

**INTERNAL CONTROL SYSTEMS AND FINANCIAL MANAGEMENT**

**IN UGANDA, A CASE STUDY OF KAPCHORWA**

**DISTRICT LOCAL GOVERNMENT**

**KAPCHORWA DISTRICT.**

**BY**

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**BU/UP/2021/3607**

**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES,  
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BUSINESS ADMINISTRATION OF  
BUSITEMA UNIVERSITY**

**AUGUST 2024**


## DECLARATION

### DECLARATION

I **WANYAMA JACOB** declare that the contents of this research work have never been submitted to any other university or higher institution of learning for any award of either a degree or any other related qualification

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# APPROVAL

## APPROVAL

This report is submitted to Busitema University as a partial fulfillment for the award of Bachelor of Business Administration with my approval as the internal supervisor.

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## **DEDICATION**

I dedicate this research to the lord almighty who has given me the wisdom, good health, and protection throughout my life and to my highly beloved father, Ouma Jacob, whose wisdom, commitment and unconditional love has inspired me to pursue my potentials to the highest limit. I also dedicate the report to my Academic supervisor, Mr. Okiror Ismael and my beloved brother Sikuku Derick Ouma. If it was not for the support and guidance of those people, this research thesis would not have been completed. I pray that God Almighty may bless them abundantly.

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## LIST OF ACROYMS

AG	Auditor General
ICS	Internal Control Systems
CVI	Content Validity Index
OECD	Organisation for Economic Co-operation and Development
MFPEd	Ministry of Finance Planning and Economic Development
FY	Financial Year
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
LG	Local Governments
LG FAR	Local Governments (Financial and Accounting) Regulations
IFMS	Integrated Financial Management Systems
PFMA	Public Financial Management Act
KDLG	Kapchorwa District Local Government
SDGs.	Social Developmental Goals
PFA Act	Public Finance and Accountability Act
FM	Financial Management
OAG	Office of the Auditor General
SPSS	Statistical Package for Social Sciences

## ABSTRACT

This study aimed at determining the impact of Internal control systems on financial management of Kapchorwa District Local Government with the study objectives; To establish the effect of control activities on the financial management, to investigate the effect of information systems on financial management and to establish the impact of Internal audit on financial management in Kapchorwa District Local governments, in Uganda. The study utilized the Agency theory as suggested by Jensen & Meckling (1976) which was developed from the economic theory postulated by Alchain and Demsetz in 1972 and further advanced by (Jensen & Meckling. In addition to that, the study applied a cross-sectional research design and quantitative approach. The study had a target population of 35 employees in Kapchorwa District Local Government and collected data from a sample size of 32 respondents as guided by Krejcie and Morgan (1970). Data was collected using close ended questionnaires. Furthermore, data analysis was done using statistical package for social sciences (SPSS) version 20 from which frequency tables, descriptive statistics, reliability, validity, correlation and regression results were obtained. The study findings showed that internal control activities ( $\text{adj } R^2 = 0.738, p < 0.01$ ), Information Systems ( $\text{adj } R^2 = 0.788, p < 0.01$ ) and internal audit ( $\text{adj } R^2 = 0.884, p < 0.01$ ) have a positive and significant effect on financial management. Based on the findings of the study, the researcher therefore concludes that Internal control activities, Information systems and Internal audit have a positive and significant relationship with financial management. The study also concludes that strict adherence to approval and authorization systems in place helps to control fraud related issues hence a positive attitude on financial management. The study therefore, recommends that Kapchorwa District local government should adhere to approval and authorization activities within the organization to help to control fraud related issues. Furthermore, internal control monitoring activities should be put in place to help evaluate results.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter consists of the back ground of the study, statement of the problem, purpose of the study, research objectives, research questions, and scope of the study, conceptual framework and the significance of the study.

#### **1.1 Background of study**

Subsequent to the new public management principles, countries under organization for Economic Cooperation and Development (OECD, 2017) have adopted reforms in the public financial management systems. The main objectives of the reforms are to create a sound public finance management system that supports aggregate control, accountability and efficiency in the management of public resources and the delivery of services critical to Uganda's development goals. (MFPED,2017). In addition to that, according to the Public Finance Management Act (PFMA), 2015 the goal of having good financial management is promoted with the aim of maximizing service delivery by effective and efficient application of limited resources. Despite the enactment of a number of public finance management reforms put up by the government of Uganda, inefficiencies in the allocation and use of public funds in Uganda remain rampant and existent (MFPED,2017).

Globally in the United States, according to Government Accountability Office (2020), many local governments have struggled with budget deficits and increasing debt levels. For example, some public sectors face challenges with pension obligations exceeding their ability to pay. Furthermore, Public financial mismanagement and fraud cases continue to be a concern. For example, reports of improper payments by federal agencies in the United States totaled to USD 175 billion in 2020.

In Africa, according to Auditor general report (2019) on evaluation of Public Financial Management reforms in Ghana, the implementation of the Integrated Financial Management System (IFMS) is one of the reforms that have been adopted to create a sound public finance management system in the biosphere particularly in local governments. This is due to support in aggregate control, prioritization, accountability and efficiency in the management of public resources and the delivery of services critical to Social Developmental Goals (SDGs). However,

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