
**THE IMPACT OF INTERNAL CONTROL SYSTEMS ON MANAGEMENT OF PUBLIC FUNDS IN
LOCAL GOVERNMENT IN UGANDA. A CASE STUDY OF WAKISO DISTRICT LOCAL
GOVERNMENT**

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ABSTRACT: The study investigated the role of internal control system on the management of public funds in local governments in Uganda. The objectives were to establish the influence control environment, internal audit, monitoring, risk assessment, control activities, information and communication on the management of public funds in local governments. Purposive sampling was used to select the required number of respondents that participated in the study. Data was collected using both interviews and questionnaires for the technical respondents including heads of departments, accountants for different departs and the second questionnaire targeted community leaders at district and Sub County level. Data was analyzed using statistical package for social scientist tables. Pearson's Linear Correlation Coefficient and regression analysis conducted to measure the relationship between the independent (internal control) and dependent variables (management of public funds) and there after conclusions drawn from the tables and figures. This analysis showed that much as the there is a strong positive relationship between internal financial controls (control environment, internal audit, monitoring, risk assessment, control activities, information and communication) and management of public funds. There is much that is practically needed to ensure that service delivery is enhanced. The welfare of the general public can greatly be improved through effective and efficient utilization of public funds in service delivery. The study recommended that since the elements of internal control system used were found to be important in influencing the efficient management of public funds. They should be emphasized and enhanced by the local governments to ensure that the organization's activities are carried out in accordance with established goals, policies and procedures. However, communities which are direct beneficiary of the services rendered by local governments should be part of internal control system for efficient management of public funds for efficient service delivery based on the value for money.

Key words: internal control systems, management, public funds and local government

Background of the study

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Saleemi (2018) defines inner manage because the complete system of controls, monetary and otherwise hooked up by using the management if you want to bring the commercial enterprise of the organization in an orderly and efficient manner, protect the assets and comfy as a long way as viable the completeness and accuracy of the information (Alex & Kazaara, 2023). The COSO (2017) Framework defines internal control system as “a procedure, effected by means of an entity’s board of administrators, control, and different employees, designed to provide reasonable guarantee concerning the fulfillment of goals regarding operations, reporting, and compliance” (Micheal et al., 2023). The COSO (2017) framework identifies five most important factors of a control device in opposition to which the evaluation needs to take area (harmless et al., 2023). Management of public finances refers back to the overseeing and handling of a public institution's cash float. Asare, (2019) additionally defines management of public funds as the asset control which covers any type of gadget that keeps the cost of a public group (Christopher et al., 2022). It may be carried out to intangible assets. it's far the systematic process of operating, deploying, maintaining, disposing, and upgrading belongings within the most price-efficient and exceptional provider shipping-yielding way viable (John et al., 2023).

A well-functioning internal economic control machine need to, among different things, increase public confidence in local governance, facilitate control to attain organizational objectives, offer stakeholders with clear expectancies of budgetary management potential and provide the Inspectorate of government with a clean overview of the manipulate environment and overall performance within the public zone (Annet et al., 2023). It isn't clear however, what might be the function of internal financial manage structures in control of public finances if incidences of fraud and non-accountability are still rampant in nearby Governments an issue that brought about the researcher to carry out a have a look at the position of inner monetary manipulate structures on control of public budget in nearby Governments using Wakiso District nearby government as a Case examine (Paul et al., 2023).

Statement Problem

All government establishments in Uganda these days have clean hints for economic management and numerous institutions and retailers are in area – inclusive of; the Auditor trendy's office; Accountant preferred office, the Inspector widespread of government's office; and the Parliamentary debts Committee; among others (faith et al., 2023). similarly, still, each yr., a manual and round relating to the proper management of public price range are posted and issued by way of the crucial government to the local governments to comply with, on top of the financial and accounting rules, 2017 that should strictly be adhered to by way of all government institutions and dealers in dealing with public budget (fortunate et al., 2023). At the contrary but, various reviews from the Inspectorate of presidency show that the rate of mismanagement of public funds is

high; corruption is standard and transparency is often missing in lots of neighborhood Governments in Uganda these days (Kazaara et al., 2023). In Districts like Masaka, Mbale, Mukono, and Wakiso amongst others, accounting officers and other technical humans as well as District Chairpersons had been detained due to failure to account for public finances acquired as offers from the critical government and domestically generated sales. Given the stance of this trouble, there isn't examine that has been carried out ascertaining whether, internal control structures might be the main aspect affecting control of public budget in Uganda. Consequently, in reaction to this problem, this has a look at will have a look at the impact of internal manage structures in the control of public funds in local governments in Uganda (Ntirandekura et al., 2022)

Objectives of the study

1. To establish the influence of control environment on the management of public funds in local governments in Uganda. ii. To evaluate the effect of internal audit on the management of public funds in local governments in Uganda.
2. To assess the effect of monitoring on the management of public funds in local governments in Uganda
3. To examine the influence of risk assessment on the management of public funds in local governments in Uganda
4. To establish the effect of control activities on the management of public funds in local governments in Uganda
5. To examine the influence of information and communication on the management of public funds in local governments in Uganda

Research questions

1. What is the influence of control environment in the management of public funds in local governments in Uganda?
2. How does the internal audit affect the management of public funds in local governments in Uganda?
3. What is the effect of monitoring in the management of public funds in local governments in Uganda?
4. How does risk assessment affect the management of public funds in local governments in Uganda?

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5. What is the effect of control activities on the management of public funds in local governments in Uganda?
 6. What is the influence of information and communication on the management of public funds in local governments in Uganda?

Research hypothesis

1. Control environment has a significant influence on management of public funds in local governments in Uganda?
2. Internal audit greatly affects the management of public funds in local governments in Uganda?
3. Monitoring has a significant influence on management of public funds in local governments in Uganda? iv. Risk assessment has a significant effect on the management of public funds in local governments in Uganda.
4. Control activities greatly affect the management of public funds in local governments in Uganda.
5. Information and communication have significant influence on the management of public funds in local governments in Uganda.

Methodology**Research design**

The study was conducted using a combination of both qualitative and quantitative research approaches. Qualitative approach is ideal when a holistic and in-depth investigation is needed. On the other hand, quantitative approach helps to describe current conditions or to investigate relationships including effects. The research is thus a descriptive-correlation Case study research designs. It is descriptive research because it attempted to describe the current state of management of public funds. It is a case study because it gives a snapshot of Wakiso district local government. A case study is an Intensive descriptive and holistic analysis of a single entity or a bounded case. Case study was used since Wakiso district local government was chosen as a representative of public organizations, where results of the study can be replicated and applied to other local governments.

Study population

The study targeted respondents in Wakiso district local government. Wakiso district local government was purposely selected simply because it appeared among the „red“ category of public institutions/organizations where the management of public funds is still effective according to Agaba, (2017). The main target population constituted 90 respondents that is to say 15 accountants and auditors, 20 administrators and their assistants, 10 technical staff, 30 other employees and 15 Councilors and other political leaders.

Sampling procedure

The study considered purposive sampling techniques to choose people who participated in giving information in Wakiso district local government about the role of internal financial control in the management of public funds in local governments in Uganda.

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Sample size

The researcher used random sampling method to get the sample size and the sample size consisted of 85 respondents. The sample was carefully collected from Wakiso district local government. Simple random sampling method was used because the technique of random sampling technique is unbiased gives every member of the population chance of being selected into sample.

Table 1: Table Showing the Distribution study Population and Sample Size

Respondents	Study population	Sample size
Accountants and auditors	15	14
Administrators and assistants	20	19
Technical staff	10	10
Other employees	30	28
Councilors and other political leaders	15	14
Total	90	85

Sampling Techniques

The study employed Simple random technique, in this technique; each member of the population had an equal chance of being selected as subject. The entire process of sampling was done in a single step with each subject selected independently of the other members of the population. The study employed this technique because it ensures that each member of the target population has an equal and independent chance of being included in the sample and it produces a random sample.

Data Collection instruments

Multiple data collection instruments criteria were utilized and these included the Self-Administered questionnaires and interview guide as described below.

Self-Administered Questionnaires

Both structured and semi-structured questionnaire were designed and administered to all respondents. Questionnaires were preferred because the tool helps to cover a large number of respondents in a relatively short time. The questionnaire (Appendix II) contained the title of the study, consent statement and a section on respondents' biographic information. The other sections tracked information on objectives of the study.

Interview Guide

To triangulate the findings, the research was conducting interviews and these were conducted with departmental heads and other management staff. Respondents were encouraged to be more open and suggest all other possible observations in regard to the management of public funds. Interactions among participants in interviews stimulate them to provide findings, perceptions and beliefs that they would not express if given questionnaires. Therefore, to

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be able to design the guide for the interviews (Appendix III) this study complied with the guideline of Amin as stated above.

Validity of research instruments

Validity was concerned with establishing whether the right questionnaire content is measuring what they are intended to measure. The content validation is found appropriate in determining the extent to which the set of items provided are relevant and representative sample of the domain of tasks under consideration. The researcher ensured that data collected using various instruments represents the content area under study. This included identifying the relevant items for each of the instruments that was used in the study.

Reliability of research instruments

Reliability in research concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. In order to test the reliability of the instruments the researcher used the test-retest method. This was done by administering the same instruments twice to the same group, and by waiting for a period of two weeks before administering the research instruments for the second time. Then the correlation coefficient of the scores from both tests was calculated using a Pearson's product moment formula in order to establish the extent to which the contents of the questionnaire are consistent in eliciting the same responses every time the instrument is administered.

Data analysis and presentation

Both quantitative and qualitative analysis was conducted as indicated below;

Quantitative analysis

The collected quantitative data was edited; closed ended questions were coded and entered into the computer using excel software for data entry. The entered data was later exported to Statistical Package for Social Sciences (SPSS) (Nelson et al., 2022). The collected quantitative data was edited; open ended questions was coded and entered into the computer using excel software for data entry. The entered data was later exported to Statistical Package for Social Sciences. Two levels of analysis was used descriptive statistical analysis was used to examine the distribution of the variables and inferential analysis using is coefficient of determination was used to find the relationships.

Qualitative analysis

Qualitative data from interviews was also examined and grouped together to generate common themes in relation to the objectives of the study. Regarding the interviews, the responses of the respondents were recorded during the course of the interviews. After collecting qualitative data, information of the same category was assembled together and a report was written. Qualitative data was interpreted by composing explanation or description from the information. It was illustrated and substantiated by quotations or descriptions.

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Community leaders-titles/ responsibilities

This study considered titles of the community leaders sampled in the study as a variable to analyze. The intention was to find out whether respondents were representative of all the local council leadership categories. The results were presented in figure 1

Figure 1: Community leader's titles

Source: Primary data

Figure 1 shows that majority of the community leaders (74%) were councilors, followed by Chairperson's (20%), Executive members (4%) and the least number from the speakers of lower local governments" (2%). This creates the assurance to the researcher that at least all the community leaders categories were represented in the sample and the findings are representative of all of them (Ntirandekura & Christopher, 2022).

The influence of control environment in the management of public funds in local governments**Table 1: Mean Response for Control Environment Questions**

Questions/ Statements	N	Min	Max	Mean	Interpretation
Your district implements internal control systems	50	1	5	4.36	Agree
Top management gives full support to internal control systems to ensure compliance	50	1	5	4.17	Agree
There is active concern and effort by management to ensure compliance with all laws and regulations	50	1	5	4.24	Agree
Exceptions to policy are well documented when they occur in financial transactions	50	1	5	4.00	Agree
Factors that are critical to achieving public finance management in the district are regularly identified and addressed	50	1	5	4.07	Agree
Mean value	50	1	5	4.17	

Source: Primary source

Table 1 above shows the analyses of data used to answer question concerning control environment and management of public funds. Table 7 shows that respondents agreed that Wakiso district implements internal control systems with a mean of (4.36), Top management gives full support to internal control systems to ensure compliance with a mean of (4.17), There is active concern and effort by management to ensure compliance with all laws and regulations with a mean of (4.24), Exceptions to policy are well documented when they occur in financial transactions with a mean of (4.00) and Factors that are critical to achieving public finance management in the

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District are regularly identified and addressed, with a mean of (4.07) (Moses et al., 2023). The overall mean value upon the assessing of the five questions was 4.17. This mean value is above the midpoint which implies that respondents agreed that there is a good control environment at Wakiso district.

Table 2: The Result of Coefficient of Determination

		Mode summery		
Mode	R	R square	Adjusted R Squire	Std. Error of the estimate
1	.711	.646 ^a	.51612321	.253777456

Predictors: (Constant), Control environment

Dependent Variable: Management of public funds

Based on table 2 shows that the value $R = 0,711$, it means there is a significant positive relationship between control environment as the independent variable and management of public funds as the dependent variable in the amount of 71.1% (Nelson et al., 2023). The value of $r^2 = 0,646$ means control environment has influence in the amount of 64.6% on management of public funds, while rest of 35.4% other factors that affects the management of public funds that are not examined in this research.

The effect of internal audit on the management of public funds in local governments in Uganda

Table 3: Mean Response for internal audit Questions

Questions/ Statements	N	Min	Max	Mean	Interpretation
The district management always reviews all internal control activities regularly	50	1	5	4.19	Agree
There is an agreed upon time frame in which accountability is made	50	1	5	4.22	Agree
There are established penalties for late financial reporting	50	1	5	4.00	Agree
Internal Audit verifies all payments and accountabilities	50	1	5	4.19	Agree
The procedures ensure financial discipline and accountability in the district	50	1	5	4.45	Agree
Mean value	50	1	5	4.21	

Source: Primary source

Table 3 above shows the analyses of data used to answer question internal audit and management of public funds. Table 3 shows that respondents agreed that Wakiso district management always reviews all internal control activities regularly with a mean of (4.19), There is an agreed upon time frame in which accountability is made with a mean of

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(4.22), There are established penalties for late financial reporting with a mean of (4.00), Internal Audit verifies all payments and accountabilities with a mean of (4.19) and The procedures ensure financial discipline and accountability in the district, with a mean of (4.47). The overall mean value upon the assessing of the five questions was 4.21. This mean value is above the midpoint which implies that respondents agreed that internal audit has a great influence on the management of public funds (Kiplagat Ngetich & Matanda Wepukhulu, 2017).

Table 4: The Result of Coefficient of Determination

		Mode summery		
Mode	R	R square	Adjusted R Squire	Error of the estimate
2	.625 ^a	.391 ^a	.234354	.374888547

Predictors: (Constant), Internal audit

Dependent Variable: Management of public funds

Based on table 4 shows that the value $R = 0.625$, it means there is a significant positive relationship between internal audit as the independent variable and management of public funds as the dependent variable in the amount of 62.5%. The value of $r \text{ square} = 0.391$ means internal audit affect in the amount of 39.1% on Management of public funds, while rest of 60.9% other factors that affects management of public funds are not examined in this research.

The effect of monitoring in the management of public funds in local governments in Uganda

Table 5: Mean Response for monitoring Questions

Questions/ Statements	N	Min	Max	Mean	Interpretation
Routine spot-checks transactions, records and reconciliation's to ensure that public funds are well managed.	50	1	5	4.09	Agree
Every field activity is monitored to ensure value for money	50	1	5	4.87	Agree
Information and reports are provided timely	50	1	5	4.86	Agree
Information provided by internal and external auditors about control related matters is considered and acted on appropriately.	50	1	5	4.95	Agree
Management periodically evaluates the accuracy, timeliness and relevance of its reporting system	50	1	5	4.83	Agree
Overall Mean value	50	1	5	4.72	

Source: Primary source

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Table 5 shows the analyses of data used in answering questions concerning the influence of monitoring on management of public funds. During the analysis, different assertions scored different mean as discussed below; Routine spot-checks transactions, records and reconciliation's to ensure that public funds are well managed scored a mean value of 4.09, Every field activity is monitored to ensure value for money scored a mean value of 4.87 (Wegulo et al., 2023), Information and reports are provided timely scored a mean value of 4.86, Information provided by internal and external auditors about control related matters is considered and acted on appropriately scored a mean value of 4.95, and Management periodically evaluates the accuracy, timeliness and relevance of its reporting system scored a mean value of 4.83. The overall mean score for items was 4.72 which imply that monitoring greatly influences management of public funds (Faith et al., 2023). The findings show that monitoring that consists of routine spot-checks of transactions, records and reconciliation's, internal auditing and external auditing influences the management of funds.

Table 6: The Result of Coefficient of Determination

		Mode summery		
Mode	R	R square	Adjusted R Squire	Error of the estimate
3	.599 ^a	.359 ^a	.22327	.374888547

Predictors: (Constant), Monitoring

Dependent Variable: Management of Public Funds

Based on table 6 shows that the value $R = 0.599$, it means there is a significant positive relationship between monitoring as the independent variable and management of public funds as the dependent variable in the amount of 48.5%. The value of $r^2 = 0.359$ means monitoring has an effect in the amount of 35.9% on management of public funds, while rest of 64.1% other factors that affect management of public funds are not examined in this research. The finding is in conformity with (Dunn, 1996) who revealed that strong monitoring will ensure that all the other internal controls are working concurrently to safeguard the assets of the organization to ensure that organization achieves its goal of improving its performance (Ntirandekura et al., 2022).

The influence of risk assessment on the management of public funds in local governments in Uganda

Table 7: Mean Response for risk assessment Questions

Questions/ Statements	N	Min	Max	Mean	Interpretation
The local government has a well-staffed fully functional accounts section	50	1	5	4.55	Agree
The local government has fully functional audit department	50	1	5	4.10	Agree
Realistic objectives are established for all key activities	50	1	5	4.01	Agree

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including operations, financial reporting and compliance consideration					
Factors that are critical to achievement of local government objectives are regularly identified and addressed	50	1	5	4.11	Agree
Management designs appropriate checks and balances to address risks identified	50	1	5	4.17	Agree
Overall Mean value	50	1	5	4.19	

Source: Primary source

Table 7 also shows the analyses of data used to answer questions concerning risk assessment and management of public funds. Individual items in the table scored the following means: The local government has a well-staffed fully functional accounts section (4.55) (1 Ourien Isaac, 2 Dr Ariyo Gracious Kazaara, 2023), The local government has fully functional audit department (4.10), Realistic objectives are established for all key activities including operations, financial reporting and compliance consideration (4.01), Factors that are critical to achievement of local government objectives are regularly identified and addressed (4.11), and Management designs appropriate checks and balances to address risks identified (4.17). The fact that the overall mean score was 4.19, proves that risk assessment has a great influence on management public funds (Kazaara & Christopher, 2023).

Table 8: The Result of Coefficient of Determination

		Mode summery		
Mode	R	R square	Adjusted R Squire	Error of the estimate
4	.823 ^a	.677 ^a	.76756	.135666234

Predictors: (Constant), Risk assessment

Dependent Variable: Management of public funds

Based on table 8 shows that the value $R = 0.823$, it implies that there is a strong positive significant relationship between Risk assessment as the independent variable and Management of public funds as the dependent variable in the amount of 82.3%. The value of $r \text{ square} = 0.677$ implies that Risk assessment has influence in the amount of 67.7% on management of public funds, while rest of 32.3% other factors that affects management of public funds that are not examined in this research.

The effect of control activities on the management of public funds in local governments in Uganda

Table 9: Mean Response for control activities Questions

Questions/ Statements	N	Min	Max	Mean	Interpretation
The board sets and approves all the local government policy	50	1	5	4.29	Agree

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guidelines					
The board regularly reviews the local government policy guidelines	50	1	5	4.87	Agree
The local government policies and procedures are well understood by the staff	50	1	5	4.85	Agree
Management analyses and follows up any differences between actual and budget forecasts as needed	50	1	5	4.74	Agree
Equipment's, supplies, inventory, cash and other Assets are physically secured and periodically counted and compared to the amount shown in the control record.	50	1	5	4.91	Agree
Overall Mean value	50	1	5	4.73	

Source: Primary source

Table 9 shows the analyses of data used in answering questions concerning the control activities and management of public funds. The analysis showed that all the question items on the extent to which control activities influences management of public funds, the overall mean for all items was 4.73 with the rest of the questionnaire items scoring the following mean values: The board sets and approves all the local government policy guidelines with a mean of (4.29), The board regularly reviews the local government policy guidelines with a mean score of (4.87), The local government policies and procedures are well understood by the staff with a mean of (4.85), Management analyses and follows up any differences between actual and budget forecasts as needed with a mean of (4.74), Equipments, supplies, inventory, cash and other Assets are physically secured and periodically counted and compared to the amount shown in the control record with a mean of (4.91). The fact that the overall mean score (4.73) was above the midpoint, implies that control activities influence management of public funds.

Table 10: The Result of Coefficient of Determination

		Mode summery	
Mode	R	R square Adjusted R Squire	Error of the estimate
5	.646 ^a	.417 ^a . 5012127	.1151443335

Predictors: (Constant), Control activities

Dependent Variable: Management of public funds

Based on table 10 shows that the value $R = 0.646$, it implies that there is a strong positive significant relationship between Control activities as the independent variable and Management of public funds as the dependent variable in

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the amount of 64.4%. The value of $r^2 = 0.746$ implies that control activities have influence in the amount of 41.7% on Management of public funds, while rest of 58.3% other factors that affects management of public funds.

The influence of information and communication on the management of public funds in local governments

Table 11: Mean Response for information and communication Questions

Questions/ Statements	N	Min	Max	Mean	Interpretation
The local government records all requisite particulars of every transaction	50	1	5	4.31	Agree
All important information is displayed for members e.g requirements for account opening, loans, interest rates and performance of the local government	50	1	5	3.99	Agree
Information and general reports are provided timely	50	1	5	4.34	Agree
The local government structure facilitates complete flow of information (upwards, down wards and across the entire organization)	50	1	5	4.12	Agree
Employees are encouraged to provide recommendations for improvement and ideals are recognized	50	1	5	3.59	Agree
Overall Mean value	50	1	5	4.07	

Source: Primary source

Table 11 also shows the analyses of data used to answer questions concerning the influence of information and communication on public funds at Wakiso district. Individual items in the table scored the following means: The local government records all requisite particulars of every transactions (4.31), All important information is displayed for members e.g requirements for account opening, loans, interest rates and performance of the local government (3.99) (Polycarp et al., 2023), Information and general reports are provided timely (4.34), The local government structure facilitates complete flow of information (upwards, down wards and across the entire organization (4.12), Employees are encouraged to provide recommendations for improvement and ideals are recognized (3.59). The fact that the overall mean score was 4.07, proves that information and communication influences management of public funds (Kazaara & Kazaara, 2023a).

Table 12: The Result of Coefficient of Determination

		Mode summery	
Mode	R	R square Adjusted R	Error of the estimate
6	.864 ^a	.746 ^a	.44353
			.135666234

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Predictors: (Constant), Information and communication

Dependent Variable: Management of public funds

Based on table 12 shows that the value $R = 0.864$, it implies that there is a strong positive significant relationship between Information and communication as the independent variable and Management of public funds as the dependent variable in the amount of 86.4%. The value of $r^2 = 0.746$ implies that information and communication has influence in the amount of 74.6% on Management of public funds, while rest of 25.4% other factors that affects management of public funds at Wakiso district which are not examined in this research (Kazaara & Kazaara, 2023b).

The relationship between internal financial controls in the management of public funds

Table 13: Correlation between internal financial controls & management of public funds

Particulars	Correlation value	Comment
Internal financial controls	0.782**	Strong positive correlation

Level of significance, 1%; $P=0.000$

From the results, there is a strong positive correlation between internal financial controls and management of public funds ($r=0.782^{**}$). This implies that the better the internal controls, the better the management of public funds. The size of the correlation can be established by squaring the r value & multiplied by 100%. Therefore $r^2 = 0.611525$ and when multiplied by 100 = 61.15%, implying that more than 60% of fund management can be achieved with effective financial controls.

Conclusion

The results indicate that internal controls are important for ensuring the management of public funds in the local government as highlighted by different authors cited. The most important internal financial control for ensuring the management of public funds is monitoring to ensure that all the guidelines and procedures such as routine spot checks on transitions, records and reconciliations, field activities, reporting and period evaluation for accuracy and timeliness are being adhered to. In addition, control environment was observed to significantly contribute to the management of public funds. However, internal audit was observed to contribute insignificantly to the management of public funds. As such, the management of public funds in local governments should be centred on ensuring supportive monitoring and control environment to guarantee appropriate management of funds. Proper management of public funds ensures improvement of welfare of the general public through effective and efficient utilization of public funds in service delivery.

Recommendations

Much as the local governments follow the laid down regulations that create transparency in the management of public funds, employees were found not to be transparent in the way they execute their duties. Communities who are

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the direct beneficiary of services delivered by the local governments are not provided with timely and accurate information on the way funds are mobilized and used. The study therefore recommends that communities should be part of internal control system for efficient management of public funds. This will enhance the efficient management of public funds through the monitoring component.

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