

**INTERNAL CONTROL SYSTEM AND FINANCIAL MANAGEMENT
OF DISTRICT LOCAL GOVERNMENT; A CASE STUDY
IN PALLISA DISTRICT LOCAL GOVERNMENT.**

BY

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**A RESEARCH REPORT SUBMITTED IN PARTIALFULFILLMENT OF THE
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DECLARATION

I, Okiror Ismael, declare that this research report is my original work, and it has never been submitted for any award at any institution of higher learning, nor concurrently being presented in a candidature of any award, and that all material sources used for this report are fully acknowledged.

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APPROVAL

This research report is submitted as a partial fulfillment for the award of Degree of Bachelors of Business Administration (Finance and Accounting option) of Busitema University with the approval of the undersigned academic supervisor.

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DEDICATION

To my loving parents Mr. Okwalinga Charles and Mrs. Lovisa Okwalinga who taught me to put God first in all my life accomplishment, and not forgetting my uncle Mr. Eloba Lucas for his continued support and advice towards this achievement.

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I thank the almighty God for the strength, knowledge and good health throughout the process of conducting this study. Special thanks go to my supervisor Mr. Esuku Joseph for his benevolent guidance and advice to successfully compile this fascinating piece of work. I pray that almighty God reward him abundantly. I also send sincere gratitude to Mr. Emusugut Desterio for his inspiration, Mr. Abbey Kalenzi, for his spiritual, moral and academic guidance not forgetting lecturers like Mr. Emojong Ronald, Mr. Watema Joash and Mr. Wadambisha Brian who positively natured me throughout my bachelors' course.

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ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variances
COSO	Committee of Sponsoring Organizations
FM	Financial Management
FY	Financial Year
GDP	Gross Domestic Product
ICS	Internal Control System
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
STD. DEV	Standard Deviation
SMEs	Small Medium Enterprises
SPSS	Statistical Package for the Social Sciences

ABSTRACT

This study aimed at examining internal control systems and financial management in PDLG. Internal control systems are integral components of the management processes of public sector organizations. They are established in order to provide reasonable assurance that ensures financial operations are carried out transparently and accountably in the most effective and efficient way to the benefit of the stakeholders. The internal control system is analyzed using variables of control environment, monitoring controls and control activities. The study was anchored on contingency theory of management and the agency theory. The main objective of the study was to examine the effect of internal control systems on financial management in PDLG. The descriptive research design was adopted from a sample of 33 employees working in local government where quantitative method was applied in data collection and analysis. The descriptive design was suitable because it addresses major objectives and research questions proposed in the study adequately. The study gathered primary data which was established through questionnaires to randomly selected employees from local government. The use of questionnaires was recommended since it guarantees confidentiality to the respondents. Descriptive statistics was used in the data analysis and information presented in statistical forms. Correlations and linear regression analysis were also used to analyze the relationship between ICS and FM. The study realized that control environment, monitoring activities and control activities as indicators of ICS, have a significant influence on financial management in local government. Therefore, the study recommends that ICS in the local governments need to be improved mostly on implementation of physical controls, effective formalized human resource policies, approval and segregation of duties to ensure accountability of organizational resources be upheld.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

The study considered the impact of Internal Control systems on the Financial Management of district local government, a case study in Pallisa district local government.

1.1 Background of study

Financial management resources are the backbone of every business. They are resources in the form of cash, liquid securities and credit lines available to a business for spending and it is used in the administration of business making. It is regarded as the best functional departments of management for various state-owned entities, making it a lifeline of an entity.

Globally, there has been growing concerns regarding the quality of financial management world wide mostly in the growing developing and high aid recipient countries of South East Asia and Europe. In South East Asia, in India, the country has got deepened concerns in terms of financial management practices in effecting public financial reforms; this is due to substantial burden of about 1.38 billion people capacity in basic budgeting functions. Many concerns of inefficiencies in strategic resource allocation and public service delivery arose. According to the Auditor General's report , the India's Federal government suffered from poor implementation of results-based budgeting reforms, the budgetary allocation of USD 1.78 billion showed myriad problems, non-measurable targets, inconsistent and unreliable reported data, limited financial controls and unchecked use of process and output indicators, and such issues derailed the potentiality of public financial management on service delivery (Akinleye & Kolawole, 2020).

In African Continent, in the Sub-Saharan countries, the continent struggles to develop in terms of financial performance particularly across the region with countries like Central African Republic, South Sudan and Zimbabwe; they're the least developed by standards as compared to other regions based on indicators of financial development, (Mutai & Robert, 2017) and this majorly was attributed to ineffective internal controls. For example, in the case of Zimbabwe, despite the Governments' considerations to improve FM performance by strengthening its financial and internal controls, enhancing the resilience of the financial system, tax administration and reducing nonperforming loans (Matoti, 2021), the country's economic difficulties are still crippled with a total public debt of \$11.1 billion (53.9% of GDP). The economic financial activities are severely constrained by tight liquidity conditions resulting from limited external inflows and lower commodity prices (Kendie, 2018)

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