

**INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF LOCAL
GOVERNMENTS IN NORTHERN UGANDA: EVIDENCE FROM OYAM DISTRICT
LOCAL GOVERNMENT**

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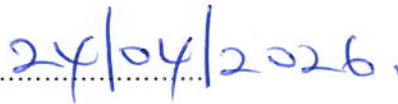
**A DISSERTATION SUBMITTED TO FACULTY OF BUSINESS AND DEVELOPMENT
STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE OF GULU
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APRIL, 2026

DECLARATION

I, Olila Denis Bonny, declare that this dissertation entitled "Internal Control System and Financial Performance of Local Governments; The Case of Oyam District Local Government" is my own original work and that it has never been submitted for any academic award in any University or any other institution of higher learning.


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Signature


.....
Date

APPROVAL

This dissertation entitled “Internal Control System and Financial Performance of Local Government, The case of Oyam District Local Government” has been prepared under our supervision and has never been submitted or presented anywhere for any academic purpose and it is now ready for submission for evaluation

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DEDICATION

I dedicate this research study to my beloved wife Doreen Adong; all my Children, Oyam District Local Government and friends who greatly supported me during the course of the programme.

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First and foremost, I wish to thank the Almighty God for the strength, guidance and abundant grace he gave me throughout the course and the completion of this study. My special gratitude goes to my wife and parent for their huge moral support throughout the program.

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LIST OF ABBREVIATIONS AND ACRONYMS

AICPA:	American Institute of Certified Public Accountant
CAO:	Chief Administrative Officer
CFO :	Chief Finance Officer
COBIT :	Control Objectives for Information Technology
COSO	Committee of Sponsoring Organisations
DEC:	District Executive Committee
DTPC:	District Technical Planning Committee
FY :	Financial Year
GDP:	Gross Domestic Product
IA:	Internal Auditor
IAPS:	International Auditing Practice Statements
IAS:	International Accounting Standards
ICS:	Internal Control System
IFMS:	Integrated Financial Management System
LC:	Local Council
LCV	Local Government Five
LG:	Local Government
LGA:	Local Government Act
LGC:	Local Government Council
LGFAR:	Local Government Finance and Accounting Regulations
M&E:	Monitoring and Evaluation
MDA:	Ministries, Department and Agency
MoFPED:	Ministry of Finance, Planning and Economic Development
NDP:	National Development Plan
NRM:	National Resistance Movement
OBT:	Output Budgeting Tools
ODLG:	Oyam District Local Government
OOB:	Output Oriented Budgeting
OPM:	Office of Prime Minister
PAC:	Public Accounts Committee
ROM:	Result Oriented Management
SAC:	System Assurance and Control
SAI:	Supreme Audit Institutions

SIA:	Senior Internal Auditor
SOD:	Segregation of Duties
SPSS:	Statistical Package for Social Science
UCF:	Uganda Consolidated Fund
UGX:	Uganda Shillings
URA:	Uganda Revenue Authority

ABSTRACT

Internal control system plays significant role in enhancing financial performance of institutions. This study investigated the effect of internal control system on financial performance of lower local governments with evidence from Oyam District Local Government. The aims of the study were: To assess the effectiveness internal control system; to examine the status of financial performance; to examine the relationship between internal control system and financial performance of lower local governments; to assess the moderating effect of IFMS on the relationship between the internal control system and financial performance of lower local governments the case of Oyam District Local Government. Cross-sectional research design was used in the study with purely quantitative approach. Data was collected using structured questionnaires from 174 staff of Oyam District Local Government. Data was analyzed using descriptive statistics (frequencies and percentages) and inferential statistics (correlation and regression) with the aid of Statistical Package for Social Sciences (SPSS) version 25.0. Study findings revealed: The study finding shows a high level of usage of internal control system in terms of control activities and control environment, and a high level of financial performance. The study finding shows a moderate level of usage of internal control system in terms of control activities, control environment and risk assessment by management of Oyam District Local Government and at the same time, a high level of financial performance in the forms of accountability, financial reporting and performance of revenue. They also show that all the dimensions of internal control system (control activities, control environment and risk assessment) have significant positive relationship with the financial performance of Oyam District Local Government. At the same time, they show that integrated financial management systems moderated the relationship between internal control system and financial performance in Oyam District Local Government. The study concluded that internal control system has a significant positive effect on financial performance. The study recommended that; strategies aimed at improving financial performance should focus on control environment, control activities and risk management; and the study recommended need to strengthen integrated financial management system while implementing internal control system in order to influence financial performance.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The efficiency and effectiveness of internal control systems have garnered considerable attention in the realm of public sector management, particularly concerning their impact on financial performance. Internal control systems are fundamental mechanisms instituted by organizations to ensure the achievement of operational objectives, reliable financial reporting, and compliance with applicable laws and regulations (Committee of Sponsoring Organisations [COSO], 2013). In the context of lower local governments in Uganda, these systems are crucial for enhancing accountability, transparency, and the prudent management of public resources.

The financial performance of lower local governments is a critical determinant of their capacity to deliver essential services to the populace. Oyam District Local Government (ODLG), like other lower local governments in Uganda, faces persistent challenges related to financial mismanagement, inadequate resource allocation, and corruption (Auditor General's Report, 2021). These issues underscore the necessity for robust internal control systems to mitigate risks and promote effective financial governance.

According to Mwindi (2018), internal controls is the processes instituted by governance, management, and personnel so as to provide reasonable assurance in regards to financial reporting, operational effectiveness and efficiency, and compliance with the laws and regulations. Given the fact that the core service area of the lower local governments, epitomized by Oyam District, is public service delivery, this therefore makes the entity to be accountable to the public

Even if several researches have so far been done to examine issues relating to the internal control system and financial performance of an entity, definitive conclusions still remain elusive to this day. Notwithstanding the fact that the existing literature tend to suggests that the internal control systems of an organization (that encompasses the activities of; monitoring, the control environment, risk assessment, and information technology), play fundamental roles in influencing financial performance of every organization (Mwesigye & Odokonyero, 2019).

This research aimed at to explore the relationship between internal control systems and the financial performance of lower local governments in Uganda, with a particular focus on ODLG.

1.1 Background of the Study

The background of this study is presented under the historical, theoretical, conceptual, and contextual backgrounds

1.1.1 Historical background

Public sector finance has been a subject of scholarly work for many centuries, and its focus has increased with the quest for value-for-money and quality public services (Amudo & Inanga, 2019). Managerial emphasis on financial performance became pronounced in the post-World War I (Vichet, 2020). Public sector financial performance has since continued to widen basing on financial reports, accountability and transparency of officers-in-charge of implementing this mandate. By 1940s, financial performance had gained a central position in public finance in USA, UK, Asia and Latin America, and later became a universal target (Burlton, 2010; Elliott & Elliott, 2009).

As expressed by Gosnik (2019), financial performance gained prominence in Africa and Latin America in the 20th century, especially with the evolution of business performance models like

the Balanced Scorecard (Kaplan & Norton, 2001). In spite of this modest increase in financial performance focus, several African countries still experience financial performance shortfalls to date despite being fast growing African economies like in South Africa, Nigeria and Egypt (Hayes, 2012). In these economies, financial performance has been prioritized; attention is directed on profitability, accountability, and transparency.

In Uganda, the Institute of Certified Public Accountants of Uganda (ICPAU), where financial controllers get their skills regarding finance management, guided by the Accountability Act continue to support public sector financial managers to realize desired financial performance (Komuhangi, 2005). In spite of this, Oyam District Local Government continues to experience constrained financial performance (Namiri & Stojanovic, 2018). As a result, a number of district administrators prioritize internal control system to steer financial accountability, reporting, and transparency in their mandate.

Modern practice of the internal control systems (ICS) in organizations became widely pronounced in Egypt and China (Papadatou, 2015), though it had its earliest roots in USA and UK in early 1940s (Petrovits, Shakespeare & Shih, 2011). ICS was first officially defined in 1949, as a tool for enhancing financial reporting and performance (Petrovits et al., 2011). Since the early 1950s, USA supported strengthening of ICS for public finance management (Bongani, 2013), a practice later adapted in UK and Australia to safeguard business assets and reduce irregularities and errors (Ndifon & Ejomk, 2015; Hayes, 2012; Spira & Gowthorpe, 2018). This preference for ICS in 1900s especially in regards to risk assessment, control environment, monitoring and control activities has been central focus in several Africa' public sector entities (Amudo & Inanga, 2019). In the 21st century, public entities consider ICS as a 'watchdog' function (Eton et al. 2018) and in other instances, as a fully-fledged managerial department in

their organizations (Rafindadi & Olanrewaju, 2019). In the African context, Aïhounhin et.al. (2016) argued that ICS has remained key for public financial management and performance. This is evident in several African countries like Nigeria, South Africa, Malawi and Zambia (Ayom, 2013). In East Africa, financial mismanagement cases have continued to emerge depicting financial performance gaps, regardless of ICS in several District, those in Uganda inclusive (Nyandoro, 2016). This attracted need for an empirical study to explore them.

To date, Ugandan local governments are expected to uphold a functional ICS as a tool for financial performance. Prioritization of public sector financial performance in Uganda has gained prominence over years, strengthened by the Finance and Accountability Act in Uganda (Republic of Uganda, 2003). This is often part of the financial accountability mechanisms emphasized by earlier studies (Eton et al, 2019). ODLG has also been prone to financial performance shortfalls, which has been persistent in the last five years (ODLG, 2022). This motivated the researcher to conduct this study focusing on ICS and financial performance at ODLG.

1.1.2 Theoretical background

This study was anchored on the X-Efficiency Theory developed by Havey Leibenstein in 1993. According to Leibenstein (1993), the general efficiency of a firm's management is found in its ability to transform inputs at minimum cost into maximum profit. This theory explains how organizations, systems, or individuals achieve higher levels of performance relative to the resources they consume. It emphasizes the efficient use of resources, time, space, energy, or other resources to achieve desired outcomes. This theory compares the inputs and output to establish the level of fairness in the efficient utilization of resources. This theory is applicable in this study which was about investigating the effects of internal control systems on financial

performance of ODLG in northern Uganda. Internal financial control measures must be put in place to ensure that available resources are effectively and efficiently used in order to achieve the set goals and objectives. In some cases, it is not poor funding that is the problem but mismanagement, misappropriation and other fraudulent practices that are responsible for the lack of effective working capital management. Managers of lower local government funds need to be prudent in their financial control systems in order to manage available resources for proper working capital management, and in turn financial performance.

This study was also guided by the Technology Acceptance Model (TAM), developed by Fred Davis in 1989, explains how users come to accept and use new technologies. TAM identifies two primary factors influencing an individual's intention to use technology: Perceived Usefulness, which is the belief that using a particular system will enhance job performance, and Perceived Ease of Use, the belief that using the system will be free of effort. These factors shape users' attitudes toward the technology, influencing their behavioral intentions and actual usage. The primary objective of TAM is to understand how external variables affects internal beliefs, attitudes, and intentions, enabling organizations to design and implement technologies that are more readily accepted by users, thereby improving engagement and productivity.

In financial management, TAM has been applied to study the acceptance of personal financial management applications. For example, research on the "Manage Your Money (MYM)" app found that perceived usefulness, ease of use, and intention to use significantly influenced user satisfaction and acceptance. By utilizing TAM, developers and financial institutions can create more user-friendly financial management systems tailored to user needs and preferences.

These theoretical perspectives collectively provide a comprehensive understanding of the dynamics between internal control systems and financial performance. By integrating insights from Stewardship Theory, Contingency Theory, and Institutional Theory, this study seeks to elucidate the complex interplay of factors that influence financial performance in lower local governments, with a specific focus on Oyam District Local Government.

1.1.3 Conceptual background

Internal control systems (ICS) are essential mechanisms within organizations, including local governments, designed to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. The relationship between ICS and financial performance has been extensively studied across various regions, including Europe, Asia, Africa, and specifically within Uganda (Kato, 2022).

In European local governments, robust internal control systems are fundamental to maintaining financial performance and accountability. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework is widely adopted, emphasizing control environment, risk assessment, control activities, information and communication, and monitoring activities. Studies have demonstrated that adherence to such frameworks enhances financial reporting quality and operational efficiency (Opondo & Nahamya, 2021).

In the United Kingdom, internal control systems within local governments are governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) guidelines. These guidelines emphasize risk management, internal audits, and financial accountability. Studies have shown that robust internal control systems in UK local governments lead to improved financial performance by minimizing wastage and ensuring that public funds are utilized efficiently.

Germany employs a decentralized approach to internal control systems, with significant autonomy granted to local governments (Kongola & Baka Shaba, 2022).

The Federal Court of Auditors (Bundesrechnungshof) oversees the auditing of public funds. German local governments that implement strong internal control measures, such as regular audits and transparent financial reporting, typically experience better financial outcomes, reduced corruption, and enhanced public trust. In France, internal control systems in local governments are governed by the General Directorate of Public Finances (DGFIP). The French approach focuses on budgetary control, internal audits, and performance evaluations. Research indicates that French local governments with effective internal controls achieve better financial performance through increased efficiency and accountability in resource allocation (Baker, 2015).

Asian local governments have increasingly recognized the importance of ICS in enhancing financial performance. Research indicates that effective internal controls contribute to improved financial management and accountability, thereby boosting public trust. The implementation of comprehensive ICS has been linked to better resource management and service delivery in various Asian municipalities.

China has made significant strides in reforming its public financial management systems. The introduction of the Government Internal Control Standards in 2010 aimed to strengthen internal controls across all levels of government (Baker, 2015). These standards emphasize risk management, accountability, and transparency in financial reporting. The Chinese government's focus on internal controls has been instrumental in curbing corruption and improving the efficiency of public expenditure.

Similarly, Russia has developed a comprehensive framework for internal controls within its public sector, guided by the Federal Law on Accounting and the Federal Treasury's regulations. Russia's approach underscores the importance of internal audits, risk assessments, and the implementation of control activities to enhance financial discipline and accountability in local government entities (Opondo & Nahamya, 2021). The emphasis on internal controls has been pivotal in improving the financial performance and transparency of Russia's local governments.

In Africa, the effectiveness of internal control systems in local governments varies significantly. Challenges such as limited resources, inadequate training, and political interference often impede the proper functioning of ICS. However, studies have shown that where internal controls are effectively implemented, there is a notable improvement in financial accountability and performance. For instance, research in selected districts in Western Uganda revealed that while internal control systems are crucial for financial accountability, their effectiveness is often compromised by staffing gaps and untimely financial reporting (Opondo & Nahamya, 2021).

Within Uganda, local governments are mandated to implement internal control systems to safeguard public resources and ensure financial accountability. Research focusing on districts such as Iganga and Lira has highlighted the significant role of ICS in promoting financial accountability. In Iganga District, a strong relationship was found between control activities and financial accountability, with proper documentation and authorization processes being pivotal

Similarly, in Oyam District, the control environment and monitoring controls were found to significantly affect financial accountability, though control activities did not show a significant

effect. Recent studies have reinforced the significance of internal control systems in enhancing financial performance within local governments. For instance, a 2022 study in Greece emphasized that robust internal controls are integral to effective governance, risk management, and operational efficiency in local government organizations. Similarly, research from 2022 in Uganda's Oyam District Local Government found that internal control systems account for 55.4% of the variations in financial accountability, highlighting the critical role of control environment and monitoring controls. These findings align with earlier research from 2018 in Uganda's Busia District Local Government, which concluded that adherence to accounting and financial policies, efficient resource management, and proper authorization of financial transactions are essential for effective financial management (Musoke, 2022).

Specifically, in Oyam District, internal control systems have been studied concerning human resource performance. Findings suggest that duties are well segregated, and up-to-date record-keeping is maintained, contributing to efficient and effective service delivery. However, challenges such as poor adherence to office time were noted. The study concluded that there is a strong relationship between internal control systems and human resource performance in Oyam District Local Government (Businge, 2023).

In conclusion, the effectiveness of internal control systems is pivotal to the financial performance of local governments across different regions. While challenges exist, particularly in resource-constrained settings, the implementation of robust ICS frameworks is associated with enhanced financial accountability and performance.

1.1.4 Contextual background

The financial performance of lower local governments (LLGs) in Uganda is a critical determinant of effective service delivery and sustainable development. Financial performance in this context refers to the ability of these governments to generate adequate revenue, manage expenditures efficiently, and maintain fiscal health to support local services (Businge, 2023). Uganda's decentralization policy, initiated in the late 1990s, aimed to enhance local governance by devolving fiscal responsibilities to LLGs. This shift was expected to improve revenue collection and service delivery through localized decision-making and accountability mechanisms. However, challenges such as limited revenue bases, inadequate financial management skills, and political interference have impeded the realization of these objectives (Uganda National Audit Office, 2023).

Studies have highlighted the relationship between financial accountability and performance in local governments. For instance, research on Wakiso District Local Government found a strong positive correlation between financial accountability practices such as adherence to financial standards and proper staffing and overall performance. Despite this, performance levels remained below desired standards, indicating persistent challenges in financial management (Galabuzi & Ssendagi, 2024).

Fiscal decentralization was intended to empower LLGs by providing them with autonomy over financial matters. However, issues such as corruption, inadequate planning, and tax evasion have hindered revenue performance. A study analyzing fiscal decentralization strategies in Ugandan local governments revealed that while decentralization has the potential to reduce corruption and improve revenue performance, its success is contingent upon factors like

political interference, enforcement of tax policies, and sufficient funding from central government (Balunywa et al., 2014).

The Local Government Finance Commission (LGFC) of Uganda plays a pivotal role in advising both central and local governments on fiscal decentralization matters. The LGFC's mandate includes recommending revenue distribution strategies, advising on potential revenue sources for LLGs, and monitoring local government budgets to ensure alignment with national priorities. Despite these efforts, many LLGs continue to experience financial distress, often attributed to inadequate local governance structures and inefficient delivery systems (Opondo & Nahamya, 2021). In ODLG, similar challenges are evident. The district has faced difficulties in revenue collection, budget management, and service delivery, reflecting broader national trends. Addressing these issues requires strengthening internal control systems, enhancing financial accountability, and building capacity within local governance structures to improve financial performance and, by extension, service delivery to the community (Opondo & Nahamya, 2021).

In conclusion, the financial performance of LLGs in Uganda is influenced by a complex interplay of factors, including internal control systems, governance practices, and external support mechanisms. Enhancing financial performance necessitates a comprehensive approach that addresses systemic challenges and promotes transparency, accountability, and efficiency within local governments.

1.2 Statement of the Problem

Organizations with sound internal control systems in place stand the chance of leveraging good financial performance. However, in ODLG, there have been persistent challenges of poor

financial performance, undermining the District from effectively delivering services to the citizens. Poor financial performance, evidenced by issues in accountability, financial reporting, and revenue performance, has created significant inefficiencies, mismanagement of public resources, and a growing mistrust between local authorities and the community (Auditor General Report, 2023).

Accountability is a cornerstone of sound financial management in public institutions. However, ODLG has exhibited significant accountability challenges. Recent audit reports indicate instances of unaccounted expenditures, delays in financial reconciliations, and lack of adherence to financial laws and regulations (Auditor General Report, 2023). For instance, funds allocated for infrastructure development projects such as roads and schools remain either underutilized or misappropriated, leaving projects incomplete or of substandard quality. Similarly, financial reporting in ODLG is characterized by inaccuracies, delays, and non-compliance with established financial management standards. Reports from the Ministry of Local Government and Ministry of Finance, Planning and Economic Development reveal that financial statements are often submitted late, contain material misstatements, and fail to reflect the actual and true affairs of financial position of the district (Ministry of Local Government, 2023). For instance, the 2022/2023 financial year audit noted discrepancies in the reconciliation of revenue and expenditure figures, with variances running into millions of Ugandan shillings. Furthermore, revenue performance is a critical determinant of financial performance, yet ODLG has struggled to achieve its revenue targets consistently. Data from the Local Government Finance Commission (2023) indicates that the district collected only 58% of its projected local revenue for the 2022/2023 financial year. If the situation of poor financial performance is not addressed, it will undermine the potential of the district from delivering the required services to the citizen. The evidence of poor financial performance in ODLG

highlights the urgent need for targeted interventions to improve accountability, financial reporting, and revenue performance, thus necessitating a study into internal control systems and financial performance in lower local governments in Oyam District.

1.3 The Purpose of the Study

The purpose of this study was to investigate the effects of internal control systems on financial performance of ODLG in northern Uganda.

1.4 Study Objectives

This study was guided by the following objectives:

- i. To assess the application of the internal control system (ICS) at ODLG
- ii. To examine the status of financial performance of ODLG
- iii. To examine the relationship between internal control system and financial performance at ODLG.
- iv. To assess the moderating effect of IFMS on the relationship between the ICS and financial performance at ODLG

1.5 Research Questions

- i. What is level of application of the internal control system (ICS) at ODLG?
- ii. What is the status of financial performance of Oyam District Local Government?
- iii. What is the relationship between internal control system and financial performance at ODLG?
- iv. What is the moderating effect of IFMS on the relationship between the ICS and financial performance at of ODLG?

1.6 Scope of the Study

The scope of this study is discussed under the three facets, namely the geographical, time and content scope.

1.6.1 Geographical scope

The study was conducted in ODLG which is a public institution located at a distance of 353 kilometers north of Kampala the capital city of the republic of Uganda. This district is located in northern part of Uganda and specifically in Lango sub-region. The district has got eleven (11) sub-counties and five (5) of Town Councils that forms its lower local government. It is these units of the lower local government that the study was focused on.

1.6.2 Content scope

This study focused on the three major dimensions that includes: Internal control system, financial performance and relationship that exist between internal control system and financial performance yet with specific focus on how these two variables are moderated IFMS. Internal control system which was the IV was measured in terms of control activities, control environment and risk assessment. On the other hand, financial performance (the DV) was operationalised through accountability, financial reporting and performance of revenues. Integrated Financial Management System (IFMS) which constituted the moderating variable was measured in terms of budgeting, approval and cash management

1.6.3 Time scope

The study focused on data covering the period of 5 financial years (2019/2020 to 2023/2024) and the general design was cross-sectional in nature. The historical component of the study helped to build the concepts like internal control activities, environment and risk assessment,

information and technology, monitoring and evaluation and financial performance. Within this financial year it was the period when Lower Local Governments in Oyam District experienced challenges and problem of financial performance in term of audit opinions as rated by the office of the Auditor General reports, June 2023

1.7 Significance of the Study

According to Kothari (2014) research provides the basis for nearly all government policies in our economic system for both internal and external stakeholders. The findings of this study are anticipated to benefit many individuals, governments and institutions.

The findings of this study also helped the Lower Local Governments to build stronger internal control system that would further help in achieving better financial performance and controls to inform the public and facilitate accountability by stakeholders and office of the Auditor General, Ministry of Finance Planning and Economic Development. The study findings would act as a basis of further research in the field of internal control system

The researcher benefited from the study by attaining a Master of Business Administration (MBA) degree as other stakeholders in the local governments use the findings to initiate the process of internal controls as well as when offering social services while making inform decision geared towards good financial performance of the local government.

The study findings helped the Lower Local Governments stakeholders to assess the weak areas that effect financial performance and once identified, with the help of the recommendations from this study, the weak areas for correction.

The findings of this study would added to the body of literature for future academic research since the researchers would acquire more knowledge in this area and other intellectuals like constructing of questionnaires, interview guides for conducting research.

1.8 Conceptual Framework

This conceptual framework shows the links between the different study variables. The design shows that the independent variable is conceptualized to influence the dependent variable, the moderating variables are considered to be influencing the relationship between the independent and the dependent variable. It illustrates the relationships between internal control system as the independent variable and financial performance as the dependent variable in this study being moderated by Integrated Financial Management System (IFMS) of the Oyam District

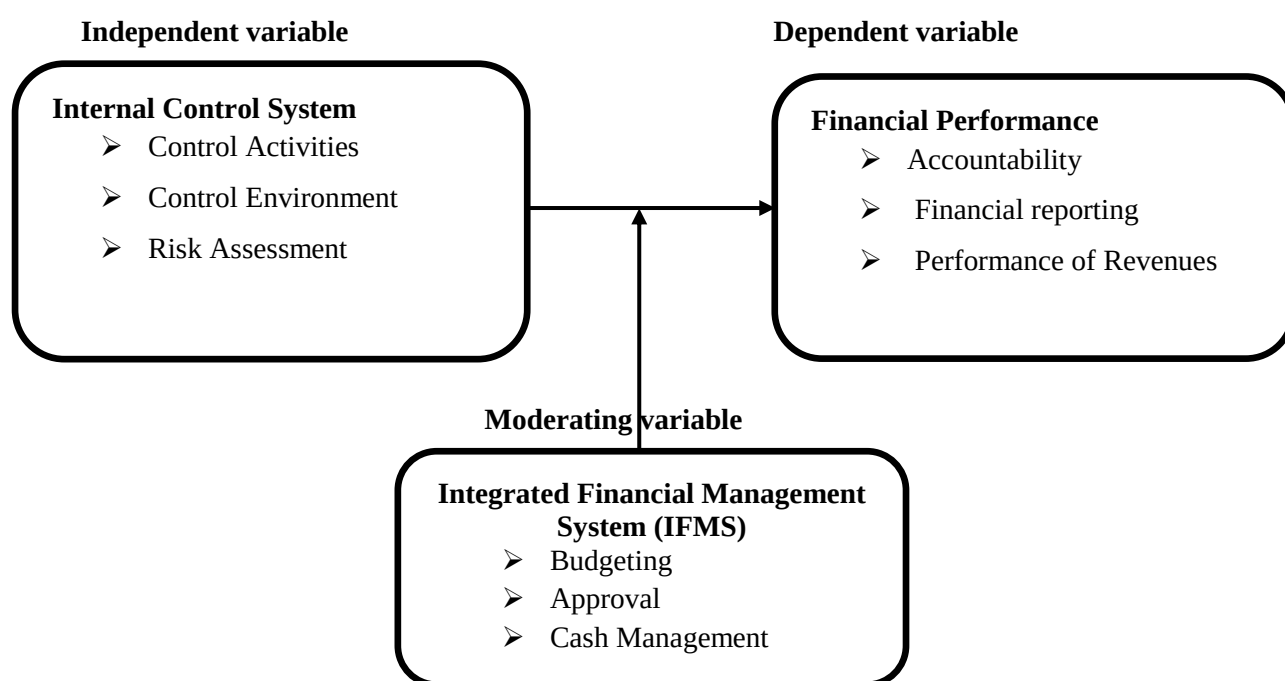


Figure 1: Conceptual Framework showing ICS and Financial Performance

Source: Adopted with modification from Saka et al (2014); Bain (2013) & IFMS (2022)

This conceptual framework has been adapted from the work of various authors who conducted studies on Internal Control System and Financial Performance in various entity. In this framework internal control system was that the independent variable, this was measured using constructs such as; the internal control activities, internal control environment and risk assessment), While the dependent variable (financial performance) was measured using constructs such as; accountability, financial reporting and performance of revenues. Finally, the moderating variables under consideration was focused on Integrated Financial Management System (IFMS) involved budgeting, approval, and cash management. This process helps lower local governments in implementing financial reporting to ensure accountability, automation of financial management processes.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter includes the review of literature relating to the relationship between internal control system and financial performance. This chapter presents the theoretical, conceptual and empirical review of related studies that explore internal control system and financial performance concepts. The review further focused on the contextual and methodological gaps that existed in these studies, presented in line with study objectives. Specifically, the literature is arranged as: theoretical review of theories pinning the study, conceptual review, and a review of related studies about the relationship between: risk assessment, control activities as well as control environment as aspects of the ICS and financial performance. Many researches have been conducted in these areas, and a thorough review of these works further elucidates the need to carry out a study on internal control system and financial performance of local government. This section highlights findings that have been advanced by different scholars.

2.1. Theoretical Review

As pointed out under the theoretical background, this study adopted the X-Efficiency Theory by Havey Leibenstein (1993) which tries to explain how organizations, systems, or individuals achieve higher levels of performance relative to the resources they consume. It emphasizes the efficient use of resources, time, space, energy, or other resources to achieve desired outcomes. X-efficiency theory is used to understand how internal factors like management practices, worker effort, and organizational culture influence a firm's efficiency.

Considering the need for organisations, both public and private, to operate efficiently, the X-Efficiency Theory has been applied by several scholars. In line with this, Yampolskiy (2011) in his work describes efficiency as the extent to which resources such as time, space, energy,

etc. are well used for the intended task or purpose. In this study, this theory explains the role of ICS in the financial performance of ODLG. On their part, Nzibonera & Ninsiima (2020) also used this theory in their study whereby they focused on elements of internal financial controls which included; the control environment, risk assessment process, control activities and budgetary control. In this study they established that the control environment, risk assessment process and budgetary control have a positive significant effect on working capital management.

The TAM identifies two primary factors influencing an individual's intention to use technology: Perceived Usefulness, which is the belief that using a particular system will enhance job performance, and Perceived Ease of Use, the belief that using the system will be free of effort. These factors shape users' attitudes toward the technology, influencing their behavioral intentions and actual usage. The primary objective of TAM is to understand how external variables affect internal beliefs, attitudes, and intentions, enabling organizations to design and implement technologies that are more readily accepted by users, thereby improving engagement and productivity.

In financial management, TAM has been applied to study the acceptance of personal financial management applications. For example, research on the "Manage Your Money (MYM)" app found that perceived usefulness, ease of use, and intention to use significantly influenced user satisfaction and acceptance. By utilizing TAM, developers and financial institutions can create more user-friendly financial management systems tailored to user needs and preferences.

These theoretical perspectives collectively provide a comprehensive understanding of the dynamics between internal control systems and financial performance. By integrating

insights from Stewardship Theory, Contingency Theory, and Institutional Theory, this study seeks to elucidate the complex interplay of factors that influence financial performance in lower local governments, with a specific focus on Oyam District Local Government.

2.2 Internal Control System

The literature on ICS is presented under its dimensions namely, control activities, control environment and risk assessment.

2.2.1 Control activities

Control activities are a crucial component of internal control systems (ICS), providing the operational steps necessary to achieve organizational objectives and mitigate risks. These activities are designed to ensure that the organization's policies and procedures are effectively implemented to safeguard assets, ensure accurate financial reporting, and comply with applicable laws and regulations (COSO, 2013). Control activities are a broad set of actions that are implemented throughout the organization, from top management to operational staff, and include both preventive and detective measures.

Arens et al. (2019) argue that control activities, such as segregation of duties, authorization procedures, and physical safeguards, are essential for mitigating fraud and errors in financial processes. These activities ensure that no single individual has control over all aspects of any critical financial transaction, thus reducing the risk of intentional or unintentional misstatements in financial reporting. The proper design and implementation of control activities are vital for ensuring the integrity of financial information, especially in public sector organizations like local governments (Bakar et al., 2020).

According to Kakuru (2022), control activities in Ugandan local governments are often inadequately implemented, resulting in inefficiencies and poor financial management. Specifically, the lack of segregation of duties and ineffective authorization procedures were identified as major weaknesses in the internal control framework in many districts. Kakuru (2022) highlights that local government staff members frequently bypass authorization processes, leading to irregular financial transactions and resource misallocation.

A study by Lwanga and Nansubuga (2021) found that the effectiveness of control activities in Uganda's local governments is often hindered by resource constraints and a lack of capacity building among staff. Many local governments, including districts such as Oyam, struggle to implement key control activities due to insufficient financial resources and training for employees. As a result, the intended objectives of these activities—such as preventing fraud and The research by Lwanga and Nansubuga (2021) indicates that strengthening control activities, through enhanced training and the allocation of adequate resources, could improve financial oversight and governance at the local government level.

Furthermore, research by Odoch and Ssewanyana (2023) on local government accountability found that control activities, when effectively implemented, improve financial performance by minimizing mismanagement and errors in financial transactions. Their study highlighted that control activities like regular reconciliations, review of financial reports, and timely audits contribute to greater transparency in financial operations. For example, districts that adhered to best practices in control activities recorded fewer audit queries and had better overall financial performance (Odoch & Ssewanyana, 2023).

Effective control activities help to reduce financial mismanagement, increase accountability, and improve financial performance in local government entities. However, challenges such as resource limitations, lack of adequate training, and the complexity of regulatory compliance in Uganda still pose significant barriers to the effective implementation of control activities (Lwanga & Nansubuga, 2021). This review calls for improved investment in the internal control systems of lower local governments to address these challenges and strengthen financial performance.

2.2.2 Control environment

The control environment is one of the most crucial components of an internal control system (ICS). It sets the foundation for all other internal control activities and influences the effectiveness of the entire control system within an organization. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, the control environment encompasses the organizational culture, ethical values, management style, and the establishment of clear roles and responsibilities, which collectively create a structure conducive to accountability, transparency, and effective governance (COSO, 2013).

The control environment is often regarded as the “tone at the top,” as the values, behavior, and ethical standards demonstrated by top management directly influence the organizational culture and the functioning of internal controls. When the leadership demonstrates a strong commitment to integrity and ethics, it encourages a similar commitment throughout the organization (Mawanda, 2020). For example, in local governments, strong leadership can lead to the adoption of transparent financial practices, which subsequently enhances financial performance. However, when leadership fails to prioritize the control environment, it often

leads to a lax culture of accountability, increasing the risk of mismanagement and corruption (Mwesigwa & Kabera, 2021).

A study by Ntale (2022) emphasized that the control environment in Ugandan local governments is generally weak, which significantly contributes to inefficiencies and poor financial management. This is particularly true for lower local governments, where there is a lack of adequate training, clear guidelines, and commitment to ethical behavior among both political leaders and civil servants. Consequently, mismanagement of public funds, inadequate record-keeping, and budget deviations have been recurrent issues in these districts. A poor control environment often reflects the absence of a well-defined organizational structure, inadequate monitoring, and a lack of transparent communication channels, which contribute to the ineffective implementation of financial policies (Ntale, 2022).

In their study on internal control systems in Uganda, Ssebuliba and Nabunya (2021) found that the control environment directly impacts the efficiency of financial performance in lower local governments. Districts that have strong leadership and organizational culture tend to have more robust internal control systems, resulting in improved financial performance, reduced corruption, and greater accountability in public spending. In contrast, districts with weak control environments have higher instances of audit queries, financial mismanagement, and non-compliance with financial regulations.

Moreover, the control environment also includes the competence and integrity of employees, who play a pivotal role in executing the control procedures. According to Kato and Atuhaire (2021), the adequacy of staff training and their understanding of the internal control procedures directly influences the performance of ICS. Local governments that invest in continuous staff

development and promote ethical behavior tend to report better financial outcomes, as their employees are more likely to follow established financial procedures and prevent errors or fraudulent activities.

The effectiveness of the control environment also relies on the government's commitment to strengthening governance structures. Various studies have suggested that empowering local governments with adequate resources, clear policies, and the autonomy to enforce their internal controls significantly enhances the functioning of ICS (Kasozi, 2022). Thus, a positive control environment encourages adherence to financial guidelines, promotes fiscal responsibility, and creates an atmosphere of trust and transparency in financial dealings.

In summary, the control environment serves as the bedrock of a functional internal control system. A positive control environment, characterized by strong leadership, ethical behavior, staff competence, and clear roles and responsibilities, plays a critical role in enhancing financial performance and ensuring accountability. However, a weak control environment leads to poor financial management, inefficiencies, and increased vulnerability to fraud and mismanagement in local governments.

2.2.3 Risk assessment

Risk assessment is a critical component of the internal control system (ICS), focusing on identifying and evaluating risks that could impede the achievement of an organization's objectives. According to the COSO (2013), risk assessment involves assessing the likelihood and impact of risks and designing controls to mitigate them. In the context of local governments, such as those in Uganda, risk assessment plays a pivotal role in safeguarding

public resources and ensuring that financial operations are conducted in an effective and transparent manner.

Several scholars have emphasized the importance of risk assessment in strengthening ICS. For instance, Kamara et al. (2022) assert that local governments, especially in developing countries like Uganda, often struggle with ineffective risk assessments due to limited capacity, poor infrastructure, and inadequate training of staff. This leads to unmitigated risks such as financial mismanagement, fraud, and corruption, which undermine financial performance and accountability. In contrast, a robust risk assessment process can significantly reduce such risks and improve governance.

Risk assessment involves both proactive and reactive measures. The proactive measures include anticipating potential risks and taking pre-emptive actions to mitigate their effects. Reactive measures come into play when risks are detected, with adjustments made to the ICS to address the issue. Muwanguzi and Owino (2021) suggest that local governments in Uganda have often relied on reactive measures due to weak risk identification practices, which results in delayed responses to emerging risks. This reactive approach has contributed to audit queries and misappropriation of funds in several districts.

Additionally, the literature suggests that the risk assessment component of ICS helps in aligning internal control activities with the organization's strategic goals. Risk identification and evaluation should be closely tied to the organizational objectives to ensure that controls are designed to prevent risks that directly threaten the achievement of those goals (Mulondo, 2020). In Uganda, studies have shown that most local governments lack a comprehensive risk

management framework, which leaves them vulnerable to mismanagement of public funds (Uganda National Audit Office, 2023).

Recent studies highlight that while many local governments in Uganda have internal control frameworks in place, the absence of a structured risk assessment process weakens the overall effectiveness of these systems.

A study by Otieno and Karanja (2022) found that in several districts, including Oyam, a lack of formalized risk assessments has led to an inability to detect risks in time, resulting in financial inefficiencies. This underlines the need for a formal risk management strategy that integrates risk assessment into the broader ICS framework. In conclusion, effective risk assessment is vital for the success of an internal control system. By systematically identifying, assessing, and mitigating risks, local governments in Uganda can improve financial performance, reduce instances of fraud, and ensure greater accountability in the management of public resources. However, the implementation of effective risk assessment remains a challenge, particularly in lower local governments, which often lack the resources and expertise needed for robust risk management.

2.3 Financial Performance

The literature on financial performance is presented under accountability, financial reporting, and performance of revenue collection.

2.3.1 Accountability

Accountability according to Knir, Petrukha & Kryvoruchko (2019) is a fundamental principle that ensures that public funds are used responsibly and transparently, and is a key component

in evaluating financial performance within organizations, especially in the public sector. In the context of local governments, accountability mechanisms help safeguard against financial mismanagement, corruption, and inefficiency, ultimately improving financial performance and service delivery. The role of accountability in financial performance has been the subject of much academic inquiry, and several studies have examined how strengthening accountability measures enhances financial outcomes in government institutions.

Accountability in public financial management refers to the processes and systems through which government officials are held responsible for their use of public funds. This includes the adherence to budgeting procedures, expenditure controls, and financial reporting mechanisms (Olupot, 2022). According to Mwanja and Muli (2021), accountability involves ensuring that public servants and officials justify the use of resources in alignment with their roles, policies, and regulations.

The concept of accountability within local governments is often framed within the broader context of governance, transparency, and oversight (Knir et al, 2019). It involves multiple actors, such as elected officials, auditors, and civil society organizations, working together to ensure that public funds are managed in a way that reflects the needs and priorities of the community. In Uganda, local governments are tasked with managing significant portions of the national budget, making the role of accountability in financial performance even more crucial.

Financial performance refers to the ability of an organization to efficiently manage its resources to achieve financial goals, including revenue generation, cost control, and maintaining solvency (Tusiime, 2021). Research indicates that the higher the level of accountability, the

better the financial performance of public institutions. This is because effective accountability systems create an environment where financial resources are used effectively, minimizing waste, fraud, and mismanagement.

In Uganda, studies have shown that local governments that adhere to strong accountability frameworks demonstrate higher financial performance. A study by Okello and Ssempijja (2023) examined the financial performance of local governments in Northern Uganda and found a significant positive correlation between accountability practices (such as public reporting and audits) and financial performance. Their findings suggested that the presence of clear accountability mechanisms, including regular financial audits and public oversight, helped improve budgeting processes and reduced financial leakages.

Furthermore, in the context of Oyam District, the presence of weak accountability mechanisms has been linked to inefficiencies in financial management. Audit reports often reveal discrepancies in revenue collection and fund allocation, which have contributed to budgetary shortfalls and delayed service delivery (ODLG, 2022). In contrast, districts with stronger accountability practices have been able to maintain more accurate financial records, resulting in improved financial outcomes and more efficient service delivery to the public (Kasaija, 2020).

Despite the recognized importance of accountability, local governments in Uganda face several challenges in effectively implementing accountability mechanisms. According to Nsubuga (2023), common obstacles include insufficient capacity within local government bodies, limited training for staff, and political interference that undermines financial oversight. In some

cases, the lack of proper internal controls and transparent systems leads to misreporting of financial data and misallocation of funds, which ultimately affects financial performance.

Additionally, there is a growing concern about the adequacy of audits and their role in ensuring accountability at the grassroots level. Research by Tusiime and Kisaakye (2022) suggests that while audits are critical for financial accountability, local governments in Uganda often experience delayed or incomplete audit processes, which further complicates efforts to maintain financial discipline.

In summary, Uganda, strengthening accountability systems within local governments like Oyam District could significantly enhance financial performance by ensuring transparency, reducing mismanagement, and fostering more efficient resource allocation. However, challenges such as limited capacity and political interference remain barriers to effective accountability. Further research and policy efforts should focus on addressing these barriers to improve public sector financial management and governance.

2.3.2 Financial reporting

Financial reporting plays a crucial role in assessing the financial performance of organizations, including local governments. It involves the preparation and presentation of financial statements, such as balance sheets and income statements, which reflect an organization's financial position, performance, and cash flows. By improving transparency and accountability, financial reporting enables stakeholders to evaluate the efficiency of resource use and financial management. Moser and McCormick (2020) emphasize that financial reporting enhances the transparency of financial transactions, making it easier to assess an entity's ability to meet obligations and allocate resources effectively, thereby contributing to

better financial performance. In local governments, accurate financial reporting is vital for evaluating the use of public funds and ensuring efficient service delivery.

In Uganda, local governments are expected to provide financial reports that adhere to national regulations, but many districts, especially those in rural areas like Oyam, face challenges in ensuring timely and accurate reporting. The Uganda National Audit Office (2023) highlights that failure to submit accurate reports often leads to audit queries, making it difficult to track public funds' usage. Consequently, financial performance is negatively affected, with inefficiencies in budget allocation and expenditure control. Studies suggest that local governments with robust financial reporting systems experience better financial performance outcomes, particularly in revenue generation, budget execution, and expenditure management. Kabuye (2021) found that districts with weak financial reporting systems faced significant challenges in budgeting and procurement, leading to poor financial performance. Accurate financial reporting is essential for identifying financial strengths and weaknesses, enabling corrective actions to improve performance.

Despite its importance, many lower local governments in Uganda face considerable challenges in producing reliable financial reports. One major barrier is the lack of skilled personnel capable of effectively managing financial data, as is the case in Oyam District, where financial officers often lack adequate training, leading to errors in financial statement preparation (Oyam District Annual Budget Report, 2022). Additionally, the absence of modern financial management systems and weak internal controls further exacerbate these challenges. Musoke (2022) found that the lack of up-to-date financial management software contributed to delays and inaccuracies in financial reporting. Furthermore, the absence of timely audits undermines the effectiveness of financial reporting. Without regular audits, financial statements may not

reflect the true financial performance of local governments, making it difficult to address financial issues promptly (Uganda National Audit Office, 2023).

In summary, financial reporting is a vital component of financial performance, especially in local governments where accountability and transparency are essential. The literature suggests that effective financial reporting leads to better financial management and performance, offering a clear picture of an organization's financial position. However, challenges such as insufficient skills, outdated reporting systems, and delayed audits continue to hinder the effectiveness of financial reporting in Uganda's lower local governments. Addressing these challenges and strengthening financial reporting practices could significantly improve financial performance, thereby enhancing service delivery and governance at the local level.

2.3.3 Performance of revenues

Revenue performance is a critical component of financial performance in any public sector entity, including local governments. The ability of a local government to generate adequate revenue and manage it efficiently is a fundamental factor in ensuring its financial sustainability and improving service delivery. A number of studies have explored the relationship between revenue generation and financial performance, particularly in the context of local governments in developing countries, including Uganda.

A study by Kabuye (2021) highlights that local governments in Uganda often face challenges in revenue collection, which significantly affects their financial performance. The study emphasizes that inefficient revenue collection mechanisms and inadequate tax bases contribute to financial shortfalls, leading to the inability to meet budgetary expectations. For instance, in 2020, local governments in Uganda experienced an average revenue shortfall of 18% against

their projections (Uganda Bureau of Statistics, 2021). This gap in revenue collection, attributed to weak administrative controls, inefficiencies in tax assessment, and lack of effective monitoring mechanisms, undermines the financial health of local governments.

Similarly, Mugisha (2022) points out that local government in Uganda often rely heavily on central government transfers, which are unpredictable and insufficient. As a result, the financial performance of local governments such as those in Oyam District can be severely compromised when these transfers are delayed or reduced. This lack of financial independence exacerbates the challenges of local revenue generation and leads to poor service delivery. In a study conducted by the Uganda Local Governments Association (2020), it was found that 65% of local governments struggled to meet their revenue targets due to factors such as administrative inefficiencies, limited tax base, and political interference.

Moreover, research by Waiswa et al. (2020) suggests that internal controls play a crucial role in ensuring the proper management of revenue, which in turn enhances financial performance. The implementation of sound internal control systems in revenue management can prevent misreporting, corruption, and leakages, which negatively affect the financial performance of local governments. In particular, automated revenue collection systems and well-trained staff have been found to improve revenue performance and financial accountability in local governments (Tibamwenda, 2021).

On the other hand, Nsimbe (2023) argues that effective revenue generation not only depends on internal controls but also on external factors such as economic conditions, the local business environment, and public perception of tax fairness. He suggests that improving the relationship between citizens and local governments can lead to increased voluntary compliance and,

consequently, improved revenue generation. His study also found that local governments with transparent financial systems and consistent taxpayer engagement saw a 12% increase in revenue performance over a three-year period. In summary, the performance of revenues is a key determinant of the financial performance of local governments. A combination of effective internal control systems, improved tax administration, and better citizen-government relations is essential for enhancing the revenue generation capacity of local governments, thereby improving their overall financial performance.

2.4 Integrated Financial Management System (IFMS)

This section presents the literature on IFMIS under its dimensions which include, budgeting, approval and cash management.

2.4.1 Budgeting

Budgeting plays a central role within Integrated Financial Management Systems (IFMS), which aim to enhance financial transparency, accountability, and efficiency in managing public resources. IFMS integrates various financial functions such as budgeting, accounting, procurement, and reporting into a unified system. Effective budgeting ensures the efficient allocation of public funds, aligning expenditures with government priorities and financial constraints, and is considered a key tool for improving public financial management (Kato, 2022). In Uganda, the adoption of IFMS has been a significant step towards enhancing financial management at local government levels, especially in rural districts (Opondo & Nahamya, 2021).

Within IFMS, budgeting serves multiple purposes, including financial planning, control, and monitoring. The budgeting process in IFMS is interdependent, comprising stages such as

preparation, approval, execution, and monitoring. Each of these stages relies on accurate data to ensure that government expenditures are aligned with strategic goals while preventing financial mismanagement (Businge, 2023).

As noted by Opondo and Nahamya (2021), budgeting within IFMS helps local governments in Uganda efficiently allocate resources and reduce wastage. The integration of budgeting functions ensures greater financial accountability and improves financial performance by aligning expenditures with strategic goals and available resources. However, the implementation of IFMS for budgeting in local governments is not without challenges. A primary issue is the lack of capacity at the local government level, where officials often lack proper training in the use of IFMS, leading to errors in budgeting and financial reporting (Kato, 2022). Furthermore, technical constraints such as inadequate infrastructure and lack of ongoing support complicate the smooth adoption of IFMS in many local governments. These factors result in delays, misallocation of funds, and inefficiencies in financial management (Businge, 2023).

Additionally, the resistance to change from local government officials accustomed to traditional budgeting methods can hinder the successful integration of IFMS. Despite these challenges, evidence from successful implementations of IFMS indicates that proper training and capacity-building can significantly improve budgeting processes. The integration of budgeting into IFMS can enhance financial performance by automating processes, providing real-time data, and ensuring better alignment between budget allocations and service delivery priorities. Studies have shown that local governments using IFMS have better financial performance, as it reduces the likelihood of financial mismanagement and improves decision-making (Kato, 2022). For instance, the Uganda Ministry of Finance (2023) reported that local

governments using IFMS were more effective in managing expenditures and fulfilling their financial obligations, leading to improved financial performance.

In summary, budgeting within Integrated Financial Management Systems is a key element that enhances financial accountability and performance in local governments. While challenges such as capacity gaps and resistance to change exist, the benefits of improved financial transparency and efficiency through IFMS are significant. As more local governments in Uganda and other developing nations adopt IFMS, the integration of budgeting functions will continue to play a vital role in improving public financial management.

2.4.2 Approval

An Integrated Financial Management System (IFMS) is a comprehensive framework designed to streamline and improve the management of public financial resources. It integrates various financial processes, such as budgeting, accounting, procurement, and financial reporting, into a single unified system. The approval component of IFMS plays a central role in ensuring that expenditures are adequately authorized and comply with regulatory and financial control standards. The effectiveness of this component has a direct impact on the overall integrity and performance of public financial management.

According to Kasirye et al. (2020), approval within IFMS ensures that every financial transaction is reviewed and authorized by the relevant authorities, thus preventing fraud and financial mismanagement. The approval process typically involves multiple levels of scrutiny, including budget verification, procurement approval, and authorization of payment, which are designed to align with organizational policies and legal frameworks.

A study by Turyasingura et al. (2021) highlights that the approval mechanism is integral to maintaining effective internal controls within public institutions. By automating and standardizing approval processes, IFMS reduces human error and enhances efficiency. The system ensures that all financial transactions are executed based on approved budgets and that they align with the strategic objectives of the organization.

Furthermore, research by Nabongo et al. (2022) indicates that proper approval mechanisms within IFMS contribute to improved fiscal discipline by curbing the occurrence of irregularities, unauthorized spending, and deviations from budgetary allocations. In Uganda, where local governments struggle with budget overruns and financial mismanagement, the implementation of a robust approval system within IFMS is seen as a key factor in enhancing financial discipline (Uganda National Audit Office, 2023). This was notably evident in the improvement of financial management practices in districts such as Mukono and Mbarara after the adoption of IFMS in the mid-2010s.

Moreover, the effectiveness of approval systems is contingent upon the capacity of personnel to manage and operate the IFMS. According to Kabuye (2021), the success of the approval component also depends on training, the availability of user-friendly interfaces, and continuous monitoring. If public officials are not adequately trained to use the system, or if the approval processes are cumbersome, inefficiencies and delays may occur, undermining the benefits of IFMS.

Lastly, the introduction of digital signatures and real-time approvals in the latest versions of IFMS has further enhanced the efficiency of the approval process. These innovations allow for quicker decision-making and reduce administrative bottlenecks. In their study, Muwanga and

Muwonge (2023) found that the use of digital signatures in the approval process has significantly reduced the time taken for transactions to be authorized, thus improving the speed of financial operations in local governments. In summary, approval component of an Integrated Financial Management System is crucial in ensuring the integrity and efficiency of public financial management.

By automating and standardizing approval processes, IFMS helps minimize financial mismanagement and ensures greater accountability in public spending. However, the success of these systems depends on adequate training, effective user interfaces, and continuous oversight to prevent inefficiencies. The role of approval mechanisms in improving fiscal discipline is particularly relevant in the context of local governments in Uganda, where IFMS implementation has shown promise in enhancing financial performance.

2.4.3 Cash management

Cash management is a critical component of the Integrated Financial Management System (IFMS), which is designed to improve financial accountability, transparency, and efficiency in the management of public funds. The goal of an IFMS is to streamline the processes of budgeting, accounting, procurement, and cash management to ensure that financial operations are conducted in accordance with established regulations and best practices (World Bank, 2022). Effective cash management ensures that sufficient liquidity is available to meet financial obligations without compromising the financial stability of the government.

Cash management within an IFMS involves the efficient handling of cash flow, cash forecasting, and reconciliation. It helps local governments and ministries track the inflow and outflow of funds, manage balances in bank accounts, and ensure that cash resources are

appropriately allocated. This component plays a crucial role in preventing liquidity crises and ensuring that public services continue to function without disruptions. According to Okello and Tsekpo (2020), cash management in the IFMS framework helps local governments optimize the use of available resources, thereby improving their financial performance.

One significant challenge in cash management within the IFMS is the lack of accurate cash flow forecasting. In many developing countries, including Uganda, local governments often face difficulties in predicting cash inflows and outflows accurately, leading to either a surplus or deficit in funds. This issue arises due to poor data collection, delays in revenue collection, and ineffective financial monitoring systems (Mugisha & Namubiru, 2021).

A study by Kizza and Bukirwa (2021) on Uganda's cash management practices within the IFMS showed that local governments often face challenges in balancing their budgets due to cash management inefficiencies, particularly in the timing of revenue collection and expenditure.

Effective cash management can also reduce the risks associated with financial mismanagement and corruption. By ensuring real-time tracking of cash flows, the IFMS allows for greater oversight and accountability in the allocation and disbursement of public funds (Ssekabira, 2022). According to a recent report by the Uganda National Audit Office (2023), many districts, including Oyam, experience cash mismanagement because of weak controls, insufficient training, and a lack of automated systems to track cash flow accurately.

Several studies have demonstrated the positive impact of improved cash management systems on the financial performance of local governments. A study by Musoke et al. (2020) concluded that the introduction of IFMS in Uganda significantly improved cash management practices in

central government institutions, leading to a 20% increase in revenue collection efficiency. Furthermore, the study noted that the automation of cash management processes within the IFMS helped reduce delays in payments to contractors and suppliers, which had previously been a major source of financial inefficiency.

Research by Nalumansi et al. (2022) highlights that the decentralized nature of Uganda's local governments often results in a lack of coordination between different departments, making it difficult to manage cash flow effectively. This decentralization often leads to inefficiencies in tracking and reconciling cash balances, which negatively affects the financial stability of local governments.

Overall, cash management is a vital component of the IFMS, and improvements in this area can lead to more effective financial control, better resource allocation, and enhanced public service delivery. Further research is needed to address the persistent challenges in cash management in Uganda's lower local governments and explore how the integration of automated systems could enhance financial performance.

2.5 The relationship between internal control system and financial performance

Studies have shown that ICS have an influence on financial performance of an organisation. For instance, Nzibonera & Ninsiima (2020) in their study focusing on public universities established that the elements of internal control system which include; the control environment, risk assessment process and budget control have a positive and significant effect on financial performance. They, therefore, recommended that public Universities should strengthen financial control policies and procedures, risk assessment processes and budgetary control mechanisms to effectively manage working capital.

2.6 The moderating effect of IFMS on the relationship between the ICS and financial performance

Harelimana (2017) in his study on the impact of integrated financial management information system on performance of public institutions in Rwanda, established that the adoption of IFMIS helped in budgeting system, cash management, financial reporting and internal control system. This demonstrates that IFMS indeed has a moderation effect on the relationship between ICS and financial performance of an organisation. He established that this affected positively the performance of the organization supporting the fact that there is a correlation between the adoption of IFMIS and performance of organisation in Rwanda.

2.7 Chapter Summary

While substantial research has been conducted on the role of Integrated Financial Management Systems (IFMS) in improving cash management and financial performance, significant gaps remain in understanding the specific challenges and outcomes for lower local governments in Uganda. The existing literature largely focuses on the benefits of IFMS in central government institutions and its overall impact on enhancing transparency, accountability, and efficiency in cash management. However, the application of IFMS in local government settings, particularly in rural districts like Oyam, has not been extensively explored.

While studies such as those by Kizza and Bukirwa (2021) and Musoke et al. (2020) have highlighted the positive outcomes of IFMS in central government institutions, there is insufficient empirical evidence on how lower local governments, especially in rural settings, manage cash flow under IFMS. This gap is critical as rural local governments often face unique challenges, such as insufficient financial literacy, inadequate infrastructure, and limited access to technology, which may hinder the effectiveness of IFMS in cash management.

Scholars such as Mugisha & Namubiru (2021) and Okello & Tsekpo (2020) have touched on the issues of data collection and cash forecasting, more in-depth research is needed to identify Research by Nalumansi et al. (2022) has pointed out that decentralization often leads to inefficiencies in financial management, but no comprehensive study has provided a deep dive into how decentralization affects cash management processes within IFMS.

Lastly, the existing studies do not fully explore the relationship between the effectiveness of cash management and broader financial outcomes at the local government level. While some studies have linked improved financial management systems to enhanced revenue collection and expenditure efficiency (Musoke et al., 2020), there is a lack of detailed research that connects these improvements directly to the broader financial performance of local governments in Uganda, especially in the context of rural districts.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research methodology that was used in conducting the study. It covers the research design, study population, sample size, data sources, data collection instruments, measurement of variables, data validity and reliability, data analysis, the limitations that were faced with during the study, and the ethical consideration to be considered in the research.

3.1 Research Design

The research design adopted in this study was cross-sectional such as data collected at one point in time were used to analyze the relationship between internal control system and financial performance of the lower local governments of Oyam District as moderated by integrated financial management system (IFMS). Quantitative approach was used in the study to allow for gathering of data from a large number of respondents and standardization of responses for ease of analysis (Hanson & Clark, 2015). A cross-sectional time frame was adopted since the researcher only employed in single point in time to assess effect internal control system on financial performance, data collection and analysis was done once as opposed to longitudinal approach that is undertaken after every established interval.

3.2 Population of the Study

Kothari (2014) defines population as the total number of items about which information is desired. The study population composed of 201 employees/staff from Oyam District Human Resource staff list report, 2023/2024 which comprised all Sub counties/Town council Chairpersons, Senior Assistant Secretaries, Senior Assistant Accountants, sub counties Community development officers (CDOs), all the technical staff in the internal audit department, principal township officers, principal town agents, parish chiefs, town treasurers,

senior community development officers and production extension staff, The above categories of Lower Local Governments staff and political wings form part of key stakeholders in ODLG responsible for internal control systems and financial performance in Sixteen Lower Local Governments.

3.3 Sample Size and Sample Procedure

The sample size in this study was derived using the Yamane 1973 formula. Thereafter, stratified proportional allocation was done to determine how many respondents were sampled.

The Yamane (1973) formula is as presented:

$$n = \left(\frac{N}{1 + N(e^2)} \right)$$

Where: n is the required sample size for the study, e is the margin of error (0.05 confidence level in this study), and N is the total population.

Therefore

$$n = \frac{201}{1 + 201(0.05)^2} = n = 174$$

The actual sample size per category was then proportionately calculated from the total sample size of 174 respondents. Table 1 present the sample size of the respondents as computed.

Table 1: Sample Size and Sample Procedure

SN	Category	Population	Sample Size	Sampling procedures
1.	Chairperson LCIII/Mayors	16	14	Purposive
2.	Sub county/Town Council Executive Committee	16	14	Stratified random
3.	Senior Assistant Secretaries (SAS)	11	9	Purposive
4.	Senior Assistant Accountants (Sub-Accountants)	11	9	Purposive
5.	Community development officer	11	9	Simple random
6.	Senior Community development officer	05	4	Purposive
7.	Town Treasurer	05	4	Simple random
8.	Principal Township Officers	05	4	Purposive
9.	Principal Town Agents	12	11	Purposive
10.	Production Extension Staff (AAHO,AAO)	32	28	Simple random
11.	Audit staff	6	5	Simple random

12.	Parish Chiefs	71	63	Simple random
	Total	201	174	

Source: Oyam District Local Government (2024)

Response Rate

Table 2 below shows the response rate

Table 2: Response Rate

SN	Category	Population	Actual Responded	Response Rate (%)
1	Interviews	12	9	75.0%
2	Questionnaires	174	174	100.0%
	Total	186	183	98.4%

Source: Primary Data

According to the findings, the overall response rate was 98.4% which was considered to be adequate and for which purpose, further analysis was conducted to address the study objectives.

3.4 Sampling techniques and procedures

Purposive and simple random sampling techniques were used by researcher in selecting respondents. In purposive sampling, researcher included only those participants who met particular criteria (Bryman, 2018). Given that the beneficiaries were many, and this could be attained on convenience basis, purposive sampling was considered appropriate for this category of participants since beneficiaries at their entity was part of the study.

The researcher used both probability and non-probability sampling methods. Probability sampling is one in which every member of a population has a chance of being selected in the sample and the probability can be accurately determined. The combination of both methods limits bias in sample selection. Non-probability sampling is any sampling method where some element of the population has no chance of being selected or where selection cannot be accurately determined.

3.4.1 Stratified random sampling

Stratified random sampling was used to select members of District technical planning committee, Senior Assistant Secretaries, community development officers, sub-accountants, Audit staff, District Executive Committee and District Public Accounts Committee. This technique was used to give more respondents in the population a chance to be part of the sample.

3.4.2 Purposive sampling

Purposive sampling involves selecting of key informants and also the choices of subjects who meet predetermined criteria such a convenience to the researcher in terms of proximity, readily available, willingness to be included in the sample and any other criteria that were considered relevant by the researcher. This technique was used to sample key informants who were then engaged in interviews.

3.5 Data Sources

Both primary and secondary data were used in this study. Primary data on management competencies, innovation and the performance of local government were obtained through direct contact with the respondents. Secondary data were obtained from the already existing firms' literature and any other literature from company records, journals and financial reports. Secondary data were collected by use of desk search techniques from published reports and other documents. Secondary data included the local government publications, journals, and periodicals. These were used since they were published by reputable institutions and authors.

3.5.1 Primary data

The primary data were obtained through administration of questionnaires and interview guides to the staff of ODLG to gather data on internal control system and financial performance of local government.

3.5.2 Secondary data

Financial statements, annual reports, and other financial performance data were used as components of secondary data to solicit information on internal control system and financial performance of ODLG.

3.6 Data Collection Methods

3.6.1 Survey questionnaire

Questionnaires are one of most commonly used tools in survey with a large number of participants. In this study, a structured questionnaire was employed. A self-administered Questionnaire method was adapted. Questionnaires as a method are ideal for saving time, are cost effective and provide room for high response rate (Creswell, 2018). Questionnaires were used to provide room for confidentiality, and considered ideal for sensitive areas of study like internal control system and financial performance. Each respondent was allowed time to complete the questionnaire before they were collected back. This meant that some respondents took longer than others to return the questionnaires although, all had to be received back before analysis could be conducted.

3.6.2 Interview method

According to Kabir (2016), “a research interview is a data-collection method in which the researcher asks the respondent questions and can be in-person interview if conducted face-to-

face or telephone interview if done over the phone”. It is an interpersonal encounter that has the advantage that the researcher can probe the respondent for clarifications of their responses or to get more information. Interviews involve the vocal or oral questioning technique or discussion between individuals leading to self-report. This method was preferred in the study because it helps to obtain in-depth data and accurate information. During the process of interview, the researcher ensured maximum cooperation by communicating clearly and clarifying questions that the respondents sought clarification on.

3.7 Data Collection Instruments

This study employed data instruments using structured questionnaire and interview guides.

3.7.1 Structured questionnaires

The study used a questionnaire as a tool for data collection, structured with closed ended questions. The questions were developed on a five (5) point Likert scale that comprise of the following response options: Strongly Disagree (SD), Disagree (D) Neutral (N) Agree (A) and strongly-Agree (SA). Closed ended questions will be used because they are the only means through which standardized response can be obtained for the purpose of accurate quantitative analysis. Questionnaires will be administered to the small business owners transacting with financial institutions and the financial institutions staff

3.7.2 Interview guide

The researcher employed interview guide to obtain information required from selected key informants. The interview guide helped in obtaining in-depth information on various questions to be asked. A semi structured interview guide was designed and administered to key informants to capture in-depth qualitative data. Interviews are advantageous because they

generate more information through probing (Saunders et al., 2016). In addition, interviews also allow for clarification as well as capture of facial expressions of interviewees.

3.8 Data Quality Control

Validity and reliability tests were conducted on the tools before actual data were collected

3.8.1 Validity

Validity refers to the extent to which a test measures what the researcher actually is interested to measure. Therefore, the research instrument was presented to the research experts to give their assessment of the items in the instruments from where content validity index (CVI) was computed using the formula below;

$$CVI = \frac{\text{Number of items considered relevant}}{\text{Total number of items in the instrument}}$$

The choice of the method in according to Amin, (2005), the instrument with CVI of 0.7 and above were acceptable and considered a valid instrument.

Table 3: Content Validity Test Results

SN	Experts	Computation	CVI
1.	Expert 1	49/58	.844
2.	Expert 2	50/58	.862
3.	Expert 3	48/58	.827
Average			0.843

Source: Primary data

3.8.2 Reliability

Reliability is the extent to which an instrument generates consistent results over time (Creswell, 2018). The researcher pre-tested the instrument for 10 people in Kole and Kwania District the results of was analyzed in SPSS Ver. 23. From reliability test, Cronbach alpha values attained reliability alpha values are 0.7 and above.

Table 4: Computation of Cronbach's alpha

SN	Variables	Anchor points	Number of items	Cronbach's alpha
1	Internal control system	5	6.1	.798
2	Financial performance	5	6.2	.817
3	Integrated financial management system	5	6.8	.734
Average				0.783

Source: Primary data

3.9 Data Analysis and Presentation

3.9.1 Quantitative data analysis

Data processing analysis played a major part in the completion of this study. Data was reviewed after receipt of the questionnaires and compilation of the archive. A critical analysis was done after which data was interpreted in graphical and representation that often laid the foundation for interpretation. It was entered into the computer for analysis using Statistical Package for Social Sciences (SPSS). The variables were analyzed to establish their minimums, maximums, frequencies, means and standard deviation.

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. The Statistical Package for Social Sciences (SPSS v. 23) was used for analysis of data collected. During the analysis of the data, descriptive statistics was used to present the results of the sample characteristics. Correlation analyses were carried out to ascertain the relationships between the variables which were estimated using the Pearson's correlation test hypothesis and regression analysis.

3.9.2 Qualitative data analysis

Content analysis was used to analyse the qualitative data collected using the interview method. Qualitative information was organized and analyzed by sorting and arranging according to the

objectives as was reflected in the key informant interview guide. Data from face-to-face interviews were also recorded, summarized and analyzed according to themes to establish patterns. The summarized responses from interviewees were presented in text and used to support the empirical findings during interpretation and discussion of findings and in constricting recommendations. If there were quotations to support the themes and statistics, indicate them.

3.10 Ethical Considerations

The researcher got an introductory letter from the Directorate of Research and Graduate Training of Gulu University which was presented to the Chief Administrative Officer Oyam District Local Government. The need for approval of the research proposal by the Directorate of Research and Graduate Training of Gulu University was essential and mandatory to give validity to the document and to show that the study was done according to approved research standards and practices. Informed consent from the participants or respondents was a sign of respect for their rights in the study was very necessary so as to gain their trust and confidence in the objectives of the study which was purely academic in nature. Observation and maintenance of confidentiality was vital, especially for participants who preferred to remain anonymous for either official or personal reasons, for fear of reprisals as far as data handling was concerned.

3.11 Study Limitations and Delimitations

This research employed a cross sectional study design. This gave only a snapshot of the situation. The situation may have provided differing results if another time frame was chosen. This was minimized by asking the respondents to refer on the current situation (short period) during the research period.

Given that the main tool for data collection was a questionnaire, there was a possibility of poor response and submission of incomplete questionnaires. To counter this, the length of the questionnaire was kept short and the formatting of the pages used was friendly. Using purposive sampling on administrators and officers of the lower local government caused the researcher not to represent the population well. As such, a small variation in the sample caused deviance in the results. Accessibility to information was hard since financial information concerning audit reports and financial data was considered confidential by District Local Government, this was mitigated by informing respondents and the management of district local government that this information was purely for academic purpose.

Some respondents were initially unwilling to participate in this study for unclear reasons. The researcher, however, explained to them the purpose of the study and about all ethical concerns, including confidentiality, which would be observed, and with this they accepted

The researcher however plans to set prior appointments with such respondents and follow such appointments while keeping time so as to overcome this challenge. The researcher also plans to use a wider period of up to two weeks for the data collection exercise so as to widen the data collection period. In this the researcher will be able to establish contact with respondents with minimal challenge.

The researcher anticipates to meet some level of hostilities from some respondents arising from suspicions that the data collected would be used for other purposes other than those stated on the questionnaires. This challenge was addressed with the help of seeking relevant authorities to provide adequate prove to such respondents as a way to overcome such suspicion and to give

assurance that the data is strictly for academic purposes. The scope of this study was limited to the case study; however, the results were also generalized. Also, the respondents are located in ODLG thus making its geographically limited as far as the geographical scope is concern.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter presents the findings on demographic characteristics of respondents, then descriptive analysis of internal control system and the financial performance. This is followed by the presentation of the results on the study objectives which included, (i) assessing the application of the ICS; (ii) examining the status of financial performance; (iii) examining the relationship between internal control system and financial performance; and (iv) assessing the moderating effect of IFMS on the relationship between the ICS and financial performance.

4.1 Demographic Characteristics

This section presents results on the demographic characteristics of the respondents.

Table 5: Demographic Characteristics

SN	Variable	Dimension	Frequency	Percentage
1.	Gender	Male	107	61.5
		Female	67	38.5
		Total	174	100.0
2.	Age of the respondents	Below 20 year	18	25.9
		20-24years	20	31.6
		25-29years	79	13.8
		30 years and above	57	28.7
		Total	174	100.0
3.	Marital status	Single	18	10.3
		Married	110	63.2
		Separate/divorced	14	8.2
		Widowed	32	18.3
		Total	174	100.0
4.	Department of the respondents	Admin	33	19.0
		Finance	56	32.2
		Audit	19	10.9
		Statutory	66	37.9
		Total	174	100.0
5.	Duration	Less than 3 years	8	4.6
		3-5 years	116	66.7
		5years and above	50	28.7
		Total	174	100.0
6.	Education level	Certificate	45	25.9
		Diploma	55	31.6
		Degree	24	13.8

	Master above	50	28.7
	Total	174	100.0

Source: Primary data

The data presents a detailed demographic and professional profile of 174 respondents. In terms of gender, the respondents were predominantly male (61.5%) with the female accounting for 38.5%. Regarding marital status, the majority of respondents were married (63.2%), while smaller percentages constituted the widowed (18.3%), the single (10.3%), and the separated/divorced (8.2%).

The respondents came from across four departments within the organization, with the largest proportion working in the statutory department (37.9%), and followed by Finance department (32.2%), Administration department (19.0%), and Audit department (10.9%). In terms of employment duration, most respondents (66.7%) have been with the organization for 3-5 years, while 28.7% have been employed for 5 years or more, and a small fraction (4.6%) have been employed for less than 3 years.

Regarding educational qualifications, a significant portion of respondents holds a diploma (31.6%), while 25.9% have a certificate. Additionally, 28.7% of respondents have a master's degree or higher, and 13.8% hold a bachelor's degree. The respondents' age distribution shows that the largest group (45.4%) is aged between 25-29 years, followed by 20-24 years (31.6%) and 30 years and above (28.7%). A smaller portion (25.9%) is under 20 years old.

Overall, the data reveals a diverse but predominantly young workforce, with a strong presence of married individuals, employees with mid-range tenure, and a mix of educational backgrounds. The Statutory and Finance departments appear to have the highest representation among the respondents.

4.2 Application of Internal Control System at ODLG

This section presents the findings of objective one of this study which was about assessing the application of the ICS. The descriptive results of this objective are presented under three dimensions namely, control activities, risk assessment and control environment.

4.2.1 Descriptive results on control activities

The findings on control activities were as presented in Table 6.

Table 6: Descriptive Results on Control Activities

SN Control Activities	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. Oyam DLG management separates its roles/duties amongst its employees	5.7	2.3	8.0	0.0	56.9	35.1	92.0
2. At Oyam DLG a senior staff checks the work employees under their department	0.0	5.7	5.7	4.6	43.1	46.6	89.7
3. Authorization is required for every activity	0.0	4.6	4.6	5.7	46.6	43.1	89.7
4. LLG has security that identifies organization assets	0.0	5.7	5.7	14.9	48.9	30.5	79.3
5. Oyam DLG' management weekly checks on employees' level of meeting set targets	0.0	15.1	15.1	19.8	33.1	32.0	65.1
6. Oyam DLG perform a routine check on physical assets of the council every month	0.0	10.3	10.3	14.9	39.7	35.1	74.7
7. All financial documents are reviewed for accuracy monthly	0.0	16.1	16.1	20.1	34.5	29.3	63.8
Average	0.8	8.5	9.4	11.4	43.3	35.9	79.2

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data on control activities among internal control system reveals strong levels of agreement on various aspects of control activities. On average, it was established that control activities were rated at 79.2% as much as this was opposed by 9.4% of respondents and 11.4% indicated that they were not sure about this. Specifically, the highest agreement, at 92.0% of respondents agreed that ODLG management effectively separates roles and duties among employees,

demonstrating a clear division of responsibilities. Additionally, 89.7% agreed that senior staff regularly checks the work of employees under their department, suggesting a robust oversight system. Similarly, 89.7% agreed that authorization is required for every activity, showing a well-established control process. Overall, the average level of agreement across all control activities is 79.19%, indicating a positive perception of the internal control system. While there are areas that could be improved, such as routine checks on physical assets and employee performance monitoring, the data reflects a generally strong internal control environment at ODLG and LLG, where control activities are seen as effective in ensuring compliance and operational efficiency.

These results were supported by the qualitative results from the interviews where it was established that the control activities at ODLG were said to be highly practiced. This was supported by one respondent who stated that,

At Oyam District Local Government, there are measures that have been put in place to control how resources are utilized. This way, the Local Government had made sure that there is accountability and transparency in all financial transactions.

Yet another one added that,

As a Local Government we have an internal audit department which helps to ensure that all the monies collected in form of taxes, or received for the Central Government or any other sources are used for the purposes they were meant for. The audit department ensures that this is the case and where possible it makes recommendations for corrective actions.

4.2.2 Descriptive Results on Risk Assessment

Arising from the results obtained from the respondents, the following were the findings.

Table 7: Descriptive Results on Risk Assessment

SN Risk Assessment	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. The risks are assessed basing on visible consequences	5.7	11.5	17.2	25.9	35.6	21.3	56.9
2. The risks are assessed in terms of achievement of objectives	5.7	20.7	26.4	2.3	42.0	29.3	71.3
3. There are strong risk assessment measures at each financial control desk	10.3	8.0	18.4	16.7	28.7	36.2	64.9
4. Risks that occur are carefully analyzed by all staff	9.2	11.5	20.7	27.0	32.2	20.1	52.3
5. Vote controllers/HODs communicate likely risks to all staff	5.7	20.1	25.9	31.0	23.0	20.1	43.1
Average	7.3	14.3	21.7	20.6	32.3	25.4	57.7

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

According to the results, it was established on overage that risk assessment was scored at 57.7%, which, though not very high, it is still above overage. The data on risk assessment as a component of the internal control system at ODLG reveals key insights into how risks are managed within the organization. The top three areas with the highest scores include: first, the assessment of risks in terms of achieving organizational objectives, which received the highest agreement at 71.3%. This indicates that ODLG places a strong focus on aligning risk management with its overall goals. Second, 64.9% of respondents agreed that there are strong risk assessment measures at each financial control desk, suggesting effective risk management within financial operations. Third, 56.9% agreed that risks are assessed based on visible consequences, which helps prioritize and address the most significant risks. The overall average for all risk assessment activities is 57.7%, indicating a moderate level of agreement. While most respondents believe the risk assessment process is well-established, there is room for improvement in areas like risk communication (with only 43.1% agreeing that risks are

effectively communicated) and staff involvement in risk analysis (52.3% agreement). Overall, while the risk assessment system at ODLG is generally seen as effective, strengthening communication and staff involvement in risk management could enhance its overall impact.

The qualitative results from the interviews supported the above quantitative results that where it was established that risk assessment is normally undertaken especially when capital intensive projects have to be undertaken in support of this one key informant said,

At Oyam District Local Government we do not just embark on any project anyhow no matter how attractive it may sound. This is because we are to use public resources whenever implementing any projects and as such we are accounted to the citizens whom the projects are to serve. As such, we conduct thorough risk assessments to be sure that the project has high probability of success before implementing it.

4.2.3 Descriptive results on control environment

Control environment constitute important dimension of ICS. The feedback from the respondents is as presented in Table 8.

Table 8: Descriptive Results on Control Environment

SN Control Activities	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. There is a clear process in the financial records and management at this council	4.6	26.4	31.0	15.5	32.8	20.7	53.4
2. Management provides written guidelines on how staff should handle council's finances	5.7	10.3	16.1	21.8	42.0	20.1	62.1
3. Does management have enough skills to oversee its internal control system	5.7	14.9	20.7	14.4	28.7	36.2	64.9
4. Employees are made aware of their roles in implementation of the ICS	0.0	17.8	17.8	25.3	30.5	26.4	56.9
5. Top management and departmental heads delegate their responsibilities to junior staff	8.0	4.6	12.6	20.1	46.0	21.3	67.2
6. The prioritizes accuracy and competent service delivery in regard to control of financial resources	5.2	5.7	10.9	27.6	36.2	25.3	61.5
Average	4.9	13.2	18.1	20.7	36.0	25.0	61.0

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data on the control environment as a component of the internal control system reveals several key insights. The top three areas with the highest levels of agreement are the skills of management in overseeing the internal control system, with 64.9% of respondents expressing strong agreement. Additionally, 67.2% of respondents agreed that top management and departmental heads effectively delegate responsibilities to junior staff, while 56.9% feel that employees are made aware of their roles in the implementation of the internal control system. These figures reflect a strong positive perception of the management's capability, delegation practices, and communication regarding employee roles. Overall, the average level of agreement across all statements is 61.0%, indicating that, while the control environment is viewed positively, there are areas, such as financial record-keeping and staff guidelines, where improvements could further enhance the internal control framework.

These results were supported by the qualitative results from the interviews where the key informants talked about there being control systems in place to make sure that finances are well

handled at the District Local Government. According to the respondents, the financial handling environment at ODLG is that which ensures transparency and accountability. This was supported by one key informant who said,

Our finance department has set up systems which allow for smooth requisitioning and accounting for any finances advances to any department for public service delivery. This has ensured that genuine requisitions and claims are raised by the rightful officers and this way there is trust that finances are utilized for the purposes they were meant for.

4.2.4 Overall results of objective one

According to the results as presented in the previous sub-sections, control activities were rated at 79.2%; risk assessment at 57.7%, and control environment at 61.0%. The overall rating of ICS at ODLG was 65.9% which is above average.

4.3 Status of Financial Performance of ODLG

This section presented the results on objective two which was about examining the status of financial performance. The descriptive results on financial performance are presented under its dimensions which include accountability, financial reporting and performance revenue as presented in the following sub-sections.

4.3.1 Descriptive results on financial accountability

The results on accountability which is an important component of financial performance are as presented in Table 9.

Table 9: Descriptive Results on Accountability

SN Control Activities	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. There is easy access to financial information in Oyam District Local Government	4.6	11.5	16.1	4.6	47.7	31.6	79.3
2. Financial accountability in Oyam District Local Government is a routine practice.	0.0	0.0	0.0	14.9	47.7	37.4	85.1
3. Financial reports are regularly shared with stakeholders.	4.6	5.7	10.3	9.2	36.2	44.3	80.5
4. There are clearly defined roles and responsibilities for financial management in Oyam District Local Government	4.6	9.2	13.8	16.1	36.8	33.3	70.1
5. Oyam District Local Government regularly communicates its financial performance to the public.	0.0	4.6	4.6	36.8	35.6	23.0	58.6
6. Vote controllers/HODs regular present departmental financial reports in time	0.0	11.5	11.5	17.2	40.8	30.5	71.3
Average	2.3	7.1	9.4	16.5	40.8	33.4	74.2

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data on accountability in ODLG reveals a strong perception of financial accountability as a key component of financial performance. The highest level of agreement is seen in the statement, "Financial accountability in ODLG is a routine practice," with 85.1% of respondents strongly agreed, indicating that financial accountability is considered a consistent practice. Additionally, 79.3% of respondents agreed that there is easy access to financial information, contributing to a transparent environment. The statement, "Financial reports are regularly shared with stakeholders," also receives strong support, with 80.5% of respondents in agreement. These figures suggest that financial transparency and regular communication are well established in the district. The overall average level of agreement across all statements is 74.2%, reflecting a positive outlook on financial accountability in the district. While the district performs well in these areas, there is room for improvement, especially in the communication of financial performance to the public, where only 58.6% of respondents express agreement.

This indicates that enhancing public engagement with financial performance could further improve accountability.

These results obtained from the interviews with the key informants supported the above quantitative results that there is a very high level of financial accountability at ODLG. The key informants talks about the District Local Government adhering to the financial policies and procurement procedures as formulated by the government. For instance, one of them said,

As a local government we do not do things the way we wish. Instead we are guided by the Local Government Act, the Finance Act and the Procurement and Disposal Act, all of which have been formulated by the Government of Uganda. In so doing, all our financial transactions in whatever form are always transparent.

4.3.2 Descriptive results on financial reporting

Descriptive results on financial reporting were as presented in the table below:

Table 10: Descriptive Results on Financial Reporting

SN Control Activities	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. There is timely reporting of financial information in Oyam District Local Government.	0.0	4.6	4.6	17.2	40.8	37.4	78.2
2. There is a reliable financial reporting process in Oyam District Local Government.	0.0	17.2	17.2	21.3	27.0	34.5	61.5
3. The financial reports of Oyam District Local Government are very accurate.	10.3	22.4	32.8	23.0	28.2	16.1	44.3
4. Oyam District Local Government provides complete financial reports.	16.1	40.2	56.3	25.3	18.4	0.0	18.4
5. Financial reports provided by Oyam District Local Government are understood by all relevant stakeholders.	8.0	44.8	52.9	32.8	14.4	0.0	14.4
Average	6.9	25.8	32.8	23.9	25.8	17.6	43.4

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data on financial reporting in ODLG reveals a generally positive perception, with some areas showing stronger agreement than others. The highest level of agreement is seen in the statement, "There is timely reporting of financial information," with 78.2% of respondents strongly agreed, indicating that financial reports are typically delivered on time. Additionally, 61.5% of respondents agreed that the financial reporting process is reliable, suggesting confidence in the process, though there is still room for improvement in terms of consistency and trust. However, the accuracy of financial reports receives a lower level of agreement, with only 44.3% of respondents expressing confidence in their accuracy. The completeness and comprehensibility of the financial reports also show room for improvement, as many respondents felt the reports were not fully understood or complete. The overall average level of agreement is 43.4%, reflecting a moderate perception of financial reporting, but also highlighting areas that need attention, particularly in ensuring that financial reports are not only timely and reliable but also complete, accurate, and accessible to all stakeholders.

These results were supported by the qualitative results from the interviews where it was established that financial reporting is always done but the details are not well known to most of the respondents. The key informants support the fact that the finance department always generates annual financial reports which are forwarded to the Ministry of Finance and Economic Development (MoFPED). In support of this one of them said,

At Oyam District Local Government we have a Chief Finance Officer whose responsibility is to ensure that matters of finances are handled well with the Local Government. It is his responsibility to ensure that annual financial reports are

generated and submitted as required by law. This has always been happening and we don't have a problem there. The only thing is that some of us not being technical people we may not fully understand the contents of the reports but they are always generated.

4.3.3 Performance of revenues

Performance of revenue, an important component of financial performance is presented and analyzed in the table below:

Table 11: Descriptive Results on Performance of Revenues

SN Control Activities	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. Oyam District Local Government efficiently collects all due revenues from various sources from LLGs	10.3	33.3	43.7	33.3	23.0	0.0	23.0
2. Oyam District Local Government usually achieves all its revenue targets.	5.7	14.9	20.7	14.4	28.7	36.2	64.9
3. The revenues collected by Oyam District Local Government have been increasing over the years.	0.0	17.8	17.8	25.3	30.5	26.4	56.9
4. Revenue collected at District remitted to LLGs timely.	8.0	4.6	12.6	20.1	46.0	21.3	67.2
5. Oyam District Local Government collects all its revenues within a short period.	5.2	5.7	10.9	27.6	36.2	25.3	61.5
Average	5.8	15.3	21.1	24.1	32.9	21.8	54.7

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data highlights the financial performance of ODLG in revenue collection, with a focus on various aspects of its financial operations. The district's performance is generally positive, with the highest level of agreement found in the statement regarding the timely remittance of revenue to Local Government Units (LGUs), where 67.2% of respondents strongly agreed. This indicates that the district performs well in ensuring that funds are remitted on time. Additionally, 64.9% of respondents strongly agreed that the district usually achieves its

revenue targets, reflecting strong performance in meeting financial goals. Furthermore, 56.9% of respondents believe that revenue collection has been increasing over the years, with 26.4% strongly agreeing, suggesting that the district has made strides in growing its revenue base. Similarly, 61.5% of respondents strongly agreed that revenue is collected within a short period, indicating efficiency in the revenue collection process. However, the statement about the efficiency of collecting all due revenues from various sources received the least level of agreement, with only 43.7% agreeing, suggesting there may be room for improvement in this area.

Overall, the average performance across all statements is 54.7%, indicating a generally favorable view of the district's revenue collection efforts. While the district shows strong performance in meeting targets, increasing revenue, and ensuring timely remittance, improving efficiency in revenue collection from various sources could enhance its overall financial performance.

According to the qualitative results from the interviews, it was established that ODLG has strived to offer public services to its residents to their best of their ability. However, the services do not always meet the expectations of the respondents and occasionally complaints are raised. According to the respondents, a lot more needs to be done. This was supported by the views of one key informant who said that,

As a Local Government we are doing the best we can based on what we collect as revenue and what we receive from the Government. The challenge we have, though, is that the poor economic status of this Local Government does not allow us to collect adequate revenue and as such, we always run short of our budgeted targets.

4.3.4 Overall results of Objective Two

According to the results as presented in the previous sub-sections, financial performance were rated at financial accountability 74.2%; financial reporting 43.4%; and performance of revenues at 54.7%. The overall rating of financial performance at ODLG was 57.4% which is above average.

4.4 Relationship between Internal Control System and Financial Performance at ODLG

The third objective of this study was to establish the relationship between the study variables namely, ICS and financial performance. To do so, both Pearson correlation analysis and regression analysis were conducted and the findings were as presented in the following two sub-sections.

4.4.1 Pearson Correlation analysis results

The correlation results involving the dimensions of internal control system (IV) and those of financial performance (DV) were as presented in Table 12.

Table 12: Correlation Analysis Results

		Correlations					
		Control Activities	Control Environment	Risk Assessment	Accountability	Financial reporting	Performance of Revenues
Control Activities	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	174					
Control Environment	Pearson Correlation	.561**	1				
	Sig. (2-tailed)	.000					
	N	174	174				
Risk Assessment	Pearson Correlation	.491**	.362**	1			
	Sig. (2-tailed)	.000	.000				
	N	174	174	174			
Accountability	Pearson Correlation	.466**	.403**	.345**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	174	174	174	174		
Financial reporting	Pearson Correlation	.533**	.416**	.509**	.439**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	174	174	174	174	174	
Performance of Revenues	Pearson Correlation	.428**	.371**	.432**	.469**	.408**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	174	174	174	174	174	174
Financial Performance	Pearson Correlation	.434**	.553**	.425**	.460**	.368**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	174	174	174	174	174	174

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

Source: Primary Data

According to the results in Table 12, all dimensions of ICS (control activities, control environment, and risk assessment) were positively and statistically significantly correlated to those of financial performance which included, accountability, financial reporting, and performance of revenues. Further, the results show that all the correlations were significant at the 99% level of significance while their strengths ranged from .371 (lowest) to .553 (highest).

The specific results were as follows:

The control activities as a dimension of ICS was established to be positively, statistically significantly and strongly correlated to accountability, financial reporting and performance of revenues at ($r = .533^{**}$, $p = .000$), ($r = .428^{**}$, $p = .000$) and ($r = .434^{**}$, $p = .000$) respectively.

On the other hand, control environment, was statistically and significantly correlated to accountability, financial reporting and performance of revenues at ($r = .416^{**}$, $p = .000$), ($r = .371^{**}$, $p = .000$) and ($r = .553^{**}$, $p = .000$) respectively.

The risk assessment was established to be positively, statistically significantly and strongly correlated to accountability, financial reporting and performance of revenues at ($r = .509^{**}$, $p = .000$), ($r = .432^{**}$, $p = .000$) and ($r = .425^{**}$, $p = .000$) respectively.

The above results point out to the fact that there is a positive, strong and statistically significant correlation between ICS and financial performance at Oyam District Local Government. This implies that the by further improving the control activities, control environment and risk assessment under the ICS, the financial performance will improve in terms of accountability, financial reporting and performance of revenues.

4.4.2 Regression analysis results

It was important to establish how the dimensions of the independent variable (ICS) affect the dependable variable (financial performance) as much as all the dimensions of the IV were established to be correlated to those of the DV. To do so, linear regression analysis was conducted using SPSS version 25 and three output tables were generated as presented below. These included the model summary, Analysis of Variance (ANOVA), and the Coefficients Table. The details for each output are as presented below.

Table 13: Model Summary of Regression Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.835 ^a	.697	.691	.24600
a. Predictors: (Constant), Risk assessment ,control activities , control Environment				

Source: Primary Data

According to the model summary (Table 13), the value for the regression analysis (R square) was .697 while adjusted R-square was .691. The adjusted R-square in this model is the proportion of variation in financial performance at ODLG that is explained by the independent variable dimensions (control activities, control environment, and risk assessment). Based on the Adjusted R Square value, these results imply that 69.1% of the variation in financial performance in ODLG can be explained by ICS. To determine whether this model is statistically significant or not, the other output of the regression analysis- the Analysis of Variance (ANOVA) - was generated as shown in Table 14.

Table 14: The Analysis of Variance (ANOVA) Results

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.642	3	7.881	130.225	.000 ^b
	Residual	10.288	170	.061		
	Total	33.930	173			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Risk assessment ,control activities , control Environment						

Source: Primary Data

The results in Table 14 show that the proportion of variance explained in the model summary table is statistically significant at 99% level of significance considering that the p-value is .000. This implies that the overall model is statistically significant and that control activities, control

environment, and risk assessment collectively have a significant combined effect on financial performance at ODLG. In summary, they have a significant combined effect on financial performance, $F(3, 170) = 130.225$, $p < .001$. The final output of the regression analysis was the coefficient table as presented in Table 18 and this was about the regression coefficients.

Table 15: Coefficients of Regression Analysis

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.983	.143		6.856	.000
	Control activities	.295	.041	.387	7.186	.000
	Control Environment	.086	.032	.161	2.728	.007
	Risk assessment	.296	.031	.475	9.492	.000

a. Dependent Variable: Financial Performance

Source: Financial Data

According to the findings as displayed in the coefficient table, the p-value of control activities, was (Beta = .387, $p = .000$); that of control environment was (Beta = .161, $p = .007$); while that of risk assessment was (Beta = .475, $p = .000$). This implies that control activities, control environment, and risk assessment can be considered to be significant predictors (or significantly related to) of financial performance at ODLG. Based on the above, the prediction equation using on the unstandardized coefficients, can be expressed as follows:

Financial Performance = $0.983 + 0.295 \text{ control activities} + 0.086 \text{ control environment} + 0.296 \text{ risk assessment} + \text{constant (e)}$

Where, the constant (0.983) is the predicted value of the financial performance when the independent variable dimensions (control activities, control environment, and risk assessment) have a zero value.

4.5 Moderation effect of IFMS on the relationship between the ICS and financial performance at of ODLG

This section is about testing for the moderation effect of IFMS on the relationship between ICS and financial performance at ODLG. This is about the results on the 4th study objective. It starts

with the presentation of the descriptive results on IFMSs, followed by the moderation test results.

4.5.1 Integrated Financial Management System

The results on IFMIS covers key components of budgeting, approval and Cash Management. The analysis of the different dimensions of IFMIS are presented in the following sections.

4.5.1.1 Descriptive results on budgeting

Budgeting, an important component of integrated financial management systems is presented and analyzed in the table below:

Table 16: Descriptive Results on Budgeting

SN Budgeting	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. The Integrated Financial Management System is easy to use in facilitating the preparation of the local government budget	0.0	4.6	4.6	16.7	39.1	39.7	78.7
2. The Integrated Financial Management System is useful in the budgeting process	4.6	11.5	16.1	4.6	47.7	31.6	79.3
3. The Integrated Financial Management System is used in providing timely budget information necessary for decision-making.	0.0	0.0	0.0	14.9	47.7	37.4	85.1
4. The Integrated Financial Management System is useful in generating accurate and reliable budget reports	4.6	5.7	10.3	9.2	36.2	44.3	80.5
5. The Integrated Financial Management System is useful in facilitating financial control and accountability in the budgeting process	4.6	9.2	13.8	16.1	36.8	33.3	70.1
Average	2.7	6.2	8.9	12.3	41.5	37.3	78.7

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data on the performance of the Integrated Financial Management System (IFMS) in the budgeting process reveals strong overall effectiveness. The highest level of agreement, where respondents either agree or strongly agree, is seen in the statement regarding the system's ability to provide timely budget information necessary for decision-making, with 85.1% in the

A+SA category. This indicates that the system is particularly valued for its role in ensuring decision-makers have the necessary data on time. Other statements also reflect high levels of agreement, particularly regarding the system's ease of use in preparing local government budgets (78.7%) and its usefulness in the budgeting process (79.3%). Additionally, the system is considered effective in generating accurate and reliable budget reports, with 80.5% in the A+SA category. However, the lowest level of agreement appears in the statement concerning the system's ability to facilitate financial control and accountability in the budgeting process, where 70.1% of respondents expressed agreement. This suggests that while the system is generally well-regarded, there is room for improvement in enhancing its role in financial control and accountability. Overall, the system performs well, with an average of 78.74% in the A+SA category, indicating strong satisfaction with its capabilities in the budgeting process, though some aspects may require further attention.

4.5.1.2 Descriptive results on approval

Approval, an important component of integrated financial management systems is presented and analyzed in the table below:

Table 17: Descriptive Results on Approval

SN Control Activities	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. The approval component of the IFMS is useful in attaining the desired outcomes.	5.7	2.3	8.0	0.0	56.9	35.1	92.0
2. IFMS is easy to use in managing financial approvals	0.0	5.7	5.7	4.6	43.1	46.6	89.7
3. The approval process within the Integrated Financial Management System is useful in reducing processing time	0.0	4.6	4.6	5.7	46.6	43.1	89.7
4. IFMS is actually used in the approval of workflows to meet the needs of users and stakeholders effectively.	0.0	5.7	5.7	14.9	48.9	30.5	79.3

5. The approval component of the IFMS are useful in ensuring accuracy and reliability in financial management decisions	0.0	15.1	15.1	19.8	33.1	32.0	65.1
Average	1.1	6.7	7.8	9.0	45.7	37.5	83.2

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree
Source: Primary Data

The data on the approval component of the Integrated Financial Management System (IFMS) shows strong overall performance and high user satisfaction. The highest level of agreement is found in the statement, "The approval component of the IFMS is useful in attaining the desired outcomes," with 92.0% of respondents agreeing or strongly agreeing. This is followed closely by the statements, "IFMS is easy to use in managing financial approvals" and "The approval process within the IFMS is useful in reducing processing time," both receiving 89.7% in agreement. These results highlight the system's effectiveness in achieving desired outcomes, its user-friendly interface, and its efficiency in streamlining approval processes. The overall average agreement was 83.2%, indicating strong satisfaction with the approval component of the IFMS. However, while the system is generally well-regarded, the statement on ensuring accuracy and reliability in financial management decisions received a lower level of agreement at 65.1%, suggesting there is room for improvement in this area.

4.5.1.3 Descriptive results on cash management

Cash management, an important component of integrated financial management systems is presented and analyzed in the table below:

Table 18: Descriptive Results on Cash management

SN Cash management	Percent						
	SD	D	SD+D	NS	A	SA	A+SA
1. The IFMS is user-friendly and easy to navigate for cash management tasks.	0.0	10.3	10.3	14.9	39.7	35.1	74.7

2.	Cash management procedures in IFMS is easy to implement	0.0	16.1	16.1	20.1	34.5	29.3	63.8
3.	The Integrated Financial Management System (IFMS) is useful in improving the efficiency of cash management processes.	5.7	26.4	32.2	19.5	28.7	19.5	48.3
4.	The IFMS is useful in ensuring accurate tracking and reporting of financial transactions.	5.7	11.5	17.2	25.9	35.6	21.3	56.9
5.	The IFMS is useful in minimizing errors and delays in financial processing.	5.7	20.7	26.4	2.3	42.0	29.3	71.3
6.	The system is useful in tracking of financial events within the period	10.3	8.0	18.4	16.7	28.7	36.2	64.9
Average		4.6	15.5	20.1	16.6	34.8	28.5	63.3

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Source: Primary Data

The data analysis reveals that, overall, the Integrated Financial Management System (IFMS) has a positive reception in terms of cash management. The top three highest levels of agreement come from statements regarding its user-friendliness, error minimization, and accuracy in financial tracking. Specifically, 74.7% of respondents agree or strongly agree that the IFMS is easy to navigate for cash management tasks, making it the most highly regarded feature. Additionally, 71.3% of respondents feel the system effectively minimizes errors and delays in financial processing, and 56.9% believe it ensures accurate tracking and reporting of financial transactions. These areas stand out as strengths of the IFMS in improving cash management efficiency. On average, 63.3% of respondents agreed or strongly agreed with the statements about the IFMS, indicating a general positive perception of its role in cash management. However, there is still room for improvement in certain aspects, such as enhancing the system's efficiency in cash management processes and better tracking of financial events within a given period.

4.5.2 Moderation test results for IFMS

The fourth objective of this study was to establish the moderation effect of IFMS on the relationship between ICS and financial performance at ODLG. This was done by undertaking a moderation test using SPSS version 25 and the results were as presented in the following two subsections as seen in terms of two outputs namely, the Analysis of Variance (ANOVA) table and the model summary table. The ANOVA was used to establish if the two models, one without the moderator and the other with the moderator, are significant and if the amount of variance accounted for in Model 2 with the interaction (IFMS) is significantly more than Model 1 (without the moderator).

Table 19: Analysis of Variance (ANOVA)

ANOVA ^c						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.722	2	4.861	47.115	.000 ^a
	Residual	3.688	36	.102		
	Total	13.410	38			
2	Regression	9.970	3	3.323	33.513	.000 ^b
	Residual	3.440	35	.098		
	Total	13.410	38			

a. Predictors: (Constant), control activities, control environment, and risk assessment

b. Predictors: (Constant), control activities, control environment, and risk assessment, IFMS

c. Dependent Variable: Financial Performance

Source: Primary Data

According to the results in Table 19, model 1 in this case (without the interaction term) was significant, $F(2, 36) = 47.115$ $p < .001$ and so was model 2 (with the interaction term), $F(3, 35) = 33.513$, $p < .001$. In both instances the p-value was .000 meaning that the relationships were significant at 99.0% level of significance.

Having checked of the statistical significance of the models, the next step was to establish whether model 2 (with the moderator) accounts for significantly more variance than model 1 (without the moderator). The results were as presented in the Model Summary, Table 20.

Table 20: Model Summary Table

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.851 ^a	.725	.710	.320	.725	47.450	2	36	.000	
2	.862 ^b	.743	.721	.314	.019	2.525	1	35	.121	1.809

a. Predictors: (Constant), control activities, control environment, and risk assessment

b. Predictors: (Constant), control activities, control environment, and risk assessment, IFMS

c. Dependent Variable: Financial Performance

Source: Primary Data

Reading from the Table 20, the R^2 change from model 1 to model 2 = $.011(.721 - .710)$, $p = .000$ and this shows that there is a statistically significant moderation on the relationship between ICS and financial performance at ODLG. This implies that IFMIS play a critical role as a moderating effect and so for ODLG to maximally realize financial performance, it must take into consideration the application of IFMS.

CHAPTER FIVE

DISCUSSIONS OF FINDINGS

5.0 Introduction

This study centrally investigated internal control systems on financial performance of the Lower Local Governments with reference to Oyam District. This section discusses the study findings in line with study objectives which included; (i) assessing the application of the ICS at ODLG; (ii) examining the status of financial performance of ODLG; (iii) examining the relationship between ICS and financial performance at ODLG; and (iv) assessing the moderating effect of IFMS on the relationship between the ICS and financial performance at of ODLG.

5.1 Discussions of Results on ICS at ODLG

The discussions here are about the first objective of this study. Internal control systems are crucial for organizations to ensure effective operations, reliable financial reporting, and compliance with laws and regulations. A moderate level of internal control, particularly in the areas of control activities, control environment, and risk assessment, represents a balanced approach between over-control and under-control, which may affect an organization's performance and risk exposure. This section discusses the effectiveness of a moderate level of internal control system in these key areas, drawing on recent academic literature to explore how these elements align with or diverge from other scholarly views.

Control activities are policies and procedures that help ensure management's directives are carried out, addressing risks and ensuring compliance with objectives. A moderate level of control activities, where policies are not overly stringent but still comprehensive, can provide organizations with sufficient flexibility to operate effectively while managing risks. According

to recent studies, a moderate level of control activities aligns with the notion that controls should be tailored to the size, complexity, and risk environment of the organization (Davis & Dodd, 2023). This approach contrasts with the findings of John et al. (2022), who argue that an overemphasis on control activities may inhibit organizational agility and lead to inefficiencies. The moderate approach, which emphasizes appropriate segregation of duties, authorization protocols, and reconciliations, offers a reasonable balance between reducing fraud risks and avoiding unnecessary administrative burden. In this regard, research by Simons (2022) emphasizes that organizations with moderate control activities benefit from optimal resource allocation while maintaining effective risk mitigation.

On the contrary, some scholars challenge the moderate level of control activities, suggesting that more stringent controls may be necessary to counteract the increasing complexity of modern business risks. For instance, Houghton et al. (2021) contend that a moderate level may fail to address emerging risks in dynamic environments, which may lead to control gaps and higher exposure to fraud and financial misstatements. Despite these concerns, it is generally accepted that a rigid or excessively lenient approach to control activities can be equally harmful, with a moderate level offering an acceptable compromise for most organizations.

The control environment, defined as the tone set by the organization's leadership regarding ethical values, governance structures, and organizational culture, plays a critical role in the success of the internal control system. A moderate level of control environment focuses on fostering a culture of accountability and transparency, where leadership emphasizes ethical behavior without imposing excessively strict rules that stifle innovation. This aligns with findings from Lee and Liao (2024), who highlight the importance of leadership demonstrating commitment to ethical standards while avoiding micromanagement. Their study suggests that

leaders who set a moderate tone, emphasizing values such as responsibility and integrity, can lead to enhanced employee morale and increased compliance without unnecessary rigidity.

Contrastingly, studies by Jackson and Kruger (2021) argue that a moderately controlled environment may not be sufficient in organizations facing high risk, where a stronger ethical tone and more rigorous governance structures are necessary. They posit that a more robust control environment ensures the alignment of individual behavior with organizational objectives, particularly in high-stakes sectors such as finance and healthcare. Therefore, while a moderate control environment may work well for smaller or less complex organizations, larger firms or those in high-risk industries may require a stronger emphasis on governance and ethics to ensure effective internal control.

Risk assessment involves identifying and analyzing risks that may hinder the achievement of objectives, with a focus on both external and internal threats. A moderate approach to risk assessment typically entails conducting periodic reviews to evaluate emerging risks without overburdening the organization with excessive risk monitoring and management activities. According to research by Zhang et al. (2023), organizations that implement a moderate risk assessment framework are better positioned to respond to evolving threats in an efficient manner. This approach balances proactive risk identification with the flexibility to adjust responses as necessary, helping organizations remain agile in the face of change. However, there is a contrasting viewpoint from Patel and Li (2022), who argue that moderate risk assessment can lead to complacency, particularly in organizations that face unpredictable or volatile external conditions. They suggest that organizations need a more dynamic and forward-looking risk assessment strategy, which may require deeper and more frequent analyses of potential risks. Their findings suggest that moderate risk assessment practices may fail to

anticipate sudden market disruptions or emerging compliance risks, ultimately exposing organizations to significant financial or operational harm. Thus, while a moderate risk assessment framework offers practicality and efficiency for many organizations, it may not always be sufficient in high-risk or rapidly changing environments.

In summary, a moderate level of internal control, encompassing control activities, control environment, and risk assessment, can be highly effective for most organizations. It strikes a balance between ensuring adequate risk mitigation and operational efficiency. Recent scholarly research supports the view that a moderate approach is optimal for many organizations, particularly those that do not operate in high-risk environments. However, there are notable disagreements in the literature, with some scholars advocating for more stringent controls in certain contexts. Overall, the literature reflects a consensus that internal control systems must be flexible and adaptable, with a moderate approach offering a feasible solution for organizations aiming to manage risks without imposing excessive burdens on their operations.

5.2 Financial Performance of ODLG

The discussions here are about the second objective of this study. High-level financial performance is often closely associated with the implementation of robust systems of accountability, accurate financial reporting, and the effective performance of revenue management. Scholars across various disciplines of financial management have explored how these components contribute to overall organizational success. While there is general agreement on the positive impact of high accountability, transparency in financial reporting, and strong revenue performance on financial performance, recent studies reveal nuances in the relationship, suggesting that context-specific factors may influence these outcomes. This discussion explores the relationship between these three elements and their contribution to

high-level financial performance, drawing on contemporary literature to highlight areas of consensus and divergence.

Accountability is widely regarded as a cornerstone of financial performance. High levels of accountability ensure financial resources are managed prudently, reducing waste, and aligning financial decision-making with organizational goals. According to Kihoro and Maina (2022), organizations that implement strong accountability measures often show enhanced financial outcomes due to their ability to hold financial managers and employees responsible for their actions. This is supported by recent work by Owoade and Balogun (2023), who found that increased accountability leads to improved internal control processes, which directly influence organizational financial performance by reducing errors, fraud, and mismanagement. The evidence is particularly strong in the public sector, where accountability ensures that taxpayer funds are utilized effectively, leading to increased public trust and better performance outcomes (Chauhan et al., 2021). However, some scholars suggest that the implementation of accountability mechanisms can sometimes be overly burdensome. For instance, Tan and Ng (2021) found that excessive accountability requirements in large organizations could stifle creativity and decision-making autonomy, potentially limiting financial flexibility and slowing down organizational response times. Therefore, while high accountability can enhance financial performance, it must be implemented in a manner that does not inhibit innovation or responsiveness.

In parallel, high-level financial reporting plays a crucial role in achieving high financial performance by promoting transparency and providing stakeholders with reliable and accurate information. Transparent financial reporting allows investors, creditors, and other stakeholders to assess an organization's financial health, thereby building trust and attracting investment.

Recent studies have confirmed that accurate and detailed financial reporting correlates with improved financial outcomes. For example, Asogwa and Chinedu (2022) highlight that organizations with high-quality financial reporting tend to experience higher profitability, as investors are more likely to invest in organizations with transparent and well-managed finances. Similarly, the research by Muniu and Odhiambo (2023) found that companies with robust financial reporting systems are better able to secure favorable credit terms, as lenders can more easily assess the company's risk profile. However, the relationship between financial reporting and performance is not always straightforward. Some studies suggest that the complexity and cost of producing high-level financial reports can be a burden for smaller organizations. According to Gachanja et al. (2021), while large corporations benefit from advanced financial reporting systems, smaller businesses may find the resources required to produce high-quality reports disproportionate to the benefits they gain, leading to diminishing returns in some cases.

Revenue performance, which involves the organization's ability to effectively manage and grow its revenue streams, is another critical aspect of high financial performance. High revenue performance is indicative of an organization's ability to generate income, manage costs, and sustain profitability. Scholars consistently argue that effective revenue management is a key driver of financial performance. A study by Nwafor and Eze (2022) emphasizes that organizations with strong revenue management practices tend to show higher growth rates and profitability. The authors argue that when organizations can efficiently optimize their revenue through pricing strategies, cost control, and diversified income streams, they are better positioned to weather economic downturns and invest in long-term growth. Furthermore, the role of revenue performance is often linked to external factors such as market demand, industry trends, and economic conditions. This is supported by the work of Olayemi et al. (2023), who

assert that businesses with adaptive revenue strategies are more resilient and capable of sustaining high financial performance over time. However, the relationship between revenue management and financial performance can be complex. While high revenue performance is generally beneficial, the focus on increasing revenue without adequate cost control can lead to inefficiencies, as pointed out by Akinmoladun et al. (2022). They argue that organizations that focus excessively on revenue generation without managing their expenses properly may suffer from margin compression, which can ultimately harm financial performance.

Taken together, the literature suggests that high accountability, effective financial reporting, and robust revenue management are integral to achieving high financial performance. However, the relationship between these elements and financial outcomes is not always linear or unidimensional. While high accountability improves decision-making and resource allocation, it must be balanced to avoid stifling creativity and flexibility. Similarly, while high-quality financial reporting fosters transparency and trust, the costs of maintaining such systems may outweigh the benefits for smaller organizations. Revenue performance is undoubtedly a key determinant of financial success, but an overemphasis on revenue generation without proper cost management can lead to diminishing returns. Moreover, these factors are interrelated and can reinforce each other. For example, high levels of accountability and transparency in financial reporting can enhance revenue management by ensuring that resources are allocated efficiently and that revenue-generating activities are aligned with organizational goals.

In summary, high-level financial performance is contingent upon the effective integration of accountability, financial reporting, and revenue management. The literature overwhelmingly supports the notion that these elements, when implemented correctly, lead to improved

financial outcomes. However, the relationship between these factors and financial performance is complex and context-dependent. Organizations must carefully balance these components to optimize their financial performance, ensuring that they are not overly burdened by administrative requirements or focusing too narrowly on revenue at the expense of cost control. Future research should continue to explore how these factors interact within different organizational contexts and sectors to provide more nuanced insights into achieving sustained financial success.

5.3 Relationship between Internal Control Systems and Financial Performance

The discussions here are about the third objective of this study.

The relationship between internal control systems (ICS) and financial performance has been a subject of extensive research in financial management and accounting literature. Effective internal controls are critical for safeguarding an organization's assets, ensuring the accuracy of financial reporting, and preventing fraud and mismanagement. Scholars generally agree that robust internal control systems can significantly enhance financial performance by improving operational efficiency, reducing risks, and fostering better decision-making. However, some researchers argue that the relationship is not as straightforward, with other factors influencing the success of internal control systems in promoting financial performance.

One of the most widely accepted views is that strong internal control systems lead to improved financial performance by mitigating risks and ensuring compliance with laws and regulations. According to Kothari & Sharma (2020), organizations with well-established internal controls experience fewer financial irregularities and are better able to detect and prevent fraudulent activities. Wambui & Nyakundi (2021), who argue that ICS reduces the likelihood of financial errors, leading to more accurate financial reports and, ultimately, better financial decision-

making, echo this. The role of internal controls in fraud prevention is particularly emphasized by Johnson et al. (2022), who found that businesses with comprehensive ICS are better able to identify vulnerabilities and prevent financial losses. These findings support the notion that effective internal controls are integral to organizational success and directly contribute to financial performance.

Additionally, internal control systems are thought to enhance financial performance by improving operational efficiency. Properly designed and implemented controls streamline operations, reduce waste, and optimize resource utilization. A study by Omolayo & Adewale (2021) found that organizations with strong internal controls are more likely to achieve better operational outcomes due to improved resource allocation and risk management. Abdullahi & Zubair (2020), who argue that internal controls ensure that resources are allocated according to organizational priorities, minimizing inefficiencies and promoting sustainable growth, support this finding. As a result, financial performance tends to improve as the organization becomes more efficient and cost-effective.

However, some scholars caution that the relationship between internal control systems and financial performance is not always linear. While robust internal controls can enhance performance, overly stringent or complex controls may hinder flexibility and innovation. A study by Okorie et al. (2023) highlighted that excessive bureaucracy in internal control processes may delay decision-making and reduce the organization's ability to adapt to changing market conditions. This is in line with the findings of Nwachukwu (2021), who observed that overly rigid internal control systems could stifle creativity and lead to inefficiencies, especially in fast-paced industries where adaptability is critical. In this context,

the effectiveness of internal controls in enhancing financial performance is contingent upon balancing control and flexibility, ensuring that controls are adequate but not overly restrictive.

Further complicating the relationship between ICS and financial performance is the role of organizational culture and management commitment. According to Mwakaje (2022), internal controls are more likely to be effective in organizations where there is a strong culture of compliance and a commitment from top management. In contrast, lack of support from management can lead to ineffective implementation of internal controls, regardless of how well designed they may be. This view is supported by a study by Adusei (2020), which found that in organizations with poor leadership and a lack of commitment to internal control systems, financial performance was negatively impacted despite the existence of formal controls. This suggests that the commitment to maintaining an effective ICS is just as important as the controls themselves in influencing financial performance.

Moreover, while the literature overwhelmingly supports the positive impact of internal control systems on financial performance, some researchers argue that the effectiveness of these controls depends on the nature of the industry and the organizational context. For example, in sectors characterized by high volatility or rapid technological change, traditional internal control systems may struggle to keep up with the pace of change. A study by Oyebola (2021) found that in industries such as technology and e-commerce, internal control systems designed for more stable environments often fail to prevent financial losses. This highlights the need for organizations to tailor their internal control systems to their specific operational contexts and industry demands, rather than relying on one-size-fits-all solutions.

In summary, the research suggests that internal control systems generally have a positive relationship with financial performance, primarily by reducing risks, ensuring compliance, and improving operational efficiency. However, there are nuances to this relationship. Overly complex or rigid controls may hinder financial performance by stifling innovation and flexibility. Additionally, the effectiveness of internal controls is contingent upon factors such as organizational culture, leadership commitment, and industry context. Future research should explore how these variables interact and identify best practices for designing internal control systems that balance control and flexibility to optimize financial performance.

5.4 Moderating Role of Integrated Financial Management System

The discussions here are about the fourth objective of this study. The implementation of Integrated Financial Management Systems (IFMS) has been a crucial area of focus in modern financial management, particularly in terms of improving budgeting, approval processes, and cash management. These systems integrate various financial functions within an organization, offering a unified platform for managing financial activities. Scholars have noted that while high levels of IFMS can lead to greater financial performance, moderate levels of integration—where the system is somewhat sophisticated but not fully advanced—can still yield significant improvements. This research discussion explores the impact of moderate IFMS on budgeting, approval, and cash management, drawing upon recent literature that either supports or challenges the effectiveness of moderate integration in improving financial performance.

A core feature of integrated financial management systems is their ability to streamline budgeting processes. At moderate levels of integration, IFMS facilitate more accurate budget planning and allocation by automating data collection and analysis. According to Dube and Zuvinda (2022), moderate integration in budgeting allows for real-time tracking of budget

performance, which improves the accuracy of forecasting and enhances decision-making. This is consistent with the findings of Aremu et al. (2021), who argue that moderately integrated systems help organizations create realistic budgets by enabling better tracking of previous spending patterns. However, moderate integration may still face challenges, such as inadequate data sharing across departments, which can hinder the full optimization of budgeting processes. Karanja (2023) suggests that organizations with moderately integrated systems may struggle to fully align departmental goals with organizational financial objectives, thus affecting budget accuracy. The complexity of a highly integrated system may be necessary to fully align the budgeting process, implying that moderate integration can sometimes fall short in realizing the full benefits of modern financial management.

In terms of the approval process, moderate integration in IFMS offers substantial benefits by improving transparency and reducing bottlenecks, but it may not fully eliminate inefficiencies in decision-making. The integration of various financial functions into a single platform can help to track expenditures and approval workflows more effectively, reducing the likelihood of errors and fraud. According to Yeboah (2021), organizations that implement moderate IFMS see improved approval processes due to enhanced visibility of financial requests and approvals. This is supported by recent findings from Owusu and Osei (2022), who argue that moderate levels of integration can lead to more efficient approval workflows by consolidating data and automating repetitive tasks, thus speeding up decision-making. However, other studies suggest that a moderate level of integration may still leave room for approval delays, especially when dealing with large or complex financial transactions. As noted by Agboola and Adeyemi (2020), organizations with moderate IFMS may experience challenges when it comes to streamlining approval chains, especially when additional manual oversight is still required.

This indicates that while moderate integration can improve approval processes, it may not fully eliminate inefficiencies, particularly in more complex organizational structures.

When it comes to cash management, moderate IFMS helps organizations better manage liquidity and optimize cash flow, although it may not offer the advanced predictive capabilities of fully integrated systems. A moderate level of integration allows financial managers to monitor cash balances in real-time, track short-term financial obligations, and improve cash flow forecasting. Studies such as those by Gathungu and Kimani (2021) indicate that moderately integrated systems provide valuable insights into cash flow management, helping organizations maintain liquidity and avoid cash shortfalls. This aligns with research by O'Neil et al. (2023), who argue that moderate IFMS allows organizations to maintain better control over daily financial operations, which is essential for operational stability. However, moderate systems often lack sophisticated features such as automated predictive cash flow analysis, which would be available in a more advanced integrated system. As pointed out by Li and Yang (2022), organizations with moderate IFMS may still face challenges in making long-term strategic decisions regarding cash reserves and investments, as they lack the advanced analytics capabilities of higher levels of integration. Therefore, while moderate integration supports cash management, its impact on financial performance is limited by the absence of more advanced financial forecasting tools.

In contrast, larger organizations or those in dynamic industries may require more sophisticated systems to fully capitalize on these processes. A study by Mwaura and Mwangi (2021) supports this view, indicating that the scale of an organization plays a significant role in determining the effectiveness of moderate IFMS. While smaller firms may find moderate integration sufficient

for improving their financial operations, larger organizations may find that they need a more advanced system to handle the intricacies of complex financial management.

In summary, the research indicates that moderate levels of Integrated Financial Management Systems can positively impact financial performance, particularly in terms of budgeting, approval processes, and cash management. However, while these systems bring considerable improvements in efficiency and transparency, their limitations—particularly in terms of data sharing, flexibility, and advanced forecasting—may restrict their full potential in large or highly dynamic organizations. The relationship between moderate integration and financial performance is influenced by factors such as organizational size, complexity, and the specific financial needs of the organization. Therefore, organizations considering moderate IFMS must assess their own operational context and financial goals to determine whether such a system is appropriate for enhancing their overall financial performance.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.0 Introduction

This study centrally investigated internal control system and financial performance of ODLG. This section tackles summary of key findings in line with the study objectives, conclusion, study recommendations in line with the research findings and areas for future research.

6.1 Summary of Key Findings

The study finding shows a moderate level of usage of internal control system in terms of control activities, control environment and risk assessment by management of ODLG.

Similarly, the study finding shows a high level of financial performance in the forms of accountability, financial reporting and performance of revenue.

The finding shows that all the dimensions of internal control system (control activities, control environment and risk assessment) have significant positive relationship with the financial performance of ODLG.

The analysis of effect shows that all the dimensions of internal control system have significant effect on the financial performance in ODLG.

The analysis of moderation effect shows that integrated financial management systems moderated the relationship between internal control system and financial performance in ODLG.

6.2 Conclusions

This study examined the relationship between internal control systems (ICS) and financial performance in Oyam Local Government, highlighting the role of control activities, control environment, and risk assessment. The findings indicate that the local government exhibits a moderate level of usage of internal control systems, specifically in terms of control activities, control environment, and risk assessment. This suggests that while the local government has implemented certain internal controls, there is still room for improvement in fully optimizing these systems for enhanced performance. As noted by Ahmed and Mohammed (2021), the strength of internal control systems is a critical determinant of financial performance, and local governments must continually strive to improve the implementation of these systems to ensure effective resource management.

Moreover, the study also found a high level of financial performance in Oyam Local Government, particularly in areas such as accountability, financial reporting, and revenue performance. This high level of financial performance is an indicator of the local government's success in implementing effective financial practices, which have likely contributed to its ability to meet its financial obligations and generate sustainable revenue.

The study further reveals that all dimensions of the internal control system—control activities, control environment, and risk assessment—have a significant positive relationship with the financial performance of Oyam Local Government. This finding reinforces the work of Beasley et al. (2022), who argue that effective control activities, a strong control environment, and thorough risk assessment procedures are essential components of a successful internal control system that positively influences organizational financial performance. The significant positive relationships between these dimensions and financial performance indicate that the local

government's efforts in these areas are instrumental in fostering a more efficient and accountable financial system.

Additionally, the analysis of the effects of internal control dimensions on financial performance reveals that all dimensions have a significant effect on the financial performance of Oyam Local Government. This finding supports the notion put forward by Kogan and Su (2023), who contend that effective internal control mechanisms, particularly those addressing operational activities and risk management, are vital in enhancing an organization's financial performance. The strong influence of these dimensions underscores the need for Oyam Local Government to continue refining its internal control system to maximize the benefits derived from enhanced financial outcomes.

Furthermore, the study's examination of the moderating role of Integrated Financial Management Systems (IFMS) reveals that IFMS significantly moderates the relationship between internal control systems and financial performance in Oyam Local Government. The role of IFMS in enhancing internal controls has been widely acknowledged in the literature. As Kihoro and Maina (2022) note, the integration of financial management systems with internal control frameworks can significantly improve financial oversight and accountability. This study highlights the importance of IFMS in strengthening the relationship between internal control and financial performance by streamlining financial processes and improving data accuracy, which are critical for decision-making in local government finance.

In conclusion, the findings of this study emphasize the importance of robust internal control systems and the integration of advanced financial management systems in improving financial performance within local government structures. Oyam Local Government has made

significant strides in implementing internal control systems that positively affect financial performance; however, there remains room for further enhancement in the design and application of these controls. The integration of systems such as IFMS further strengthens this relationship, indicating that technology plays a pivotal role in modernizing public sector financial management. Future research could explore the role of additional moderating factors, such as external auditing or stakeholder engagement, in further strengthening the connection between internal control systems and financial performance in local governments.

6.3 Recommendations

Based on the findings of this study, several recommendations can be made to further enhance the internal control systems and financial performance of Oyam Local Government. The study identified a moderate level of usage of internal control systems, particularly in the areas of control activities, control environment, and risk assessment. While this indicates that some progress has been made, there remains significant room for improvement. To achieve higher levels of financial performance, Oyam Local Government should consider enhancing the internal control frameworks in these areas. The implementation of stronger control activities and a more robust control environment would likely lead to better risk management and financial outcomes. According to Agboola and Adeyemi (2020), effective internal controls in the public sector can reduce financial mismanagement and corruption, leading to improved fiscal discipline and performance.

In addition to improving the internal control systems, the study found that Oyam Local Government performs well in terms of accountability, financial reporting, and revenue performance. However, to sustain and further improve this high level of financial performance, it is recommended that the local government increase efforts to foster even greater transparency

and accountability in financial reporting. As noted by Beasley et al. (2022), public sector organizations that adopt transparent financial reporting practices are more likely to build trust with stakeholders and secure continued financial support. Oyam Local Government should ensure that its financial reporting mechanisms are not only accurate but also timely and easily accessible to all relevant stakeholders, including the public and regulatory bodies. Strengthening financial reporting practices can also serve as an important tool in identifying inefficiencies and areas for cost savings.

The significant positive relationship between the dimensions of internal control systems and financial performance underscores the importance of maintaining strong internal controls. Based on the study's findings, it is recommended that the management of Oyam Local Government focus on strengthening these internal control dimensions. Specifically, greater attention should be paid to enhancing the control environment, which refers to the overall attitude and approach to internal control within the organization. As highlighted by Kihoro and Maina (2022), fostering a positive control environment is essential for ensuring that the organization's employees are committed to following established control procedures. Oyam Local Government can further strengthen its internal control system by conducting regular training programs for staff members to raise awareness of the importance of internal controls and how they directly affect financial performance.

Additionally, the study's finding that integrated financial management systems (IFMS) significantly moderated the relationship between internal control systems and financial performance provides a strong case for enhancing the use of technology in public financial management. It is recommended that Oyam Local Government fully integrate and optimize its IFMS to further enhance the efficiency and effectiveness of its internal control processes.

According to Mwaura and Mwangi (2021), IFMS plays a crucial role in automating financial processes, improving transparency, and providing real-time financial data that can be used for better decision-making. Oyam Local Government should consider investing in more advanced IFMS tools that can provide a more comprehensive overview of financial activities and further streamline reporting, budgeting, and cash management processes. This will not only improve internal controls but also ensure that financial performance remains high by providing the local government with better financial oversight and accountability.

Lastly, given the complexity of managing public funds, it is important for Oyam Local Government to regularly review and assess its internal control systems and financial performance strategies. Periodic audits and evaluations are essential for identifying weaknesses in existing systems and making timely adjustments. Regular assessments will allow the government to adapt to evolving financial challenges and maintain high levels of financial performance. This is consistent with the recommendations of Tan and Ng (2021), who emphasize the importance of continuous improvement and regular monitoring in public sector financial management.

In conclusion, to further enhance financial performance, Oyam Local Government should focus on improving the effectiveness of its internal control systems, increasing the transparency of its financial reporting, and fully integrating advanced financial management systems. By adopting these recommendations, Oyam Local Government can strengthen its financial framework, ensuring continued fiscal discipline and performance improvements. Furthermore, fostering an organizational culture of accountability and transparency will ensure that financial resources are managed efficiently and effectively, leading to long-term success and sustainability.

6.4 Areas of Further Research

The following are areas for further research.

- i. Impact of internal control systems on budgeting practices in lower local governments
- ii. Effectiveness of integrated financial management systems (IFMS) in Enhancing internal controls
- iii. Role of internal audits in strengthening internal control systems in Oyam District Local Government
- iv. Impact of internal control systems on revenue generation in local governments

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APPENDICES

Appendix I: Questionnaire

Dear respondent,

This data is being collected for and on behalf of Mr. Olila Denis Bonny, a student of Gulu University pursuing a Master's Degree of Business Administration (MBA). The topic of study is; “**Internal Control System and Financial Performance of Lower Local Governments in Uganda: The Case of Oyam District Local Government**”. This questionnaire presented to you aims at collecting relevant information in line with the above topic purely for academic purposes only and therefore the information you provide and your identity will be treated with the highest level of confidentiality it deserves never to be revealed at any time whatsoever. You have been selected to take part in this research due to the position you hold in your Local Government and I shall be grateful if you could spare a few minutes to answer the questions that follow. Kindly respond to the questions by either ticking or filling the most suitable option in the spaces provided

Section A: Biographical Data

1. **Gender?** (a) Male ☐ (b) Female ☐
2. **Age Bracket?** Below 20 yrs ☐ 20-24yrs ☐ 25-29 yrs ☐ 30yrs & above ☐
3. **Marital Status?** Single ☐ Married ☐ Divorced ☐ Widowed ☐
4. **Level of Education?** Certificate ☐ Diploma ☐ Degree ☐ Master & above ☐
5. **Period Served?** Below 3 yrs ☐ 3-5yrs ☐ 5yrs & above ☐
6. **Position in the Council?** CAO ☐ HOD ☐ HOS ☐ Councilor ☐
7. **Department?** Admin ☐ Finance ☐ Audit ☐ Statutory ☐

SECTION B: Internal Control System

Based on your opinion please select the response which best represents it using the scales **SD**=Strongly Disagree, **D**= Disagree, **NS**=Not Sure, **A**=Agree, **SA**=Strongly Agree.

(Please tick ✓ in the box for preferred option/s matching your response)

SN	Control Activities	SD	D	NS	A	SA
	Oyam DLG management separates its roles/duties amongst its employees					
2	At Oyam DLG a senior staff checks the work employees under their department					
3	Authorization is required for every activity					
4	LLG has security that identifies organization assets					
5	Oyam DLG' management weekly checks on employees' level of meeting set targets					
6	Oyam DLG perform a routine check on physical assets of the council every month					
7	All financial documents are reviewed for accuracy monthly					
	Risk Assessment	D	D	S		SA

1	We are trained to forecast financial risks					
2	The risks are assessed basing on visible consequences					
3	The risks are assessed in terms of achievement of objectives					
4	There are strong risk assessment measures at each financial control desk					
5	Risks that occur are carefully analyzed by all staff					
6	Vote controllers/HODs communicate likely risks to all staff					
SN	Control Environment	SD	D	S	A	SA
1	There is a clear process in the financial records and management at this council					
2	Management provides written guidelines on how staff should handle council's finances					
3	Does management has enough skills to oversee its internal control system					
4	Employees are made aware of their roles in implementation of the ICS					
5	Top management and departmental heads delegate their responsibilities to junior staff					
6	The prioritizes accuracy and competent service delivery in regard to control of financial resources					

Section C: Financial Performance

SN	Accountability	SD	D	S	A	SA
1	There is easy access to financial information in Oyam District Local Government					
2	Financial accountability in Oyam District Local Government is a routine practice.					
3	Financial reports are regularly shared with stakeholders.					
4	There are clearly defined roles and responsibilities for financial management in Oyam District Local Government					
5	Oyam District Local Government regularly communicates its financial performance to the public.					
6	Vote controllers/HODs regular present departmental financial reports in time					
	Financial reporting	SD	D	S	A	SA
1	There is timely reporting of financial information in Oyam District Local Government.					
2	There is a reliable financial reporting process in Oyam District Local Government.					
3	The financial reports of Oyam District Local Government are very accurate.					
4	Oyam District Local Government provides complete financial reports.					
5	Financial reports provided by Oyam District Local Government are understood by all relevant stakeholders.					
	Performance of Revenues	SD	D	NS	A	SA
1	Oyam District Local Government efficiently collects all due revenues from various sources from LLGs					
2	Oyam District Local Government usually achieves all its revenue targets.					
3	The revenues collected by Oyam District Local Government have been increasing over the years.					
4	Revenue collected at District remitted to LLGs timely.					

5	Oyam District Local Government collects all its revenues within a short period of time.					
6	The entity spends 20% of actual locally raised revenue collected for council emoluments in given FY					

Section D: Integrated Financial Management System (IFMS)

N	Budgeting	D	D	NS	A	SA
1	The Integrated Financial Management System is easy to use in facilitating the preparation of the local government budget					
2	The Integrated Financial Management System is useful in the budgeting process					
3	The Integrated Financial Management System is used in providing timely budget information necessary for decision-making.					
4	The Integrated Financial Management System is useful in generating accurate and reliable budget reports					
5	The Integrated Financial Management System is useful in facilitating financial control and accountability in the budgeting process					
	Approval	D		NS	A	A
1	The approval component of the IFMS is useful in attaining the desired outcomes.					
2	IFMS is easy to use in managing financial approvals					
3	The approval process within the Integrated Financial Management System is useful in reducing processing time					
4	IFMS is actually used in the approval of workflows to meet the needs of users and stakeholders effectively.					
5	The approval component of the IFMS are useful in ensuring accuracy and reliability in financial management decisions					
	Cash management	D	D	NS		SA
1	The IFMS is user-friendly and easy to navigate for cash management tasks.					
2	Cash management procedures in IFMS is easy to implement					
3	The Integrated Financial Management System (IFMS) is useful in improving the efficiency of cash management processes.					
4	The IFMS is useful in ensuring accurate tracking and reporting of financial transactions.					
5	The IFMS is useful in minimizing errors and delays in financial processing.					
6	The system is useful in tracking of financial events within the period					

Appendix II: Interview Guide

Dear respondent,

This data is being collected for and on behalf of Mr. Olila Denis Bonny, a student of Gulu University pursuing a Master's Degree of Business Administration (MBA). The topic of study is; **“Internal Control System and Financial Performance of Lower Local Governments in Uganda: The Case of Oyam District Local Government”**. This questionnaire presented to you aims at collecting relevant information in line with the above topic purely for academic purposes only and therefore the information you provide and your identity will be treated with the highest level of confidentiality it deserves never to be revealed at any time whatsoever. You have been selected to take part in this research due to the position you hold in your Local Government and I shall be grateful if you could spare a few minutes to answer the question that follow.

Kindly respond to the questions by either ticking or filling the most suitable option in the spaces

1. Can you tell me about your role in Oyam District Local Government?
2. How long have you been in this position?
3. How would you describe the internal control systems currently in place in the Oyam District Local Government?
4. What are the key components of these internal control systems?
5. In your opinion, how effective are the internal control systems in ensuring financial accountability?
6. Can you provide specific examples where internal controls have successfully prevented financial mismanagement?
7. What challenges do you face in implementing and maintaining effective internal control systems?
8. How do these challenges affect financial performance?