monitoring mechanisms, transparent information systems, and proactive risk assessment demonstrated superior financial accountability outcomes. Control activities emerged as the most critical component, suggesting that practical operational controls directly influence accountability practices more than abstract governance principles.

The finding that internal control environment explained 55.1% of financial accountability variance indicated that while internal controls constitute a major determinant, other factors including organizational culture, leadership commitment, donor requirements, and regulatory frameworks also contribute to accountability outcomes. The persistent implementation challenges identified particularly inadequate segregation of duties and weak monitoring systems highlighted the gap between theoretical understanding and practical application in resource-constrained NGO environments.

These findings aligned with the COSO framework's emphasis on integrated control systems while extending empirical evidence to the Ugandan NGO context. The study contributed to closing the knowledge gap regarding NGO-specific internal control dynamics and provided contextually relevant insights for strengthening governance practices in developing country settings.

5.0 Recommendations

5.1 To NGO Management

NGO leadership should prioritize strengthening control activities through clear documentation of authorization hierarchies, mandatory segregation of duties even in small organizations through job rotation and dual approval systems, and regular reconciliation procedures. Management should establish dedicated internal audit functions or outsource audit services to ensure independent monitoring, and develop comprehensive risk registers with periodic updates to guide control prioritization.

5.2 To NGO Boards

Boards of directors should enhance their oversight responsibilities by establishing audit committees with financial expertise, conducting quarterly reviews of internal control effectiveness, and ensuring adequate resource allocation for control system implementation. Boards must champion ethical culture by modeling integrity, enforcing zero-tolerance policies for financial misconduct, and recognizing staff compliance with control procedures.

5.3 Technology Integration

NGOs should invest in affordable accounting software with built-in control features including automated authorization workflows, audit trails, and real-time reporting capabilities. Cloud-based financial management systems can enhance transparency by enabling remote monitoring by boards and donors while reducing manual control vulnerabilities. Organizations should explore technology partnerships and donor support for system acquisition and staff training.

5.4 Capacity Building

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Systematic capacity development programs should address identified competency gaps through regular training on internal control principles, financial management standards, and accountability best practices. NGOs should develop internal mentorship programs pairing experienced financial personnel with junior staff, and pursue professional certifications for finance teams to strengthen technical expertise.

5.5 For Policy Makers

The NGO Bureau should mandate minimum internal control standards as registration and renewal requirements, provide technical guidance materials on control system design for different organizational sizes, and conduct capacity building workshops for NGO financial personnel. Regulatory frameworks should incentivize compliance through recognition programs while enforcing consequences for persistent control deficiencies.

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