



**INTERNAL CONTROLS AND PERFORMANCE OF PUBLIC FINANCIAL MANAGEMENT IN
SECOND NORTHERN UGANDA SOCIAL ACTION FUND**

BY

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DECLARATION

I, Kakooza Patrick, hereby declare to the best of my knowledge and understanding that the findings in this study is my original work and has never been submitted to any University, College or Institution of higher learning for any award. However any sources of information are duly acknowledged.

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APPROVAL

This is to certify that, this dissertation has been submitted for examination with our approval as supervisors.

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DEDICATION

This piece of work is dedicated to my beloved Wife, Ms. Asimwe Pauline Adyeeri, our Children; Gilbert Senkooza Ateenyi, Olivia Tusiime Amooti, and Promise Musiime Pauline Abwooli and to my late mother Norrah KyakuhaAmooti.

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ACRONYMS AND ABBREVIATIONS

PFM:	Public Financial Management
NUSAF2:	Northern Uganda Social Action Second Fund
FEI:	Financial Executive Institute
AAA:	American Accounting Association
IMA:	Institute of Management Accountants
AICPA:	American Institute of Certified Public Accountants
COSO:	Committee of Sponsoring of the Trade Way Commission
ICS:	Internal Control Systems
VFM:	Value for Money
OECD:	Organization for Economic Cooperation and Development
IFMS:	Integrated Financial Management System
LRA:	Lords Resistance Army
NURP2:	Second Northern Uganda Reconstruction Program
IIA:	Institute of Internal Auditors
NSSF:	National Social Security Fund
NGOs:	Non-Governmental Organizations
ACCA:	Association of Chartered Certified Accountant

ABSTRACT

The purpose of the study was to establish the relationship between internal controls and performance of public financial management of the Second Northern Uganda Social Action Fund (NUSAF2). The problem at hand was that there were still performance gaps in NUSAF2 (Auditor General, 2013). He further showed that a mischarge of shs. 19,059,510 meant for National Social Security fund (NSSF) employer contribution was charged to contract staff salaries, funds amounting to Shs. 153,673,363 advanced to staff to execute project activities lacked supporting documents and there was lack of trainings assessment. The key objectives were: to examine the relationship between control activities and performance of public financial management of NUSAF2, to assess the relationship between of monitoring activities and performance of public financial management of NUSAF2, and to analyze the relationship between risk assessment and performance of public financial management of NUSAF2. The results of the study were intended to improve stakeholder's knowledge about the extent to which internal controls affect the performance of public financial management in NUSAF2. The research adopted a case study design and employed both qualitative and quantitative methods. The research was conducted on 40 respondents which included top management and staff using Statistical Package for Social Sciences (SPSS), statistics were generated from the collected data, analyzed using descriptive statistics and Pearson Correlation Coefficient to generate empirical findings. The study found out that control activities contribute much on the performance of public financial management where the results revealed 100 % that NUSAF2 undertakes strong control activities , Monitoring activities results revealed 97.1% that the project is generally monitored and lastly the risk assessments revealed 80% general risk assessment. So internal controls affects performance of public financial management. It was concluded that effective internal control is crucial to superior performance of public financial management in NUSAF2.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study aims at establishing how Internal Controls affect the performance of Public Financial Management (PFM) of Second Northern Uganda Social Action Fund (NUSAF2) in Uganda. Internal Control is an important aspect of the performance of Public Sector financial management as well as Private sector. It is a critical element in any project implementation and unless it is carried out efficiently, effectively and promptly, the full benefits of the project cannot be realized. It should be noted that poor Internal Controls leads to project delay, fraud, suspension from funders, misuse of assets, and loss of value for money. Therefore, every effort should be made to ensure instituting proper strong internal controls. In this study, Internal Control was conceptualized as an Independent variable while Performance of Public Financial Management was the dependent variable. This Chapter therefore presents the background to the study, statement of the problem, purpose of the study, objectives, research questions, hypothesis, justification, and the scope of the study.

1.2 Background to the Study

The background of the study in this research was presented as historical perspective, theoretical perspective, conceptual perspective and contextual perspective as supported by Amin (2005).

1.2.1 Historical Background

This study shows the evolution of public financial management. Public Financial Management using internal control has been the subject of substantial amount of theorizing over the last 50 years. In response to a report by the National Commission on Fraudulent Financial Reporting (referred to as the Trade way Commission after its first chairman , former SEC Commissioner

James Trade way) on problems in financial reporting , a group of professional organizations met to determine what organizations could do to improve financial reporting. Representatives from the Financial Executive Institute (FEI), the American Accounting Association (AAA), the Institute of Internal Auditors (IIA), the Institute of Management Accountants (IMA) and the American Institute of Certified Public Accountants (AICPA) collectively referred to Committee of Sponsoring of the Trade Way Commission (COSO) debated internal control theory and definitions. The Committee of Sponsoring of the Trade Way Commission (COSO) is a body composed of American Institute of Certified Public Accountants, Institute of Internal Auditors and Financial Executives Internationally released its original Internal Control Integrated Framework in 1992. The Frame work sets the requirement for an effective system of internal control. It considers Internal Control as a process effected by an entity's Board of Directors, Management, and other Personnel designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. COSO definition is widely used and serves as both managerial practices and regulatory designs around the World (Power, 2007). In 1936, The American Institute of Certified Public Accountants (AICPA) issued a bulletin titled Examination of Financial Statements by Public Accountants, which defines Internal Controls as those measures and methods adopted within the organization to safe guard other assets of the company as well as to check the clerical accuracy of book keeping. This definition reflects the concept of "internal check" that was popular at that time and was used to describe the practices followed within the accounting and finance functions for the dual purpose of minimizing clerical errors and protecting assets, particularly cash, from loss or theft. In 1949, the AICPA Committee on Auditing Procedures issued a special report broadening the definition of internal control as; the plan of organization and all of the coordinated methods and measures adopted within the business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency,

and encourage adherence to prescribed management policies. Government Ministries in Uganda have for many years been required to develop and adhere to effective Internal Control Systems (ICS) in order to attain Value for Money (VFM) from their development expenditures. These Internal Control requirements have increased significantly since the enactment of the 1995 Constitution of the Republic of Uganda and the development of Public Financial Management (PFM) reforms. These provide the means of ensuring that the resources allocated to various sectors are applied effectively efficiently to achieve the intended purpose and attain Value For Money (VFM). Entities are required to set up effective Internal Control Systems that ensure the reliability and integrity of information, compliance with policies, plans, procedures, laws and regulations, safeguard of assets, check on the misappropriation of their resources, as well as proper authorization of expenditure and regular update of books of accounts in order to attain Value for Money. The reforms include;fiscal planning, revenue collection annd management,budget preperation and execution, accounting and reporting and oversight and scruitny (Lubabah, 2009; Asiiimwe &Nakanyike, 2007; Organization for Economic Cooperation and Development (OECD), 2005; Uganda Public Financial Management Reform Strategy, 2014).

1.2.2 Theoretical Background

This study was guided by the agency theory (Srindharan, 2011) suggests that governance in modern corporation are typically characterised by large number of owners (shareholders) who allow separate individuals (Directors) to control and direct the use of their collective capital for future gains (Srindharan, 2011). The agency theory problem develops when cooperating parties have divergent goals. The focus is placed squarely upon the relationship between the principal, one who delegates a task, and the agent, the individual performing the task which has been assigned (Eisenhardt, 1989). The primary ambition of the agency theory is

determining how best to resolve the conflict between the goals and desires of the principal and the agent as well as how the principal can most effectively verify the behaviors of its agent. The multiple hurdles become silent in the quest to align the goals of principal and agent which included; the self-interests of each, goal conflict and risk aversion of each. Initial discussion on ownership and control in large corporations were raised by Berle and Means (1932) who proposed that in order to address the concerns of separation of ownership and control, a comprehensive contract is written to help harmonise the interests of the principal and agents. This was further improved by Jensen and Meckling (1976) who viewed it as an ‘agency problem’ in governing the corporation and identified managers as the agents who are employed to work for maximization of shareholder’s (principal) returns, they further suggest that the relationship is improved by principal employing an expert to monitor the actions of the agent. Akonya-Okonye (2014) states that the fiduciary relationship which results from the manifestation of the consent of one person to another that the other person shall act on his or her behalf and is subject to his or her control and consent by the other so to act. This theory was chosen because “Internal control is one of the mechanisms used in business to address agency problem” (Jensen, 1983). These concepts were further elaborated in chapter two under the theoretical literature review.

1.2.3 Conceptual Background

The concept of internal controls has been looked at in varying ways by different scholars but most important to acknowledge is that most authors frame internal controls as a system of controls employed by the management in the conduct of business. In this study, internal controls were conceptualized by three dimensions which are control activities, monitoring activities, and risk assessments. Under control activities four sub- dimensions of approvals and authorization, physical controls, human resource policies, and segregation of duties were

conceptualized while. Under approval and authorization, it includes internal checks, internal audit, and other forms of controls. They are effected by the entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives of an entity. In the agency theory, owners (Principal) allow separate individual (Directors) to control and direct the use of their collective capital for future gains (Srintharan, 2011). To ensure that there is efficient and effective controls, management has to ensure that the controls set are adhered to.

Reforms to Government's financial management systems and processes are becoming critical in the response to increasing demand for greater transparency and accountability in the management of public finances. The Government of Uganda is implementing an Integrated Financial Management System (IFMS) in order to improve financial information processing and reporting systems. The IFMS covers all major Government business processes including; budgeting, accounting and reporting, cash management, revenue management, fixed assets management, payments, purchasing, debt management, fleet management and inventory control. All government ministries, departments and agencies are required to submit financial statements to the auditor general within three months after the end of the financial year (Public Finance and Accountability Act, 2003). Good governance of PFM has an impact where; there is effective management, effective internal audit, effective external audit and effective audit committees.

1.2.4 Contextual Background

As a result of the economic stagnation arising out of the two decades of insurgency due to the Lord Resistance Army (LRA) and cattle rustling in the North and some parts of Eastern Uganda, the Government of Uganda instituted a number of development interventions under

the Second Northern Uganda Reconstruction Program (NURP2) alongside other development partners' interventions. As part of the broader NURP2, the Government with support from IDA implemented the Northern Uganda Social Action Fund (NUSAF1), a five-year community-driven project which was launched in February 2003 and was closed on March 31st, 2009. In spite of the significant contribution of NUSAF1 and other development programs in improving the social-economic conditions of the people of Northern Uganda, widespread poverty and vulnerability and low access to quality social-economic services were still a challenge. Following significant improvement in the security situation in Northern Uganda, the Government of Uganda in collaboration with her partners developed the Peace, Recovery and Development Plan (PRDP) to provide a framework for post-conflict reconstruction of Northern Uganda. The overall goal of PRDP is stabilization in order to regain and consolidate peace and lay foundation for recovery and development in Northern Uganda. This was to be achieved through four core strategic objectives which included; consolidation of state authority, rebuild and empower the communities, revitalization of the economy; and peace building and reconciliation.

To build on the achievements and drawing from lessons learnt in the implementation of the first phase of NUSAF1, the Government of Uganda designed the Second Northern Uganda Social Action Fund to be implemented under the PRDP framework. The Government acquired a loan of United States Dollar 100 million to cater for three components; livelihood investment support (60%), Community Infrastructure Rehabilitation (30%) and Institutional Development (10%). In NUSAF2 there is a concern on financial management for effective implementation of the program in order to realize the intended objective. The Uganda Government put the following internal control for effective implementation of the project. Organization plan, Recording and record keeping, Supervision, Authorization and approvals, Segregation of

duties, Internal audit, Arithmetic and accounting control , recruitment of competent staff, accountability of funds and Safeguarding of assets. In the Auditor General's report 2012/2013, the review which was carried out of the project system of financial management, there were some matters observed such as mischarges, an accounted for funds, and lack of training need assessments.

1.3 Statement of the Problem

The principal–agents theory which assumes that though expected to perform the duties in the interest of the principal, the agent may perform in their own interests hence constraining achievement of objectives by the principal is a pertinent issue in effecting internal controls and in ensuring good and efficient performance of public financial management. Internal controls leads to high productivity, good service delivery, good performance standards, it saves time and motivates organizational employees. To ensure that the above is maintained, the government has put internal controls systems such the Public Finance and Accountability Act (2003) as amended to Public Financial Management Act (2015) to enable effective and efficient achievement of its goals such as providing the public with good infrastructure, health, education, security and good salary to public servants. In this system responsibility and accountability of public funds go together.

Despite the above made efforts, the situation does not seem to change in the Second Northern Uganda Social Action Fund. For example, in the Auditor General's report (2012/2013) the following matters were observed. Mischarge of shs. 19,059,510 meant for National Social Security fund (NSSF) employer contribution was charged to contract staff salaries. Also funds amounting to Shs. 153,673,363 advanced to staff to execute project activities lacked supporting documents and there was lack of trainings assessment. All these issues hindered proper

implementation of the approved budgets and work plans and also undermined the objectives of the project and hence reflected improper utilization, poor accountability and poor service delivery. If this situation is not attended to, it is likely to lead to suspension of funding by the donors and consequently this will lead the people of the north to remain in abject poverty and undeveloped. While there could be several other factors affecting performance of public financial management such as managerial practices, leadership styles, corruption among others, internal controls seem to be a major factor and this led the researcher to go out into the field to find out the effect of internal controls on performance of public financial management.

1.4 Purpose of the study

The purpose of the study was to establish the relationship between Internal Controls and the Performance of Public Financial Management of the Second Northern Uganda Social Action Fund (NUSAF2) in Uganda.

1.5 Objectives of the study

- i. To examine the relationship between control activities and performance of public financial management of NUSAF2.
- ii. To assess the relationship between of monitoring activities and performance of public financial management of NUSAF2.
- iii. To analyze the relationship between risk assessment and performance of public financial management of NUSAF2.

1.6 Research Questions

- i. What is the relationship between control activities and performance of public financial management of NUSAF2?

- ii. What is the relationship between monitoring activities and performance of public financial management of NUSAF2?
- iii. What is the relationship between risk assessment and performance of public financial management of NUSAF2?

1.7 Research Hypotheses

- i. There is a significant relationship between control activities and performance of public financial management in the NUSAF2.
- ii. There is a significant relationship between monitoring activities and performance of public financial management in the NUSAF2.
- iii. There is a significant relationship between control risk assessments and performance of public financial management in the NUSAF2.

1.8 Conceptual Framework

The conceptual framework illustrates the relationship between Internal Controls (I.V) and Performance of Public Financial Management (D.V). Internal controls were measured by its components of control activities, monitoring activities and risk assessments while Performance of Public Financial Management was measured by budget performance, and accountability.

Independent Variable

Dependent Variable

Internal Controls

Performance of Public Financial Management

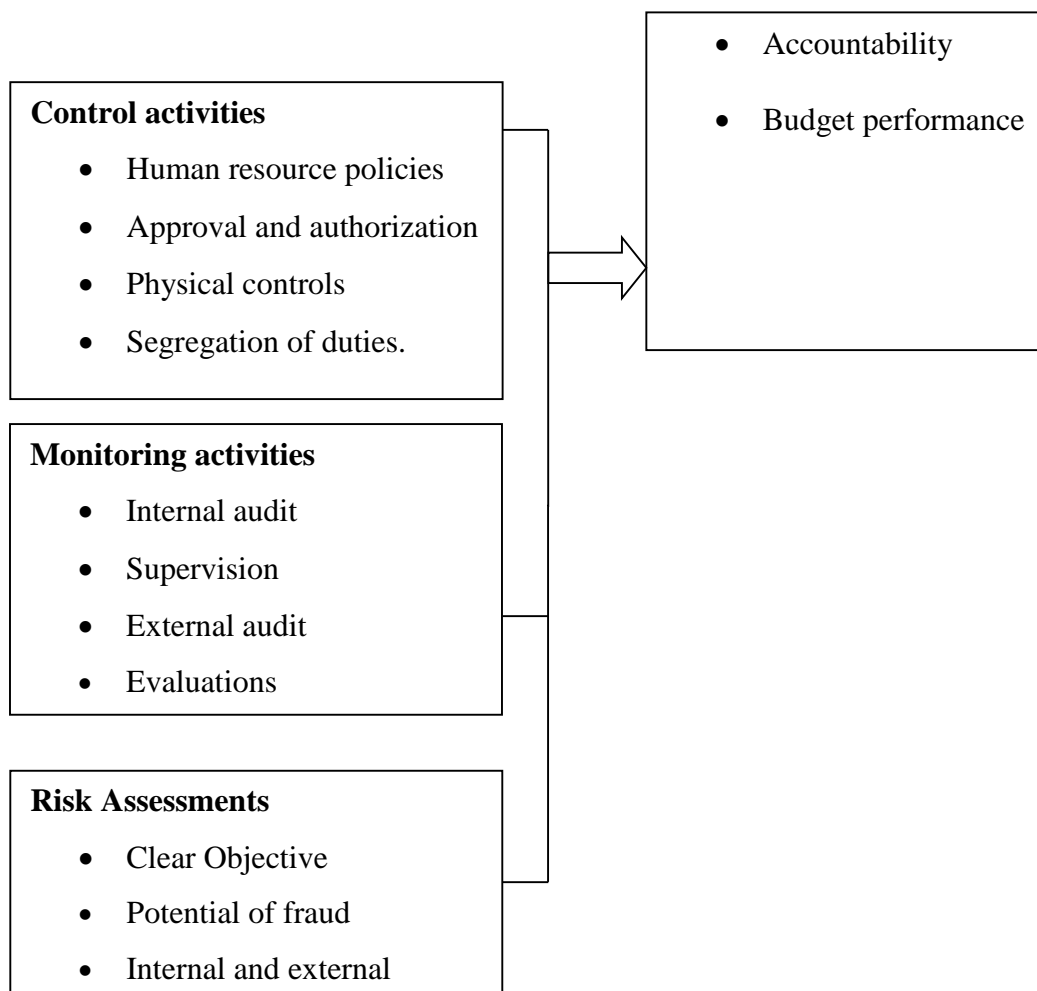


Figure 1: Conceptual Framework

Source: Adopted and modified from (COSO 1997).

1.9 Significance of the study

The study would add more knowledge relating to IC and PFM and this would benefit the Government of Uganda and other stake holders to achieve development objectives and continue to provide accountability to the principal (public) on the utilization of resources.

It also helps policy makers and regulators in the development of financial regulations that will ensure improved management of public funds, while the same time ensuring performance for effective service delivery.

The study will also help financial managers and administrators in their day to operations in an organization.

1.10 Justification of the study

The Government of Uganda through NUSAF2 received funding from the World Bank for the provision of services to various sectors in the economy. In this system responsibility and accountability of public funds go together. Government made tremendous improvement in coming up with strong internal controls in the implementation of NUSAF2 project. Despite the above made efforts, the situation does not seem to have changed in the Second Northern Uganda Social Action Fund. Various research studies have been conducted in improving financial performance in public entities in Uganda, but none has been done on internal controls and performance of public financial management in NUSAF2. An organization with adequate ICS will provide accountability to funders and the tax payer. The study was important at that particular time, but not later because, of the continuous demand of accountability of public funds by various stakeholders and implementation of public financial management reforms.

1.11 Scope of the study

1.11.1 Geographical scope

The study was limited to NUSAF2 secretariat located on Plot 9-11 Apollo Kagwa Road P.O. Box 341 Kampala, Uganda for easy of collecting data and accessibility. The other districts where the project is implemented were ignored but the results of the study were generalized to apply to all districts implementing the program.

1.11.2 Content scope

The study focused on establishing the relationship between IC as the independent variable and PFM as the dependent variable. While dimensions of internal controls were limited to; control activities, monitoring activities and risk assessment; performance of public financial management on the other hand was restricted to; Accountability and budget performance.

1.11.3 Time

This study covered the financial year from 2009 to 2014 .This is because this is the time from when the project started implementation and the same period where some internal controls were identified by auditor general as lacking.

1.12 Operating definitions

Control activities: These are the policies and procedures that help ensure management directives are carried out.

Monitoring: This is a process that assesses the quality of the system's performance over time.

Risk assessment: Risk assessment is a prerequisite for determining how the risks should be managed.

Public financial management: Is the administration of funds used to deliver public services

Internal Controls: Is the plan of organization and all of the coordinated methods and measures adopted within the business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.

Financial monitoring: In this study this means a continuous process of ensuring that : a financial system in use in the project is implemented to meet the intended objectives; obstacles towards achieving intended objectives are identified and mitigated; and feed back is provided to all those involved in for the system for further improvement

A budget: Is a statement of financial plan of a government, an information document that lay down all possible sources of funds / revenue that can be generated to meet the expenditure needs , to be able to meet the broader objectives of social- economic development.

Human resource policies: Are systems of codified decisions, established by an organization, to support administrative personnel functions, performance management, employee relations and resource planning.

External audit: Is an independent examination of the financial statements prepared by the organization usually conducted for statutory purposes.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter critically reviewed the existing literature related to Internal Control and Performance of Public Financial Management. It presents the theoretical literature review, the actual literature review based on objective by objective and summary of literature review. The review focused on control activities, monitoring activities and risk assessments as main components of internal control. The rest of the components were ignored. In addition, the review examined the COSO framework in relation to three components on internal control; control activities, monitoring activities, and risk assessments. Sources of literature that were used in this study included journals, previous dissertations, the world-wide web or internet, research papers and conference presentations, government publications and documents, text books, bibliographies among others.

2.1 Theoretical Review

The study focused on the agency theory (Srinidharan, 2011) refers to governance in modern corporation that are typically characterised by large number of owners (shareholders) who allow separate individuals (Directors) to control and direct the use of their collective capital for future gains (Srinidharan, 2011). Initial discussion on ownership and control in large corporations were raised by Berle and Means (1932) who proposed that in order to address the concerns of separation of ownership and control, a comprehensive contract is written to help harmonise the interests of the principal and agents. This was further improved by Jensen and Meckling (1976) who viewed it as an 'agency problem' in governing the corporation and identified managers as the agents who are employed to work for maximization of shareholder's

(principal) returns, they further suggest that the relationship is improved by principal employing an expert to monitor the actions of the agent.

Coarse (1937) however states that the relationship is affected by what is described as adverse selection and moral hazard as reflected by the agent not doing exactly what he is appointed to do and not possessing the requisite knowledge about what should be done. Larbi (1999) assert that the public sector under performs because state officials pursue their own narrow self – interests rather than the public interest. It is difficult to extract accountability and good performance from public servants (agents) because of monopoly characteristics of public services, imperfect information about the services and about the abilities and interests of public employees and the huge transaction cost that would be involved in efforts to write and monitor complete contracts. One solution to the problem of public sector is to expose the public service to greater competition.

According to Morris (2011), hypothesize that in order to harmonise the interests of the agent and the principal, a comprehensive contract is written to address the interests of both. He further explains that the relationship is further strengthened by the principal employing an expert to monitor the agent. The researcher finds the argument of Srinidharan (2011), Berle and Means (1932), Jensen and Meckling (1976), and Coarse (1937) not explaining internal controls and public financial management. However, Larbi (1999) tried to bring in the performance from the public servants (agents), the issue internal controls was isolated.

2.2 Conceptual Review

This study was guided by the COSO (1992). The frame work indicates that IC as a process effected by an entities board of directors, Management and other personnel designed to provide

assurance regarding the achievement of objectives. The three objectives are; effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws. COSO (1997) indicates that IC consists of five interrelated components which include; Control environment, Control activities, Monitoring, Risk assessment and Information and communication. Among the five components, three components that are control activities, monitoring activities and risk assessments guided the study. These elements have to be present in order to serve the needs of different parties and provides standard against which the business and other entities large or small in the public or private sector, Non-Governmental Organizations (NGOs) can assess their control system and determine how to improve them in order to achieve the objectives. Although internal control provides reasonable assurance of achieving entities objectives, internal controls cannot prevent bad judgment or decision or external events that can cause an entity to fail to its objectives. The researcher concur with this literature as in operations of the organizations, some people make bad judgments in their own favors e.g. corruption. However according to Ludwig (1968) control systems consists of people, structures and processes that work together to make an organization health.

2.3 Control Activities and Performance of Public Financial Management

O'Reilly et al. (2008) strongly stress that to operate effectively, the entity needs appropriate policies and procedures for hiring, training, supervising, and evaluating employees to ensure that they have sufficient knowledge and experience to carry out their assigned responsibilities. There must be sufficient number of employees and employees must have adequate equipment. The entity's human resource policies and practices should be directed towards achieving those goals. Training should include communication of roles and responsibilities, which often is accomplished through training sessions and seminars. This will ensure performance of public financial management (O'Reilly et al., 2008). The researcher concur with the literature because

in public sector set up there must be policies as the results showed that in NUSAF2 there is a policy and procedure for hiring, training, supervising and evaluation of employees.

Musoke (2013) asserts that, authorization is the power management grants employees to carry out certain duties, based on approval received from superiors. Authorization is a control activity designed to ensure events or transactions are initiated and executed by those approved management. To ensure performance of public financial management, management should ensure that conditions and terms of authorization are clearly stated and communicated, and that significant events and transactions are approved and executed only by persons acting within the scope of their authority. In addition, approvals and authorizations for transactions over certain limits ensure that an appropriate level of management is aware of the transaction or situation, and helps establish accountability (Musoke, 2013). This was supported by Williams and Anita as cited by Wilson (2009) who asserts that public financial Management involves a variety of techniques and budgeting and budgetary control is mainly focused on. Budgetary control can similarly be described as the process of using the plan to facilitate the control of an organization's activities for the period covered by the budget. Budgeting in the public Sector is inevitably political and is often described in this way. Chartered Institute of Management Accountants (1996), states that as a means facilitating control, a budget provides a focus for the organization, and aids the coordination of activities. In this budgeting require motivation and the authorization of expenditure. With regard to motivation, the formality of the procedure is of budgeting is designed to ensure that managers feel obliged to make every effort to achieve the anticipated the anticipated quantitative results. With authorization of expenditure, clear authority is given to act within the limits of the budget. The approval of the budget is in fact an instruction to spend the money in the way budgeted (CIMA, 1996). The research results tend to agree with the literature as there is always approval of expenditures in advance by

appropriate authorized person, budgets for all expenditures and work plans are approved by the Ministry and the World Bank. An enterprise should have appropriate control over its physical assets, including fixtures, inventories, and negotiable securities. An active program of periodic physical inventories represents a major control activity (COSO, 1992).

Segregation of duties, according to Basle Committee report (1998), “in reviewing major banking losses caused by poor internal controls, supervisors typically find that one of the major causes of such losses is lack of adequate segregation of duties. Assigning conflicting duties to one individual gives that person access to assets of value and ability to manipulate financial data for personal gain or conceal losses”. Consequently, certain duties within an organization should be split among various individuals in order to reduce the risk of manipulation of data and misappropriation of assets. By separating key tasks and responsibilities such as receiving, recording, depositing, securing and reconciling assets, management can reduce the risk of error, waste, or wrongful acts occurring or going undetected. Specifically, the various activities related to a transaction, that is, initiation, authorization, approval, ordering, receipt, payment and record keeping should be done by different employees or subunits of an organization. However, in cases where tasks cannot be effectively separated, management can substitute increased supervision as an alternative control activity that can help prevent or reduce those losses or risks. This was supported by DiNapoli (2007) who confirmed that separation of duties is the division of key tasks and responsibilities among various employees and sub-units of an organization. By separating key tasks and responsibilities - such as receiving, recording, depositing, securing and reconciling assets - management can reduce the risk of error, waste, or wrongful acts and improve performance of public financial management (DiNapoli, 2007). This is in agreement with the researchers findings as 97.1 % showed that accounting procedures are clearly segregated.

2.3.2 Monitoring activities and Performance of public financial management

According to Millichamp and Taylor (2008), argues that Management should have systems of control to monitor the effectiveness .They should have an internal audit – carried out by a specialist internal auditors, Senior management reviews- where senior managers perform audit –type tests on selected parts of the system and analysis of results by applying analytical procedures to detect anomalies or areas for investigation. This will improve performance. Basle committee (1998), tend to agree with the above scholar and continue to emphasize that, there should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the board of directors or its audit committee, and to the senior management. Internal control deficiencies, whether identified by business lines, internal audit or other control personnel, should be reported on in a timely manner to the appropriate management level and addressed properly (Basle committee, 1998).However the Financial Accountability Handbook (October 2013), assert that Internal controls monitoring should be undertaken on a continuous basis as part of an assessment plan, or as targeted/specific assessments for higher risk situations. Continuous monitoring should be integrated into the day-to-day financial processes of the agency to provide management with an ongoing assessment of the effectiveness of systems, processes and internal controls in the delivery of agency services for better performance of public financial management (Accountability Handbook, October 2013). The researcher concurs with this literature because of need for a department to keep checking on the whether the systems of control are working. The results revealed that in NUSAF2, there is an internal audit department which keeps checking on the systems of control to conform whether they are working and if not recommendations is given.

Moeller (2009) suggests that while senior management should always review summary reports and take corrective actions, the first level of supervision and the related enterprise structure often plays an even more significant role in monitoring. Direct supervision of the clerical activities, for example should routinely review the correct lower-level errors and ensure improved clerical employee performance. This is also an area which COSO (2006) emphasizes the importance of an adequate separation of duties. Dividing duties between employees allows them to serve as monitoring check on one another.

Monitoring is an integral part of a day –to-day management (Agbakoba & Ogbonna, 2004). Monitoring embodies the regular tracking of inputs, activities, outputs, outcomes and impacts development activates at the project program, sector and national levels. Monitoring provides information by which management can identify and solve implementation problems and assess progress towards project’s objectives (Agbakoba & Ogbonna, 2004. Awotokun (2005), tends to support the above argument and assert that financial monitoring is focused on daily management issues. By monitoring the organization tries to assess whether activities are implemented effectively and efficiently. Data should be collected and analyzed more or less frequently, according to predefined timetable. It requires regularity and continuity with regard to the type of data being gathered and methodology used to analyze it .Financial monitoring is one of the components of modern public financial management. It is expected to generate useful information timely on operational efficiency and effectiveness (Awotokun, 2005). This literature is in agreement with the researcher’s findings as monitoring is undertaken on continuous basis in NUSAF2 project.

The World Bank (2005) argues that good financial management systems is essential for the implementation of policies and the achievement of development objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The researcher's findings agree with this literature as 88.5% of the respondents proved that the Ministry and the World Bank authorizes work plans and budgets for all expenditures. Periodic physical inventories, whether of storeroom stock or negotiable securities, are an important monitoring activity (Moller, 2008). An annual inventory in a retail store, for example, may indicate a significant merchandise loss. A possible reason for this loss could be theft, pointing to the need for better security controls. While COSO (2006), internal control points out the importance of on-going activities to support the internal control framework, it also suggests that "it may be useful to take a fresh look from time to time" at the effectiveness of internal controls through separate evaluations. The frequency and nature of these separate reviews depends to a large extent on the nature of the enterprise and the significance of the risks it must control. Management may want to initiate an evaluation of its entire controls environment periodically. COSO also emphasizes that these evaluations may be performed by direct line management through self-assessment reviews (COSO, 2006).

Rezaee (2002) suggests that the monitoring component of internal control requires continuous assessment of the adequacy, effectiveness and quality of the internal controls systems. Any discovered errors, irregularities and fraud should be reported to top management and the audit committee and corrected promptly. The (2009) Committee of Sponsoring Organizations (COSO) of the Trade Way Commission's guidance on monitoring internal control systems convincingly argues that merely having systems of internal controls in place is adequate at the best, and worst may provide a false sense of security because unmonitored internal control systems deteriorate over time, it's crucial that they be monitored and their continuing operating

effectiveness be validated periodically. Monitoring has the primary purpose of ensuring that internal controls are operating effectively over time. The literature is in agreement with the researcher's findings in NUSAF2 as there is an internal audit department who carry out test on selected parts of the system and they report on control effectiveness and give recommendations for improvement.

Moeller (2009) contends that a monitoring process should be in place to assess the effectiveness of the established control component and take corrective actions when appropriate. He further continues to suggest that an enterprise need to establish a variety of monitoring activities to measure the effectiveness of the internal controls. It can do this through separate evaluations as well as with on-going activities to monitor performance and take corrective action when required. The researcher concurs with the literature as the findings showed 97.1% in support that generally NUSAF2 project is well monitored. However, DiNapoli (2007) contend that for, evaluation should be done periodically to assess the organization's performance compared to established expectations or measurement standards. The researcher however tend to disagree with literature as the findings of the study showed that monitoring is undertaken on continuous basis and not periodically.

2.3.3 Risk Assessment and Performance of Public Financial management

Risk is defined as a possibility that an event will occur and adversely affect the achievement of the objective. COSO (May 2013). According to Millichamp and Taylor (2008), claims that risks should be assessed by identification through carrying out a systematic review of itself and its place. Risks are both external and internal that can adversely affect the entity to achieve its objectives. The external risks include political risk, Economic risk, compliance risk and financial risk. The internal risks include strategic risks such as poor planning processes, poor

monitoring procedures. There is also a risk of operational risk which includes poor labor relations, loss of key employees, fraud which have an effect on financial management.

The Institute of Chartered Accountants (2004) asserts that risk is inherent in the decision that organizations take to manage business and in the business processes established to assist in establishment of objectives. Risk covers all aspect of organizational activities and is included in all management levels (Tehankov, 2002). Louwers, et.al (2008) asserts that in order to know the risk of failure to meet objectives, management must set objectives in the first place. Management should take stapes to identify risks, estimate their significance and likely hood and consider how to manage the risks. The Authors continue to say the basic concepts of risk assessment processes should be present in every entity regardless of size, but the risk assessment process is likely to be less formal and less structured in small and median size entities than in larger ones. The findings tend to agree with author where NUSAF2 generally has a strong risk assessment measures.

However, Pricewaterhousecooper (December, 2009), assert that understanding both the nature of the organization's objectives and the types of possible risks under consideration is key to determining the scope of the risk assessment. Objectives may be broad (example; considering organization-wide strategic, operational, compliance, and reporting requirements). Likewise, possible risks may span many categories (like credit, liquidity, and accounting when considering credit crisis implications), risk management discipline then ensures that risk assessments become an ongoing process, in which objectives, risks, risk response measures, and controls are regularly re-evaluated. The findings are in agreement with the literature whereby risk assessment in NUSAF2 is an ongoing process and when it is identified it is communicated to stakeholders such as districts.

Accountability is the liability to give an account of what one has done, or not done, to another who has authority to assess the account and allocate, praise or blame. Jones and Stewart (2008) and Stuart (1989) assert that accountability is one of the most important values affecting any administrative system of government. He further stipulates that there is no simple test of efficiency possible in the public sector and yet efficiency results from good accountability. The researcher concurs with scholar because in NUSAF2 very advance taken accountability is required. Accountability in NUSAF2 starts from the community, and also the NUSAF2 Transparency, Accountability and Anti- Corruption (TAAC) program is there to ensure efficiency of public expenditure. However, Broadbent and Launghlim (2003) argue that there are two aspects of accountability: public/ political accountability that involves the public as principal and is concerned with issues of trust; and managerial accountability that is concerned with day to day operations of the organization. The requirement to produce annual accounts and performance reports explains the importance of managerial accountability as compared to political accountability as it is intended to ensure effective utilization of resources (Ebrahim, 2003). The researcher concur with the scholar as NUSAF2 annual financial reports are prepared In time as required and the audited reports are discussed by the Public Accounts Committee (PAC) of Parliament of Uganda.

Despites long period of implementing performance management in public sector, improvements in accountability, value for money and quality of services have not yet been achieved (Fryer, et.al, 2009). In Uganda however, consistent poor performance remains a major challenge to development and a barrier to reducing poverty .In an effort to improve internal controls, the government of Uganda has come out with several financial reforms and the most current one being the Public Financial Management Act (2015).

2.4 Summary of Literature Review

The literature review highlighted the contribution of internal controls on performance of public financial management. It also demonstrated the extent to which the internal controls as independent variable can be used to influence the performance of public financial management. Researchers in the field of social sciences have given various views pertaining internal controls in organization. However they have not given literature on internal control and performance of public financial management in Uganda with special reference to NUSAF2. From the above review of the theories and existing literature, before obtaining the findings of the study, there was no conclusive evidence on that actual effect of internal control on performance of public financial management in NUSAF2. Thus the study sought to fill this gap. It is against this background that the research was undertaken to address the short falls and come up with lasting solutions.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methods the researcher used in carrying out the research. It includes research design, study population, sample size and selection, sampling techniques and procedures. The chapter further presents the data collection methods, data collection instruments, validity and reliability of instruments, procedure of data collection, data analysis and measurement of variable as shown below;

3.2 Research Design

Research design refers to the overall strategy that one chooses to integrate the different components of the study in a coherent and logical way. The study adopted case study research design. A case study was an empirical inquiry that investigated a contemporary phenomenon with its life context. It was used qualitatively for deeper examination on internal controls and performance of public financial management and gave reliable data about the variables. However, minimal quantitative methods, i.e. interviews and documentary reviews were also used to enable the discussion and capture opinions of key informants from the population. These methods were used because of the advantages of eliminating weakness and bias of using one method (Sekaran , 2003; Zikmund, 2003).

3.3 Study Population

The study was conducted among forty (40) respondents. Of these 36 were direct employees of NUSAF2 at the secretariat and four (4) were employees from the Office of the Prime Minister who work directly or indirectly with NUSAF2. The target population was forty (40)

respondents and 36 respondents were selected using census to answer the questionnaire and 4 using census for interview.

3.3.1 Sample Size and Selection

36 respondents from the administrative staff and 4 from top management were selected using census to answer the questionnaire and to be interviewed. According to Sekaran (2003), this sampling methodology is where a specific category of where all respondents have participated in a study. It is targeted to a specific people who can provide the desired information either because they are the only ones with it, or conform to the criteria set by the researcher.

Table 3.1: Tabulation of sample size and sampling techniques

Category	Access population	Sample size	Sampling technique
Top management: Undersecretary F&A, Director NUSAF2, Principal Accountant and Principal Internal Auditor.	4	4	Census
Administrative staff: Finance, Field operations, Program Officers, M&E Officers, Procurement officers, Communication and IT Officers	36	36	Census
Total	40	40	

Source: Primary data from the field

3.3.2 Sampling Techniques and Procedure

The researcher employed census sampling techniques on four (4) employees from the Office of the Prime minister who work directly or indirectly with NUSAF2 and on thirty six (36) direct employees of NUSAF2 at the secretariat because they could be able provide the desired information.

3.4 Data Collection Methods

The researcher used / employed a combination of questionnaire; interview and documentary review methods while collecting data for the study in order to minimise the weakness of one to enhance reliable findings.

3.4.1 Questionnaire method

This was used to collect primary data from administrative staff. A questionnaire depicted in Appendix II is form on which there are written questions or statements that call for written response to be presented in space provided on the form (Kothari, 2004). Self-administered Structured Questionnaires were used because the respondents were literate and deemed able to read and fill in the answers in the questionnaire. It also limited the perceptions and sentiments that respondents were likely to express and were not in the subject of my investigation as they also saved time and cost (Amini, 2005).

3.4.2 Interview method

This was used to collect primary data from Under Secretary Finance and Administration, Director NUSAF2, Principal Internal Auditor and the Principal Accountant. Kothari, (2003) indicates that the interview method of collecting data involves presentation of oral verbal stimuli and reply in terms of oral-verbal responses. The interview was guided by an interview

guide presented in Appendix 6. As a matter of procedure, the researcher had a face to face discussion with the respondents on specific aspects of internal controls and financial management. The discussion provided in-depth information and understanding about specific variables of interest in the study. The interaction involved probing the respondents for clarity and correctness or truth of the views shared.

3.4.3 Documentary review method

Documentary study was also used in order get more information about the subject of the study that cannot be captured by other methods (Amini, 2005). This was be done by reading the projects documented reports, Financing Agreements and manuals with focus on identifying which information.

3.5 Data Collection Instruments

3.5.1 Self-administered Questionnaire

The researcher used questionnaire during data collection on finance, field operations team, Information Technology, Monitoring and Evaluation, Communication, Program Officers and Procurement departments. The questions were structured to include open and closed questions to which the study participants responded in writing. As recommended by (Amini, 2005), the Questionnaire was designed to handle individual objectives from which the relationship was assessed.

3.5.2 Interview guide

The researcher also used the interview guide on the Under Secretary Finance and Administration, Director NUSAF2, Principal Internal Auditor and the Principal Accountant, which comprised of the themes and topics of discussion in the interview. Interview was

conducted among those people because they could provide information in regard to the subject under study. This enabled the researcher gather the necessary data for the study during interview with respondents. It contained open ended questions in order to collect in-depth information from key informants. As recommended by (Amini, 2005), the interview guide was brief and precise comprised of key topics and themes of the study. This was important because it provided an opportunity to modify earlier responses and also to discuss the meaning of the questions so as to eliminate ambiguity and misunderstanding of questions.

3.5.3 Documentary review

The document review checklist was used to capture secondary data that supplemented primary sources as indicated by Amin (2004). The documents reviewed included; project reports, Financing Agreements, Journals, dissertations related to the topic under investigation and manuals. This enabled the researcher to access information on IC and performance of public financial management.

3.6 Data Quality Control

In order to ensure quality of the research findings, the researcher carried out reliability and validity tests of the research instruments to be used in data collection. For reliability and validity to exist in the data, the data collection techniques must yield information that is not only relevant to the research hypothesis, but also correct. Reliability and validity are measures of this “relevance” and “correctness” (Mugenda & Mugenda, 2003).

3.6.1 Validity

Validity refers to the extent to which the results obtained from the analysis of the data actually represent the phenomena under study (Pant, 2009). It determines the correctness and

truthfulness of the research results. Validity maximizes trustworthiness, rigor and quality of research process to reinforce research outcomes or results (Golafshani, 2003: Pg-1-9). Validity of the research instrument was established using Content Validity Index (CVI) to determine the relevance of the questions in measuring the variables. Three experts were used to scrutinized valid and invalid questions.

$$\text{CVI} = \frac{\text{Number of questions in the instrument deemed valid}}{\text{Total number of items on the questionnaires}}$$

$$\text{CVI} = 60/61=0.983 \text{ giving } 98.3\%.$$

The CVI gave 98.3% which according to Amin (2005) is more than 70% and therefore the instrument was accepted.

3.6.2 Reliability

This is the consistency with which an instrument measures what it is intended to measure (Amin, 2004). Cronbach’s Alpha reliability co-efficient was used to test reliability, measures the internal consistence and build confidence that the data is appropriate. Presented in Table are the Alpa Cronbach’s coefficients computed using SPSS.

Table 3.2: Reliability results

Variables	Alpha score	Number of items
Control activities	0.708	21
Monitoring activities	0.731	11
Risk assessments	0.780	9
Performance of public financial management	0.748	19
Total	2.967	60

Source: Primary data from the field

The individual reliability results for the variables were: Control activities (0.642) with 21 items, monitoring activities (0.731) with 11 items, risk assessment (0.780) with 9 items, and performance of public financial management (0.748) with 19 items. The resultant reliability coefficient was found to be 0.74 (2.967/4) taking the average as shown in table 1 above. In conclusion, the tool therefore passed the test of reliability for each of the variables and for all the variables since they are all greater than 0.7, given that the level of Cronbach that is adequate is any value equal to or greater than 0.7 as indicated by Amin (2005).

3.7 Data Collection Procedure

The researcher sought a letter of permission from the UMI higher degrees department which acted as a letter of introduction to the relevant authority, addressed to the head of institution or sub-groups selected for the study in the area where research was to be conducted. Upon obtaining the requisite permission, the researcher proceeded with data collection starting with giving out questionnaires to NUSAF2 administrative staff. A letter of transmittal (covering letter) accompanied each questionnaire explaining the purpose/importance and significance of the study to remove any suspicion or bias from the respondents. After that interviews were conducted with top management.

3.8 Data Analysis

3.8.1 Quantitative

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. The data was entered in the Statistical Package for Social Sciences (SPSS V16.0) for analysis. The program is highly appropriate for entry and analysis of survey data and has been widely used (Sekara, 2004). Frequency tabulations were used to describe

sample characteristics, Pearson Correlation coefficient was used to establish the relationship between the study variables.

3.8.2 Qualitative data

Qualitative data was analyzed using content analysis. Content analysis has been defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding (Weber, 1990). Responses from key informants were coded and summarized using descriptive statistics. The purpose of descriptive statistics was to enable the researcher to meaningfully describe a distribution of measurements using a fewer statistic (Mugenda and Mugenda, 2003).

3.8 Measurement of Variables

The researcher measured the variables using the Likert scale where statements which were followed by five category responses continuum as follows;

5 points – Strongly agree

4 points – Agree

3 points –Not sure

2 points - Disagree

1 point – Strongly disagree

The respondent selected the best response that best describes the reaction. Then responses were weighed from 1 to 5 and averaged for all items. The researcher used this measurement because of its flexibility and ease in its construction (Amin, 2005).

3.9 Limitations

Some possible limitations to this study were the fact that not all respondents answered the questions on the research instruments as honestly as possible. The limitation of time also affected the study.

3.10 Ethical Consideration

Permission to conduct the study was obtained from the Permanent Secretary and consent was also obtained from the respondents before the commencement of the interviews. High levels of confidentiality were maintained and the researcher informed the respondents that the research data was to be used solely for the purpose of the study and all sources of data have been mentioned. All those who participated in this study shall receive a feedback of the findings and recommendations of the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter is about the presentation, analysis and interpretation of the findings in regard to how internal controls affect the performance of public financial management of NUSAF2, Uganda. The results of the study therefore were presented in order of the study objectives together with the hypotheses, analyzed and interpreted. Descriptive statistics on response rate and additional demographic information about respondents are presented together with discussion of empirical results.

4.2 Response Rate

Response rate also known as completion rate or return rate in a study refers to the number of people who answered the research questionnaires divided by the number of people in the sample and it is usually expressed in the form of a percentage (%). The responses in the table 2 below shows that the highest 35 members of staff returning questionnaires out of the 36 questionnaires distributed.

Table 4.1: Showing the response rate by category

Category of Respondents	Sample	Questionnaires distributed	Questionnaires returned	Response rate
Head office	36	36	35	97%
Response rate				97%

Source: Primary data from the field

According to Table 4.1, 36 questionnaires were distributed to all Staff of NUSAF2. A total of 35 questionnaires were returned indicating an overall 97% response rate which is good enough to be relied on for the study.

4.3 Background Information of Respondents

The Background information covered the Age of respondents, Gender, level of education attained as presented in the following tables below:

4.3.1 Age of Respondents

Age of staff can greatly impact on the way internal controls in every organization. Age can for example influence the way internal controls are implemented at NUSAF2. Although old aged staff are considered experienced in many matters concerning organizations, it is a known fact that they not easily embrace change especially in this current era of globalization and technological advancement. Whereas the young people easily adopt to changes that may propel the organization to the great heights though they may be prone to mistakes due to limited experience and expertise. Therefore, a mixture of the two may present lots of benefits to the organization. The table below presents the age of respondents at the Inspectorate of Government during the study.

Table 4.2: Age of respondents

Age respondents	Frequency	Percentage
25-28	1	2.9
29-34	10	28.6
35 above	24	68.6
Total	35	100

Source: Primary data from the field

Table 4.2 above indicates that 2.9% of the respondents were between 25 and 28 years, 28.6% were between 29 and 34 years, and 68.6% were above 35 years. This clearly indicated that majority of the respondents were above the age of 28 and this presented an excellent indication that the respondents were mature enough to participate in the study.

4.3.2 Sex of respondents

NUSAF is an Institution that promotes gender policy and the management of the relationship between different sexes in the performance of their organizational roles is crucial. The table below shows the Gender distribution of respondents

Table 4.3: Sex of respondents

Sex of respondents	Frequency	Percentage
Female	12	34.3%
Male	23	65.7%
Total	35	100%

Source: Primary data from the field

From Table 4.3 above, 34.3% of the respondents were Female while 65.7% were Males. This means the majority were males. However, the NUSAF2 recruitment policy is not discriminatory in regard to gender. NUSAF2 gives equal opportunities to both Males and Females when it comes to the recruitment processes (NUSAF2 Administrative Handbook, 2010).

4.3.3 Marital status

The NUSAF2 is an Institution that promotes marital policy and the management of the relationship between different marital statuses in the performance of their organizational roles is crucial. The table below shows the marital status of respondents.

Table 4.4: Marital status of respondents

Marital of respondents	Frequency	Percentage
Single	5	16.1%
Married	25	80.6%
Separated	1	3.2
Total	35	100%

Source: Data from the field

From Table 4.4 above, 16.1% of the respondents were not married, 80.6% were married while 3.2% separated. This means the majority were married. However, the NUSAF2 recruitment policy is not discriminatory in regard to marital status. The NUSAF2 gives equal opportunities to both Married and not married when it comes to the recruitment processes (NUSAF2 Administrative Handbook, 2010).

4.3.4 Level of Education Attained

The emergences of technological and institutional globalization and internalization of markets for both business and employment have continuously demanded the need for continuous training. For example in the Accountancy and Procurement profession today, one finds it hard to compete for the available opportunities without a Professional qualification like, CPA, ACCA and CIPS among others and also organizations both public and private sectors have adopted this global trend including the NUSAF2. It was found out that the NUSAF trains its staff as reflected in the NUSAF2 Administrative Handbook, 2010 to equip them with relevant skills.

Table 4.5: Academic Qualifications of Respondents

Qualification level	Frequency	Percentage
Degree	21	60%
Masters and others	14	40%
Total	35	100%

Source: Primary data from the field

Table 4.5 above indicates that majority (60%) of the respondents were degree holders, 40% were holders of Masters Degrees and other Qualifications like Post Graduate Diplomas and Professional Qualifications. It is noted from table 5 above that 60% of the respondents were degree holders and above, meaning that the majority of staff of NUSAF2 are educated and skilled. According to Biganja (2003) performance is the product of Motivation multiplied by ability. This was confirmed by Sekaran (2004). Therefore, such respondents could easily understand and appreciate the study.

4.4 Empirical Findings

In this subsection results are presented using percentages and correlations coefficient in relation to study objectives. All the variable were measured on a five linkert scale ranging from 5= Strongly Agree, 4= Agree, 3= Not sure, 2= Disagree, 1= strongly disagree. In analysis, the scale was further reduced to 3, whereby we came up with agree, disagree and not sure. Furthermore the results are presented, analyzed as per our study objectives for ease in ensuring that what was set out to be undertaken is achieved.

4.4.1 Descriptive statistics on control activities and performance of public financial management

The first objective was to examine the relationship between control activities and performance of public financial management of NUSAF2.

Table 4.6: Percentage distribution of respondents by perceptions on control activities

Variable	Percentage of respondents		
	Agree	Disagree	Not sure
Generally NUSAF2 undertakes strong control activities	100	0	
Accounting procedures are clearly segregated	97.1	0	2.9
There is a policy and procedure for hiring, training, supervising and evaluation of employees.	81.7		8.3
The role of stake holders are well spelt out and followed	91.4		8.6
Budget reviews are held to compare actual with budgeted expenditure and explanations for variance given.	68.5	8.6	22.9
Controls are in place to exclude incurring expenditure in excess of allocated funds	67.7	23.5	8.8
Authorization, processing, security paper signing and accounting functions are clearly segregated.	97.1		2.9
All requests for disbursements are backed by appropriate supporting documents	97.1		2.9
Expenditures are dully approved in advance by appropriate authorized persons	100		
The signatory to the account, review and initials the supporting documents for payments	94.3		5.7
Bank reconciliations are prepared by some one independent of the cash receiving, processing and recording activities	65.7		34.3
Cash release papers are received by some one independent of the accounting function	65.7	2.9	31.4
Numerically controlled receipt books are used for cash received.	51.4	8.6	40
All procurements and contracts are done in accordance with regulations	74.3		25.7
The procurement and disposal of assets procedures are strictly followed	74.3		25.7
Our security systems identifies and safeguards institutional assets	74.3		25.7
There is an up-to-date asset register for the project	70.6		29.4
Asset movement is always recorded	52.9	17.1	40
Staff are trained to implement the accounting and financial regulations	85.7		14.3
Corrective action is taken to address weaknesses	74.3		25.7
Ministry and World bank authorizes work plans and budgets for all expenditures	88.5	2.9	8.6

Source: Primary data from the field

Table 4.6 above indicated that generally NUSAF2 undertakes strong control activities. All respondents agreed 100%. As to accounting procedures are clearly segregated, 97.1% agreed, while 2.9 % were not sure. As to whether there is a policy and procedure for hiring, training, supervising and evaluation of employees, 81.7% agreed while 8.3% remained undecided. Whether the roles of stake holders are well spelt out and followed, 91.4% agreed. This was supported by the Director NUSAF2 who said *“My role is to constantly set the direction, sensitize and make sure that the project staff are aware of the standards, procedure and required knowledge, build the capacity of staff, develop the tools to plan properly, mentor, report, supervising eye on internal control using the results and improve the project from time to time”*, and 8.6 % were not sure. Whether budget reviews are held to compare actual with budgeted expenditure and explanations for variance given, majority of the respondent agreed at 68.5%, and 22.9% were not sure while 8.6% disagreed. As to whether controls are in place to exclude incurring expenditure in excess of allocated funds, Majority of respondents at 67.7% agreed. This was concurred by the Director NUSAF2 who asserted that; *“Controls are functioning, results achieved, satisfaction performance, accountability and feedback. This is evidenced by World Bank Mid Term Review (MTR), Independent studies and audits who have informed us that the project is on truck”*, Also the Financial Management Specialist supported this and asserted that; *“We have Financial Manual and World Bank financial management guidelines which ensure that the funds are strictly used for the intended purpose”*, but 23.5% disagreed while 8.8% were not sure. In addition whether authorization, processing, security paper signing and accounting functions are clearly segregated, indicated 97.1% of respondents in agreement, while 2.9% were not sure. All requests for disbursements are backed by appropriate supporting documents, 97.1% agreed while 2.9% were not sure. Whether expenditures are dully approved in advance by appropriate authorized persons, all respondents

agreed at 100%. The signatory to the account review and initials the supporting documents for payments, majority at 94.3% agreed, while 5.7% remained undecided. Whether bank reconciliations are prepared by some one independent of the cash receiving processing and recording activities, 65.7% agreed, while 34.3% were not sure. As to whether Cash release papers are received by some one independent of the accounting function, 65.7% were in agreement, while 31.4% un decided and 2.9% did not agree. On the issue of numerically controlled receipt books are used for cash received, 51%, were in agreement while 40% were neutral, and 8.6% disagreed. For the case that all procurements and contracts are done in accordance with in regulations, 74.3% majority agreed, while 25.7% were not sure. When it came to procurement and disposal of assets procedures are strictly followed, 74.3% agreed, and 25.7% were not sure. Whether the security systems identifies and safeguards institutional assets, Majority at 74.3% agreed while those who were not sure were 25.7%. As to whether there is an up-to-date asset register for the project, 70.6% agreed, while 29.4% were not sure. Asset movement is always recorded, 52.9% agreed, while 40% were not sure but 17.1% were on contrary. The issue that Staff is trained to implement the accounting and financial regulations, 85.7% agreed while 14.3% were not sure. Whether Corrective action is taken to address weaknesses, majority of 74.3% agreed while 25.7% remained undecided. Whether the Ministry and World Bank authorizes work plans and budgets for all expenditures, majority at 88.5% agreed, while 8.6% remained undecided and 2.9% disagreed.

4.4.2 Descriptive statistics on monitoring activities

The second objective was to assess the relationship between of monitoring activities and performance of public financial management of NUSAF2.

Table 4.7: Percentage distribution of respondents by perceptions on monitoring activities

Variable	Percentage of respondents		
	Agree	Disagree	Not sure
Generally NUSAF2 project is well monitored	97.1		2.9
Internal audit carry out tests on selected parts of the system	88.6		11.4
Internal audit reports on control effectiveness and recommendation for improvement	74.3		25.7
Senior management reviews audit findings	51.4		48.6
There is an internal audit department.	97.1		2.9
Monitoring is undertaken on continuous basis	68.6		31.4
Accounting managers supervise the accuracy and completeness of transaction processing.	82.8	2.9	14.3
There is technology used to provide continuous check on information processing	42.9	5.7	51.4
The criteria for evaluation is established by regulators	51.4		48.6
Information is provided on timely basis	44.3	17.1	38.6
Management checks with subordinates to see how things are going on	60	20	20

Source: Primary data from the field

Table 4.7 indicated that 97.1 % of the respondents agreed that generally NUSAF2 project is well monitored, meanwhile 2.9% were not sure. Therefore, based on the data, it came out clearly that there is an internal audit department overseeing the project since it represented 97.1. Regarding whether internal audit carry out tests on selected parts of the system, majority 88.6% of the respondents agreed while 11.4% were not sure. There were no respondents contrary disagreeing. Results of the study therefore provided sufficient support to the fact that

the Internal audit carry out tests on selected parts of the system and if there were any internal controls issues, would be blamed on other factors.

According to Table 4.7, 74.3% agreed while 25.7% were not sure that internal audit reports on control effectiveness and recommendation for improvement. Those interviewed believed that internal audit reports on control effectiveness and recommendation for improvement. Specifically, the Director NUSAF2 said *“I’m satisfied with the level of internal audit reports on effectiveness coupled with their usual recommendation”*. Results of the study therefore revealed that the internal audit as very effective. On whether senior management reviews audit findings in enhancing performance of public funds, 51.4% agreed. This was also affirmed by top management, who stated that, *“NUSAF2 is audited by internal auditors, Auditor General and World Bank Financial Management Consultants who issues management letters and are provided with responses on issues rose. Any issues retained in either report are reviewed internally and discussions are held”*, and 48.4% were not sure. This means that some staff doesn’t access results of the audit reviews and therefore they don’t know whether reviews are done. Data therefore provided sufficient evidence that the importance of senior management reviewing audit findings can never be overlooked. There is an internal audit department, 97.1% agreed, while 2.9% remained undecided. Monitoring is undertaken on continuous basis, 68.6% agreed, while 31.4% were not sure. Accounting managers supervise the accuracy and completeness of transaction processing, 82.8% agreed, 14.3% was not sure, while 2.9% disagreed. Whether there is technology used to provide continuous check on information processing, 51.4 % majority were not sure, 42.9% agreed this was supported by Director NUSAF2 who said, *“ NUSAF2 has sun systems accounting software which enables coding the expenditure to generate reports for specific purpose, financial tracker for subprojects funds from districts which ensure that the money is used and reported and to ensure accuracy, some*

fields are protected from changes by districts, NUSAF2 has also a Statement for Expenditure used to track operations funds to district”,

and 5.7% disagreed. With above words by the Director NUSAF2 it was evidenced that some staff are reluctant in terms of technology used in the project. The criteria for evaluation are established by regulators, 51.4% agreed while 48.6% were not sure. Information is provided on timely basis, 44.3% agreed, 38.6% were not sure while 17.1% disagreed. As to whether management checks with subordinates to see how things are going on 60% agreed , 20% disagreed while 20% were undecided. The results are in conformity with assertion that management should include preparing and distribution of reports to various levels for effective control of activities in an entity.

4.4.3 Descriptive statistics on risk assessments

The third objective was to analyze the relationship between risk assessment and performance of public financial management of NUSAF2.

Table 4.8: Percentage distribution of respondents by perceptions on risk assessment

Variable	Frequency	Percentage of respondents		
		Agree	Disagree	Not sure
Generally NUSAF2 has strong risk assessment measures		80		20
Control Objectives are regularly reviewed		54.3	20	25.7
Risks are not reviewed in isolation but interlinked		62.1	17.1	45.7
NUSAF2 has control objectives		34.3	8.6	57.1
NUSAF2 identifies risks in terms of sources of risk		51.5	11.4	37.1
NUSAF2 has a risk communication strategy		34.2	31.5	34.3
The risks are assessed in terms of consequences		60	11.4	28.6
NUSAF2 assesses the risk in terms of achievement of objectives		65.7	5.7	28.6
NUSAF2 has policies to safeguard fraud		88.7	2.9	8.6

Source: Primary data from the field

Table 4.8 shows that generally NUSAF2 has strong risk assessment measures, 80% agreed, while 20% were not sure. As to whether control objectives are regularly reviewed, 54.3 % agreed, 25.7% were not sure while 20 % disagreed. Also Risks are not reviewed in isolation but interlinked, 37.2% agreed, while 17.1% disagreed and 45.7% majority were not sure. NUSAF2 has control objectives, 57.1% the majority were not sure, 34.3% agreed while 8.6% disagreed. Also as to whether NUSAF2 identifies risks in terms of sources, 51.4% agreed, 37.1% were not sure and 11.4% disagreed. Whether NUSAF2 has a risk Communication strategy, 34.2% agreed, 31.5% disagreed, this was in conformity with the Director NUSAF2 who asserted that, “NUSAF2 has no risk communication strategy but when risks are identified, there is a system to communicate to stakeholders e.g. risks identified by different audits are

communicated to districts”, 34.3% of the majority was not sure. Whether risks are assessed in terms of consequences, 60% agreed, 28.6% were not sure, while 11.4% disagreed. NUSAF2 assesses the risk in terms of achievement of objectives, 65.7% agreed, 28.6% remained undecided while 5.7% did not agree. NUSAF2 has policies to safeguard fraud, 80% agreed, 8.6% were not sure while 2.9% disagreed.

4.4.4 Descriptive statistics on performance of public financial management

Table 4.9: Percentage distributions of respondents by perceptions on performance of public financial management

	Agree	Disagree	Not sure
Staff receive cash advance for official work	94	3	3
Every advance taken accountability is required	76.5		23.5
Deadline is given when to account for any advance taken	97.1		2.9
There are relevant documents required for every advance taken	97.1		2.9
Accountability is checked for correctness and approved by authorized personnel.	94.1		5.9
There is always a follow up for un-accounted for advances	97.1		2.9
The opening activity of every financial year in the project is financial planning and budgeting	67.6	5.9	26.5
Thorough needs assessment is undertaken by the respective managers for the required goods and services	58.8	8.8	32.4
Budget approval is obtained for the required items before purchase in the project	91.2	2.9	5.9
The budget is always followed in the implementation of the project	76.5	5.9	17.6
Significant departure from the budgetary targets are reported immediately	58.8	8.8	32.4
The control of expenditure is always the responsibility of the designated budget holder	76.5	5.9	17.6
It is the management responsible to exercise budget control	85.3	2.9	11.8
Appropriate action is taken to correct any deviation from the budget	70.6	5.9	23.5
Financial reports are prepared in time as required	82.4	8.8	8.8
Audit reports on the accounts are discussed by the PAC	97		3
Reviews of the financial plans are done regularly	73.6	8.8	17.6
Reviews of financial plans and funding systems are undertaken by independent personnel	79.5	2.9	17.6
Corrective actions are taken once a variance is identified in these financial processes	73.6	8.8	17.6

Source: Primary data from the field

Table 4.9 show that staff receive cash advance for official work respondents who agree were 94% disagree 3% and not sure 3%. Every advance taken accountability is required; those who

agreed were 76.5%. *“This was supported by Director NUSAF2 who stated that accountability is highly satisfactory- out of UGX.281,974,035,473, 281,729,889,891 (99.95%) is accounted for, accountability starts from the community, and also the NUSAF2 Transparency, Accountability and Anti- Corruption (TAAC) program is there to ensure efficiency of public expenditure”*, and those not sure were 23.5%. Deadline is given when to account for any advance taken, those in support were 97%, and those not sure were 2.9%. As to whether there are relevant documents required for every advance taken, 97.1% agreed and 2.9% were not sure. Accountability is checked for correctness and approved by authorized personnel, 94.1% agreed, *This was concurred by the Director NUSAF2 who stated that “Internal audit verify accountability from national level to community level, procurement of animals requires a certificate of compliance from the Veterinary officer”* and 5.9% were not sure. There is always a follow up for un-accounted for advances, 97.1% agreed and 5.9% were not sure. As to whether the opening activity of every financial year in the project is financial planning and budgeting, 67.6% agreed, 26.5% were not sure and 5.9% disagreed. Thorough need assessment is undertaken by the respective managers for the required goods and services, 58.8% agreed, 32.4% were not sure and 8.8% disagree. The issue of budget approval is obtained for the required items before purchase in the project, 91.2%, agreed, 5.9% were not sure and 2.9% disagreed. The budget is always followed in the implementation of the project; 76.5% agreed, while 17.6% were not sure and 5.9% disagreed.

Significant departure from the budgetary targets are reported immediately, 58.8%, were in agreement, those not sure were 32.4% and those who disagreed were 8.8%.

The control of expenditure is always the responsibility of the designated budget holder, 76.5%, agreed, 17.6% were not sure and 8.8% disagreed. Whether it is the management responsible to exercise budget control, 85.3% agreed, 11.8% were not sure and 2.9% disagreed. Appropriate action is taken to correct any deviation from the budget, 70.6% agreed, 23.5% were not sure

and 5.9% disagreed. Financial reports are prepared in time as required, 82.4% agreed, 8.8% were not sure and 8.8% disagreed. Audit reports on the accounts are discussed by the PAC, 97% agreed and 3% were not sure. Reviews of the financial plans are done regularly; those who agreed were 73.6%. Director NUSAF2 concurred with and asserted that, “*Our original plan was to have 10,008 projects to be financed, but the review was done and 10,519 projects have been financed using the same budget allocation*”, 17.6% were not sure and 8.8% disagreed. Reviews of financial plans and funding systems are undertaken by independent personnel, 79.5% agreed, 17.6% were not sure and 2.9% disagreed. Corrective actions are taken once a variance is identified in these financial processes, 73.6% agreed, and 17.6% were not sure and 8.8% disagreed. In summary all those who agreed were 85%, not sure were 14.7% and disagreed were 4.11%. Therefore controls activities have significantly affected performance of public financial management of NUSAF2 positively.

4.5 Addressing the research objectives

In order to address the research objectives, the researcher employed the pearson (r) correlation.

Table4.10: Correlation results between control activities and performance of public financial management

PPFM parameters/variables	Control activities	
	Correlation statistic	Sig. (2-tailed)
PPFM in terms of financial accountability	0.389*	0.025
PPFM in terms of budget performance	0.672*	0.001

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

Source: Primary data from the field

The correlation coefficient between control activities and performance of Public Financial Management of NUSAF2 project in terms of financial accountability was 0.389, positive and statistically significant ($p < 0.005$). This indicated that control activities significantly influenced

performance of Public Financial Management of NUSAF2 project in respect to financial accountability. In other words, these results suggest that strong control of public funds would more likely result achievement of the intended objective to which the funds are allocated.

The correlation coefficient between control activities and performance of public financial management of NUSAF2 project in terms of budget performance was 0.672, positive and statistically significant ($p < 0.005$). This indicated that control activities significantly influenced performance of Public Financial Management of NUSAF2 project in respect to budget performance. In other words, this result suggest that strong controls of public funds by use of budget and measuring its performance through continuous reviews .This results shows effective resource management which is very important in the provision of public service.

Table 4.11: Correlation results between monitoring activities and performance of financial management

PPFM parameters/variables	Monitoring activities	
	Correlation statistic	Sig. (2-tailed)
PPFM in terms of financial accountability	0.605*	0.001
PPFM in terms of budget performance	0.537*	0.001

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

Source: Primary data from the field.

The correlation coefficient between monitoring activities and performance of public financial management of NUSAF2 project in terms of financial accountability was 0.605, positive and statistically significant ($p < 0.005$). This indicated that monitoring activities significantly influenced performance of public financial management of NUSAF2 project in respect to financial accountability. In other words, this result suggest that strong monitoring of public

funds would more likely result achievement of the intended objective to which the funds are allocated.

The correlation coefficient between monitoring activities and performance of public financial management of NUSAF2 project in terms of budget performance was 0.537, positive and statistically significant ($p < 0.005$). This indicated that monitoring activities significantly influenced performance of public financial management of NUSAF2 project in respect to budget performance. In other words, this result suggests that strong monitoring of public funds by use of budget and measuring its performance through continuous reviews. This result shows effective resource management which is very important in the provision of public service.

Table 4.12: Correlation results between risk assessment and performance of financial management

PPFM parameters/variables	Risk assessment	
	Correlation statistic	Sig. (2-tailed)
PPFM in terms of financial accountability	0.605*	0.001
PPFM in terms of budget performance	0.537*	0.001

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

Source: Primary data from the field

The correlation coefficient between risk assessments and performance of public financial management of NUSAF2 project in terms of financial accountability was 0.605, positive and statistically significant ($p < 0.005$). This indicated that risk assessments significantly influenced performance of public financial management of NUSAF2 project in respect to financial accountability. In other words, this result suggest that strong risk assessments of public funds would result in achievement of the intended objective to which the funds are allocated since the risks are assessed and avoided.

The correlation coefficient between risk assessments and performance of public financial management of NUSAF2 project in terms of budget performance was 0.537, positive and statistically significant ($p < 0.005$). This indicated that risk assessments significantly influenced performance of public financial management of NUSAF2 project in respect to budget performance. In other words, this result suggests that there is a strong risk assessment of public funds.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a summary of results, discussions, conclusions and recommendations from the research results as guided by objectives of the research. These are as follows: To examine the relationship between control activities and performance of public financial management of NUSAF2, to assess the relationship between of monitoring activities and performance of public financial management of NUSAF2, and to analyze the relationship between risk assessment and performance of public financial management of NUSAF2.

5.2 Summary of results

The study established the relationship between internal controls and performance of public financial management of NUSAF2. There were three independent variables, namely; Control Activities, Monitoring Activities and Risk Assessments, while there was only one dependent variable; Performance of Public Financial Management. The following are the key results in relation to the research objective and questions.

5.2.1 Control activities and performance of public financial management

The results indicated that Generally NUSAF2 undertakes strong control activities, accounting procedures are clearly segregated, there is a policy and procedure for hiring, training, supervising and evaluation of employees, the roles of stake holders are well spelt out and followed, budget reviews are held to compare actual with budgeted expenditure and explanations for variance given, controls are in place to exclude incurring expenditure in excess of allocated funds. The findings further show that authorization, processing, security paper signing and accounting functions are clearly segregated, all requests for disbursements are backed by appropriate supporting documents, expenditures are dully approved in advance by appropriate authorized persons, the signatory to the account review and initials the supporting documents for payments, bank reconciliations are prepared by some one independent of the cash receiving processing and recording activities, cash release papers are received by some one independent of the accounting function, numerically controlled receipt books are used for cash received, all procurements and contracts are done in accordance with in regulations, procurement and disposal of assets procedures are strictly followed, the security systems identifies and safeguards institutional assets, there is an up-to-date asset register for the project, asset movement is always recorded, Staff are trained to implement the accounting and financial regulations, Corrective action is taken to address weaknesses, Ministry and World bank

authorizes work plans and budgets for all expenditures. The result indicated that there is a positive relationship between control activities and performance of public financial management in terms financial accountability ($r=0.389$, $p < 0.005$), and budget performance($r=0.672$, $p < 0.005$). The researcher therefore accepts the relationship as statistically significant. This implies that improvement in control activities leads to improvement in performance of public financial management.

5.2.2 Monitoring activities and performance of public financial management

The results indicates that generally NUSAF2 project is well monitored, Internal audit carry out tests on selected parts of the system, Internal audit reports on control effectiveness and recommendation for improvement, senior management reviews audit results in enhancing performance of public funds, there is an internal audit department, monitoring is undertaken on continuous basis, accounting managers supervise the accuracy and completeness of transaction processing, there is technology used to provide continuous check on information processing, the criteria for evaluations are established by regulators, Information is provided on timely basis, Management checks with subordinates to see how things are going on . The result indicate that there is a positive relationship between monitoring activities and performance of public financial management financial accountability ($r=0.605$, $p < 0.005$), and budget performance($r=0.537$, $p < 0.005$).The researcher therefore accepts the relationship as statistically significant. This implies that improvement in monitoring activities leads to improvement in performance of public financial management.

5.2.3 Risk assessments and performance of public financial management

The results revealed that generally NUSAF2 has strong risk assessment measures, Control Objectives are regularly reviewed, Risks are not reviewed in isolation but interlinked, NUSAF2

has control objectives, NUSAF2 identifies risks in terms of sources, NUSAF2 has a risk communication strategy, the risks are assessed in terms of consequences, NUSAF2 assesses the risk in terms of achievement of objectives, and NUSAF2 has policies to safeguard fraud. The result indicate that there is a positive relationship between risk assessments and performance of public financial management financial accountability ($r=0.605$, $p<0.005$), and budget performance($r=0.537$, $p<0.005$). The researcher therefore accepts the relationship as statistically significant. This implies that improvement in risk assessments leads to improvement in performance of public financial management.

5.3 Discussion of Results

The results of the study are discussed as follows.

5.3.1 Control activities and performance of public financial management

The research results revealed inadequate implementation of control procedures such as bank reconciliation to be prepared by some one independent of the cash receiving processing and recording activities was at 65.7%, which is line with DiNapol (2007), who suggested that Separation of duties is the division of key tasks and responsibilities among various employees and sub-units of an organization. By separating key tasks and responsibilities - such as receiving, recording, depositing, securing and reconciling assets - management can reduce the risk of error, waste, or wrongful acts. The results also revealed that Ministry and World Bank authorizes work plans and budgets for all expenditures which was supported by 88.5% of the respondents which is in agreement with Chartered Institute of Management Accountants (1996) who support that budgeting provides a focus for the organization, and aids the coordination of activities. The results further revealed in adequate numerically controlled receipts books used for cash received at 51.4%. This is in line with DiNapoli (2007), who asserted that many

different control activities can be used to counter the risks that threaten an organization's success. Prevention activities are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing ways to avoid them. The results showed that there is a policy and procedure for hiring, training, supervising and evaluation of employees. The NUSAF2 recruitment policy does not discriminate on gender with 34.3% female while 65.7% were males, and marital status the findings showed 16.1% as being single, 80.6 married and those who separated was 3.2%. Also the results revealed an excellent mix of both young and experienced full of life staff with 2.9% between the age of 25-28, 28.6% between 29-34 years and above 35 years was at 68.6% which presents lots of benefits. Due to emerging technological, institutional globalization and internalization of both employees and businesses, there is a demand for continuous training. The results revealed that NUSAF2 trains its staff to equip them with relevant skills with 60 % degree holders and 40 % Masters and other qualifications. The researcher did not agree with the finding as those skills are requirements before one is recruited. The only trainings provided are short courses. This is in line with Biganja, (2003) who assert that performance is the product of motivation multiplied by ability. However researcher got surprised when the results revealed that gender and marital status affect control activities and performance of public financial management. Also the researcher was surprised to see a mixture of age and yet some organizations discriminate on age when it comes to recruitment. The results were in agreement with the agency theory which is focused on the relationship between the principal who delegates a task to an agent to be performed.

5.3.2 Monitoring activities and performance of public financial management

The results of the study are in agreement with Financial Accountability Handbook (2013) which observed that Continuous monitoring should be integrated into the day-to-day financial

processes of the agency to provide management with an ongoing assessment of the effectiveness of systems, processes and internal controls in the delivery of agency services with 97.1% in support. In addition, the results revealed 60% agreed that management checks with subordinates to see how things are going on. This is in agreement with Steeves (2004) ,and Suzanne and Naido (2005) who asserted that monitoring involves overseeing and concurrent assessments of task execution to ensure that the desired employees and organizational performance was achieved in accordance with the set internal control objectives as par the guiding organization. The results revealed that NUSAF2 trains its staff as reflected in the NUSAF2 Administrative Handbook (2010) to equip them with relevant skills with 60 % degree holders and 40 % Masters and other qualifications. This means they have knowledge and skills to monitor the activities and performance of public financial management. However the results on age, gender and marital status was immaterial as far as monitoring activities and performance of public financial management is concerned.

5.3.3 Risk assessments and performance of public financial management

The results of the study (80%) revealed that NUSAF2 has a strong risk assessment measures. This is agreement with PricewaterhouseCoopers (2008) which suggested that understanding both the nature of the organization's objectives and the types of possible risks under consideration is key to determining the scope of the risk assessment. This tends to agree with Archambeault.et.al (2009) who asserted that risk assessments involve the identification and analysis by management-not the internal auditor-of relevant risks to achieving predetermined objectives. The results revealed a mixture of levels of education with 60 % degree holders and 40 % Masters and other qualifications and therefore a risk of lack of knowledge and skills does not exist. Also the results showed a mixture of age with 2.9% between the age of 25-28, 28.6% between 29-34 years and above 35 years were at 68.6% which presents lots of benefits, and a

risk associated with old age class which does not easily embrace change especially to adopt in current era of globalization and technological advancement does exist. However, the young class tends to easily adopt change that can propel the organization to great heights, though they may be prone to mistakes due to limited experience and expertise. So a mixture of two may present lots of benefit to the organization. Also the results show that NUSAF2 promotes gender policy by giving equal opportunities to both males and females when it comes to recruitment (NUSAF2 Administrative Handbook, 2010). The risk of one gender especially the females was assessed which can affect the performance of public financial management.

5.4 Conclusions

5.4.1 Control activities and performance of public financial management

The results of the study indicated that there is still a gap in recording the movement of assets and numerically controlled receipts books used to receive cash. So internal controls on assets of the organization are weak and has a strong effect on the performance of public financial management as supported by a significant positive relationship between Control activities and performance of public financial management of NUSAF2. This suggests that an improvement in the control activities leads to improved performance of public financial management as indicated by the majority of the respondents.

5.4.2 Monitoring activities and performance of public financial management

The results of the study revealed that some monitoring activities had gaps especially timely provision of information, the technology used to provide continuous check on information processing and the criteria for evaluation being established by regulators. These gaps significantly affect the performance of public financial management of NUSAF2. This suggests

that an improvement in the monitoring activities leads to improved performance of public financial management as indicated by the majority of the respondents.

5.4.3 Risk assessments and performance of public financial management

The results of the study indicate showed a gap in risk communication strategy, control objectives and reviewing control objectives regularly. This suggests that an improvement in the risk assessments leads to improved performance of public financial management as indicated by the majority of the respondents.

5.5 Recommendations

Based on the study results presented, the researcher proposes the following recommendations:

5.5.1 Control activities and performance of public financial management

Under the COSO (1992), control activities is the second component. These are policies and procedures that help to ensure that actions identified to address the risks are carried out, including a wide range of processes. Control activities exist at all levels and in many cases may overlap one another. The study recommends that management establish a strong internal control procedure to support that policy because procedures are of a little use unless there is a sharp focus on the condition to which they are directed.

Also management should ensure that all receipts for cash are numerically numbered and strong institution of use of log books to record asset movement. This will safeguard public funds and improve the performance of public financial management.

5.5.2 Monitoring activities and performance of public financial management

As recommended by the Financial Accountability Handbook (2013) Continuous monitoring should be integrated into the day-to-day financial processes of the agency to provide management with an ongoing assessment of the effectiveness of systems, processes and internal controls in the delivery of agency services. Also management should always review audit results with staff to make them aware of the outcomes for better services.

5.5.3 Risk assessments and performance of public financial management

The study recommends that managers of NUSAF2 should establish internal control procedure in order to minimize, mitigate risks and hence prevent misstatements before they occur while safeguarding the entity's resources.

Management should also develop a risk communication strategy such that when risks occur, they should be communicated to concerned persons as soon as possible.

5.6 Limitations of the study

Although this research was well and carefully planned, it had some limitations as summarized bellow;

Some respondents had limited time as they were very busy. However I made sure that they spare some time for my study.

Finally, the research was conducted in only NUSAF2 head office and yet the project operates in some Districts in the North and Eastern Uganda. The Districts were left out due to cost implications, but they were represented since they report to head office on monthly basis.

5.7 Contribution of the study

The results notably added more knowledge relating to IC and PFM and this is anticipated to benefit the Government of Uganda and other stake holders to achieve development objectives.

Theoretically the study summarized the agency theory and its proponents and provided linkage with financial accountability management in public sector and the researcher labored to link related concepts of internal controls against performance of public financial management in NUSAF2. It will also help policy makers and regulators in the development of financial regulations that will ensure improved management of public funds, while the same time ensuring performance for effective service delivery. Results study will also enrich the researcher's skills, knowledge and gain the Qualification of Master's Degree in Management Studies (Financial Management) of Uganda Management Institute.

5.8 Proposed suitable areas for further research

The researcher concentrated on the relationship between internal controls (control activities, monitoring activities and risk assessments) on performance of public financial management of NUSAF2. However other factors like control environment which is the main component of COSO (1992), and information and communication which were not part of this study are possible areas of further research.

Also further research should be conducted in Districts implementing the project considering that this study was done at head office which is different from district.

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APPENDICES

APPENDIX I

TABLE FOR DETERMINING SAMPLE SIZE FOR A FINITE POPULATION

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

APPENDIX 2

RELATIONSHIP BETWEEN CONTROL ACTIVITIES AND PERFORMANCE OF PUBLIC FINANCIAL MANAGEMENT

Correlations

				Generally, I consider NUSAF2 to be performing well in terms of budget performance-Reviews of the financial plans are done regularly	Generally, I consider NUSAF2 to be performing well in terms of budget performance-Reviews of the financial plans are done regularly
Generally NUSAF2 undertakes strong control activities	Pearson Correlation Sig. (2-tailed) N	1 .389* .025 35	.389* .025 33	.672** .000 34	.487** .003 34
NUSAF2 is performing well in terms of financial accountability e.g. Audit reports on the accounts are discussed by the PAC	Pearson Correlation Sig. (2-tailed) N	.389* .025 33	1 .025 33	.605** .000 33	.537** .001 33
Generally, I consider NUSAF2 to be performing well in terms of budget performance-Reviews of the financial plans are done regularly	Pearson Correlation Sig. (2-tailed) N	.672** .000 34	.605** .000 33	1 .000 34	.682** .000 34

*. **Correlation** is significant at the 0.05 level (2-tailed).

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

APPENDIX 3

RELATIONSHIP BETWEEN MONITORING ACTIVITIES AND PERFORMANCE OF PUBLIC FINANCIAL MANAGEMENT

Correlations

	NUSAF2 is performing well in terms of financial accountability e.g. Audit reports on the accounts are discussed by the PAC	Generally, I consider NUSAF2 to be performing well in terms of budget performance- Reviews of the financial plans are done regularly	Generally, I consider NUSAF2 to be performing well in terms of timely financial reporting	Generally NUSAF2 project is well monitored
NUSAF2 is performing well in terms of financial accountability e.g. Audit reports on the accounts are discussed by the PAC	1 Pearson Correlation Sig. (2-tailed) N 33	.605** .000 33	.537** .001 33	.513** .002 33
Generally, I consider NUSAF2 to be performing well in terms of budget performance- Reviews of the financial plans are done regularly	.605** Pearson Correlation Sig. (2-tailed) N 33	1 .000 34	.682** .000 34	.394* .021 34
Generally, I consider NUSAF2 to be performing well in terms of timely financial reporting	.537** Pearson Correlation Sig. (2-tailed) N 33	.682** .000 34	1 .001 34	.421* .013 34

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

* . Correlation is significant at the 0.05 level (2-tailed).

APPENDIX 4

RELATIONSHIP BETWEEN RISK ASSESSMENTS AND PERFORMANCE OF PUBLIC FINANCIAL MANAGEMENT

Correlations

		Generally, I consider NUSAF2 to be performing well in terms of budget performance-Reviews of the financial plans are done regularly	Generally, I consider NUSAF2 to be performing well in terms of timely financial reporting	Generally NUSAF2 has strong risk assessment measures
NUSAF2 is performing well in terms of financial accountability e.g. Audit reports on the accounts are discussed by the PAC	Pearson Correlation (2-tailed) N	.605** .000 33	.537** .001 33	.447** .009 33
Generally, I consider NUSAF2 to be performing well in terms of budget performance-Reviews of the financial plans are done regularly	Pearson Correlation (2-tailed) N	.605** .000 33	.682** .000 34	.282 .106 34
Generally, I consider NUSAF2 to be performing well in terms of timely financial reporting	Pearson Correlation (2-tailed) N	.537** .001 33	.682** .000 34	.442** .009 34

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

APPENDIX 5
QUESTIONNAIRE

This questionnaire is for all respondents Management and staff of NUSAF2.

The purpose of this questionnaire is to study how Internal Controls affect Public Financial Management of Second Northern Uganda Social Action Fund.

This study is part of the requirements for the award of a master in Management Studies Degree at Uganda Management Institute (UMI).

Kindly attempt these questions freely in your own understanding and all your responses will be addressed with absolute confidentiality above all they are for only for study purposes.

Your cooperation towards this humble request will be highly appreciated.

THANK YOU

QUESTIONNAIRE FOR IMPLEMENTERS OF NUSAF2

SECTION A: DEMOGRAPHIC DETAILS

In this section of the questionnaire please tick () or circle () the most appropriate answer in your view and may be a brief statement if necessary or if require to.

What is your gender?

Female	Male
--------	------

What is your age bracket?

14 - 18	19 - 24	25 - 28	29 - 34	Above 35
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What is your marital status?

Single	Married	Cohabiting	Divorced	Separated	Widowed
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What is your highest qualification?

PLE	O' Level Certificate	A' Level Certificate	Vocational Certificate (Name it)	Diploma	Degree	Others (Specify)
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What is your main occupation?

- Peasantry iv. Employed by a private Company/Organization or individual
- Business v. Self employment
- Civil Service vi. None of the above vii. Any other

SECTION B:

INTERNAL CONTROLS AND PUBLIC FINANCIAL MANAGEMENT IN NUSAF2

In the following sections, use the rating scale below to select an opinion that you most agree with on the impact of internal control to Public Financial management.

Scale	5	4	3	2	1
	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

Control Activities						
		5	4	3	2	1
1	Generally NUSAF2 undertakes strong control activities					
2.	Accounting procedures are clearly segregated					
3	The role of stake holders are well spelt out and followed					
4.	Budget reviews are held to compare actual with budgeted expenditure and explanations for variance given.					
5.	Controls are in place to exclude incurring expenditure in excess of allocated funds					
6.	Authorization, processing, security paper signing and accounting functions are clearly segregated.					
7.	All requests for disbursements are backed by appropriate supporting documents					
8	Expenditures are dully approved in advance by appropriate authorized persons					
9	The signatory to the account review and initials the supporting documents for payments					
10	Bank reconciliations are prepared by some one independent of the cash receiving, processing and recording activities					
11	Cash release papers are received by some one independent of the accounting function					

12	Numerically controlled receipt books are used for cash received.					
13	All procurements and contracts are done in accordance with in regulations					
14	The procurement and disposal of assets procedures are strictly followed					
15	Our security systems identifies and safeguards institutional assets					
16	There is an up-to-date asset register for the project					
17	Asset movement is always recorded					
18	Staff are trained to implement the accounting and financial regulations					
29	Corrective action is taken to address weaknesses					
20	Ministry and World bank authorizes work plans and budgets for all expenditures					
Monitoring activities and Public financial management						
NO.		5	4	3	2	1
21	Generally NUSAF2 project is well monitored					
22	Internal audit carry out tests on selected parts of the system					
23	Internal audit reports on control effectiveness and recommendation for improvement					
24	Senior management reviews audit findings					
25	There is an internal audit department					
26	Accounting managers supervise the accuracy and completeness of transaction processing.					
27	There is technology used to provide continuous check on information processing					
28	The criteria for evaluation is established by regulators					
29	Information is provided on timely basis					
30	Management checks with subordinates to see how things are going on					
NO.		5	4	3	2	1

31	Generally NUSAF2 has strong risk assessment measures					
32	Control Objectives are regularly reviewed					
33	Risks are not reviewed in isolation but interlinked					
34	NUSAF2 Identifies risks in terms of occurrence likelihood					
35	NUSAF2 has control objectives					
36	NUSAF2 has a risk communication strategy					
37	The risks are assessed in terms of consequences					
38	NUSAF2 assesses the risk in terms of achievement of objectives					
39	NUSAF2 has policies to safeguard fraud					
Public financial management						
NO.		5	4	3	2	1
40	Staff receive cash advance for official work					
41	Every advance taken accountability is required					
42	Deadline is given when to account for any advance taken					
43	There are relevant documents required for every advance taken					
44	Accountability is checked for correctness and approved by authorized personnel.					
45	There is always a follow up for un-accounted for advances					
46	The opening activity of every financial year in the project is financial planning and budgeting					
47	Thorough need assessment is undertaken by the respective managers for the required goods and services					
48	Budget approval is obtained for the required items before purchase in the project					
49	The budget is always followed in the implementation of the project					
50	Significant departure from the budgetary targets are reported immediately					
51	The control of expenditure is always the responsibility of the designated budget holder					
52	It is the management responsible to exercise budget control					

53	Appropriate action is taken to correct any deviation from the budget.					
54	Financial reports are prepared in time as required					
55	Audit reports on the accounts are discussed by the PAC					
56	Reviews of the financial plans are done regularly					
57	Reviews of financial plans and funding systems are undertaken by independent personnel					
58	Corrective actions are taken once a variance is identified in these financial processes					

APPENDIX 6

INTERVIEW GUIDE FOR KEY INFORMANTS

No.	Category	Number	Tick
1.	Permanent Secretary	1	
2.	Undersecretary	1	
3.	Director	1	
4.	Principal Accountant	1	

Interview guide

Internal Controls and Public Financial Management of NUSAF2

Dear respondent;

My Name is Patrick Kakooza

I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master's Degree in Management Studies (Financial Management) of Uganda Management Institute. You have been selected to participate in this study due to the importance of your position in the project. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality.

Kindly help me and generate solutions to the following questions:

What is your position in this ministry?

What management level do you occupy by virtue of your position in the ministry?

In your opinion, does the project implement internal control systems? If so how does your role support it?

Are the systems of internal controls referred to in 3 above functioning as they intend to do? If not what do you think should be done rectify the situation?

In your opinion, what would you consider to be the main measures of financial management of a project?

In your opinion, is having enough money the best measure of financial management of a project?

In your opinion, do you think your institution has adequate revenue to meet its obligations as and when they fall due? Give reasons to explain the situation.

In your opinion is the accountability process adequate in NUSAF2? Give reasons

How would you rate the accountability and reporting process in your organization?

Thanks for your participation

