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Control Environment, Institutional Capacity and Financial Accountability in Uganda: The Case of Amuru District Local Government

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Abstract:

The purpose of this study was to investigate the effect of control environment and institutional capacity on financial accountability in the local government setting. The study used secondary data analysis design on a sample of 103 respondents. Data analysis was performed on a computer using Statistical Package for Social Science (SPSS Version 20) for Windows. Analysis was done using descriptive statistics and inferential statistics. Correlation and regression analysis were carried out to establish relationships and explanatory power respectively. There was a significant positive relationship between control environment and financial accountability. There was a significant positive relationship between institutional capacity and financial accountability. Institutional capacity partially mediates the relationship between control environment and financial accountability.

Keywords: Financial accountability, control environment, institutional capacity Amuru district local government, Uganda

1. Introduction

The global economic pressure on governments has made public service delivery more efficient and effective. While there is a general consensus that public sector decentralization is able to improve service delivery, it involves not only questions of authority, but also those related to capacities and accountability as well. Graham, (2002) opines that countless development efforts have failed because countries have weak institutional capacities to sustain their economic policies. In this paper, we apply the definition of Bhagavan & Virgin, (2004) and Henson & Masakure, (2012) that institutional capacity encompasses the tasks that institutions should have the ability to perform using the necessary human, technical and financial resources. As reiterated by Gherai & Tara, (2015), orderly and efficient use of public funds is one of the essential conditions for the proper handling of public finances and the effectiveness of the authorities' responsible decisions. Ng'eni, (2016) suggests that, through financial accountability, therein lie proper mechanisms to safeguard public resources. Rabrenović, (2007) defines financial accountability as the relationship between the citizens, as accouters, and the Government, as an accountee, where the citizens hold the government to account for the stewardship of public money. Thus, financial accountability holds those entrusted with public resources responsible for their decisions. In this paper, we propose that the control environment reinforces financial accountability in the public sector, particularly a local government. (Schmidt, 2011) suggests that the control environment (CE) provides the foundation for the effective operation of internal controls over financial accountability. Control environment is defined as the organizations' people and the work environment anchored in internal control components such as control activities (Committee of Sponsoring Organization, (COSO), 1992). Thus, institutions are at the core of local governance and any understanding of how and why local governments do what they do must include some appreciation of institutions (Clingermayer & Feiock, 2014). The impact of institutions does not stop at adoption of policies, their influence also reaches the administration and implementation of policies that have been chosen (Clingermayer & Feiock, 2014). Although local governments play important roles in development effort, other organizational mechanisms and practices limit local government activity (Slade, 2013).

New public management (NPM) innovations such as decentralization have been used by governments to assist in the modernization of the public sector (Lapsley, 2008 as cited in Bashaasha, Najjingo & Nkonya, 2011). In addition to existing relationships of accountability between national and local policy makers, decentralization introduces new ones such as between citizens and elected politicians. Decentralization scholars argue that it is motivated by the desire to improve the quality of public services (Shah & Thompson 2004; Baltaci & Yilmaz, 2006).

The decentralization policy is enshrined in Uganda's 1995 constitution as well as the Local Government Act of 1997, which established local councils at the district, municipal, and subcounty / division / town council levels (Bashaasha, Najjingo & Nkonya, 2011). Amuru District Local Government was established by the Local Government Act, Cap 243 in the financial year 2006/07. Significantly, most of the lower-tier councils are elected, and thus, decentralization encompasses administrative or fiscal as well as political aspects (Bashaasha, Najjingo & Nkonya, 2011). For Scott & Alam, (2011).

Kakumba, (2012) noted a surge of unbearable events involving abuse of authority and misuse of public resources still exists in Uganda. Kakumba, (2012) opines that significant managerial and capacity handicaps occur in both the internal mechanisms of local governments and the external control agencies. The most frequently cited problem is the lack of capacity at subnational levels of government (Ahmed, Devrajan & Khemani, 2006; Prabhan, 2006). In Uganda, the lower tiers of government lacked the ability to

manage public finances and maintain proper accounting procedures. In this respect, reports in the media, judiciary, government and the legislature involving cases of financial irregularity, corruption and mismanagement in public agencies abound (The New vision, 2010; Transparency International; Inspector General of Government Reports; Auditor General Reports, 2010-2016) and the control environment and accountability have been called into question. Information from the judicial sector in the northern part of Uganda had the following cases of financial mismanagement and abuse of public office registered (Drasimaku & Olupot, 2010). Embezzlement of public funds amounting to UGX. 24,173,983 at Koch Goma Senior Secondary School (Chief Magistrate Court of Gulu, Criminal Case No. Co-0820/2009), Embezzlement of public funds, Northern Uganda Social Action Fund (NUSAF) UGX. 9,997,500 (Chief Magistrate Court of Gulu, Criminal Case No. Co-00296/2009, CBR 658/2008), embezzlement and theft of public funds, National Agricultural Advisory services (NAADs) UGX. 6,000,000 (Chief Magistrate Court of Nebbi, Criminal case No. Co-0906/2009, CRB 234/2010) and embezzlement and causing financial loss to the district of UGX. 200,500,000 (Kotido Magistrate Grade 1, Criminal Case No. co-266/2009). Also there were numbers of cases on inappropriate leadership, flaws in procurement procedures, inadequate financial report, corruption practices and abuse of office reported in Amuru District local government. Amuru District Internal Audit report (page 45 and 41) revealed that a total amount of UGX. 75,636,694 and UGX. 96,940,637 remained unaccounted for during the financial year 2006/07 and 2007/08 respectively. The Chief Magistrate Court of Gulu remanded Amuru District officials over embezzlement and abuse of office for causing financial loss (Criminal Case No. Co – 0910/08).

However, the relationship between control environment and accountability has not received attention in accounting and management studies. The purpose of this study is to investigate the influence of control environment and institutional capacity on financial accountability in the local government setting.

1.1. Specific Objectives

- i. To examine the relationship between control environment and financial accountability in Amuru District Local Government.
- ii. To examine the relationship between control environment and institutional capacity in Amuru District Local Government.
- iii. Examine the relationship between institutional capacity and financial accountability in Amuru District Local Government.
- iv. To determine whether institutional capacity mediates the relationship between control environment and financial accountability

1.3. Research Hypotheses

- H1: There is a positive relationship between control environment and financial accountability.
- H2: There is a positive relationship between control environment and institutional capacity.
- H3: There is a positive relationship between institutional capacity and financial accountability.
- H4: Institutional capacity mediates the relationship between control environment and financial accountability

2. Literature Review

2.1. Financial Accountability

While accountability is ambiguous as a term, complex and context dependent (Williams & Taylor, 2013) scholars proposes various definitions based on the broader environment (Bovens, 2007; Sorensen (2012); Burga & Rezania, 2015). For Brandsma & Schillemans (2013, p. 954) as cited in Burga & Rezina, (2015), accountability is being responsible to an audience with reward or punishment power. Ng'eni, (2016) suggests that, through financial accountability, therein lie proper mechanisms to safeguard public resources. Adeyemi et al (2012) as cited in Ng'eni, (2016) also pointed out that financial accountability ensures strong control on public funds. Rabrenović, (2007) identifies the *object* of financial accountability with organizational actions undertaken with the aim of productive use of public money and stewardship. Although these two categories of public money “stewardship” are usually perceived as quite separate matters, one dealing mainly with questions of conformity with relevant rules and legislation and another examining productivity of the use of public funds, there have been some tendencies which have brought these two categories together, not only in everyday practice of auditors and accountants, but also in the terrain of administrative law.

Public money stewardship requires dealing with issues of value for money: economy, efficiency and effectiveness. However, academic discussions have provided some deeper insight into the meaning of these concepts which could be explained herein. According to Ng'eni, (2016), for the economy element, value for money is achieved by minimizing cost (aiming to provide quality public services at minimum cost) whereas efficiency is achieved by ensuring that objectives are achieved with minimum reasonable effort and effectiveness occurs when all objectives planned are achieved at the right time.

2.2. Control Environment

The control environment provides the foundation for the effective operation of internal controls over financial accountability (Schmidt, 2011). It is grounded in such overarching controls as the organization's tone at the top including managerial ethicality and competence, operating style and other entity wide controls. The most important features of the control environment are people and organizations. Broadly, COSO (1992) defines the control environment as the organizations' people and the work environment anchored in internal control components such as control activities. The control environment can be decomposed into seven different elements including: (1) ethicality and integrity, (2) competence, (3) corporate governance mechanisms such as the board of directors and audit committee, (4) operating style including accounting policies, (5) organizational structure, (6) assignment of authority and responsibility, and (7) human resource policies and procedures (Schmidt, 2011). Control frameworks including COSO (1992), COSO

(2004), CoCo (1995) and Turnbull (2005) consistently reiterate the importance of an entity's internal control environment (Schmidt, 2011).

Hayes, Dassen, Schilder and Wallage, (2005) state that the control environment means the overall employee awareness and attitudes regarding the internal control system and its importance in the entity. This will influence the control consciousness of its people. (Beneish et al, 2008). Kakumba (2012), argued that control environment consists of the overall set of factors designed to achieve the organization's policies and procedures. The control environment represents the control atmosphere for the entity and is the foundation for the other components (Schmidt, 2011). However, studies on how the internal control and institutional capacity affect financial accountability are scarce.

2.3. Institutional Capacity

Following Masanyiwa, Nieohf & Nermeer, (2013) citing Kimenyi and Meagher, (2004), this paper defines institutions as the structures of rules, procedures and organizations. Institutional capacities relate to administrative, technical, organizational, financial, human dimensions (Forss & Venson, 2002). Olander (2007) describes resources as one of the four inter-related elements that need to be considered when assessing and developing institutional capacity. According to Olander, (2007), resources include: 1) the quantity and quality of staff, 2) adequate and timely financial resources, 3) equipment and facilities. The second aspect looks at management, which comprises leadership and political will (Odero, 2014). The third element, institutional framework, takes account of legislation, procedure and organizational culture. The final element relates to support structures including the role of tertiary education institution and professional bodies, the upgrading of skills through training and the role of consultants

In this conceptual model two variables were established in the study; the dependent variable which is financial accountability while the independent variable being control environment in the local government settings. The moderating variable is both the institutional Capacity. The conceptual framework for the study is presented as in figure 1 below.

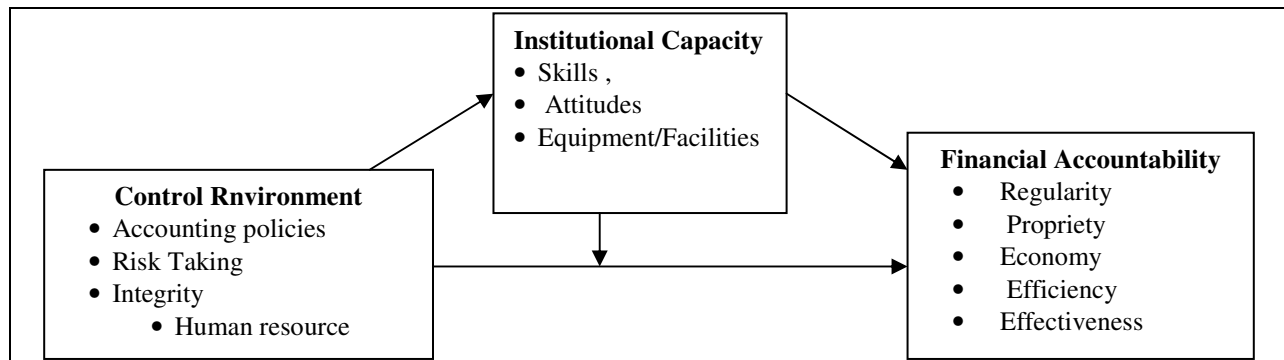


Figure 1: Conceptual Framework control environment and financial accountability in the local government setting: a case of amuru district

Source: Adapted from Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2011

2.4. Hypotheses Development

From the above figure (1), control environment factors investigated were restricted to: management philosophy; management integrity and ethical value; and human resource policies and practices in relation to financial accountability mechanism in the local government. Institutional capacity encompasses the functions (tasks) that institutions should have the competence (ability) to perform, and the human, technical and financial resources necessary to conduct and perform these tasks (Bhagavan & Virgin, 2004; Henson & Masakure, 2012). In this study, institutional capacity was proxied by the skills, attitudes of the employees and facilities available to ensure effectiveness in carrying out financial accountability. Financial accountability is about verification of legality and regularity of financial accounts, and also making sure that value for money (economy, efficiency and effectiveness) has been achieved in the use of resources.

2.4.1. Control Environment and Institutional Capacity

While extensive research has focused on the effects of institutional variation on organizations (Peng, Wang, & Jiang, 2008; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011), less attention has been paid to examining the ways in which the control environment influences the institutional capacity. An internal control framework aims at improving institutional capacity by limiting fiscal behaviors that result in waste, misallocation, and corruption (Baltaci & Yilmaz, 2006). Therefore, the following hypothesis was tested:

- H1: There is a positive relationship between control environment and institutional capacity.

2.4.2. Control Environment and Financial Accountability

A literature review indicates that the relationship between control environment and financial accountability has not exhaustively been studied (Babatunde, 2013). Control and accountability are critical in fostering public service provision, good governance and development (Kakumba, 2012). While studies have looked at internal controls, most of them have only been descriptive (Amudo &

Inanga, 2009). In his study on internal control on financial accountability in Nigeria, Babatunde, (2013), opined that there is a positive relationship between internal control and financial accountability. Thus, the following hypothesis was tested:

- H2: There is a positive relationship between internal control and financial accountability.

2.4.3. Institutional Capacity and Financial Accountability

Kakumba, (2012) suggests that adequate qualified staff, motivated and well facilitated human capital and an enabling environment enforces accountability. While the ability to control and enhance accountability largely depends on the institutional capacity of any agency (Kakumba, 2012), the relationship between institutional capacity and financial accountability has not largely been tested. Thus,

- H3: There is a positive relationship between institutional capacity and financial accountability.

2.4.4. Control Environment, Institutional Capacity and Financial Accountability

The mediating role of institutional capacity on the relationship between control environment and financial accountability is, to the best of my knowledge, absent in the literature. It is thus hypothesized that:

- H4: Institutional capacity mediates the relationship between control environment and financial accountability.

3. Methods

This study used secondary data analysis. Secondary data consists of datasets that the original researchers archived and made available for use by other researchers. In addition, the data is already coded and therefore can be analyzed more expediently (Vartanian,2011). This study used data from an MBA dissertation by Oola, Biryomumeisho & Olido, (2010) in which primary data was collected in Amuru District Local Government. For the study, a secondary data analysis is used because the secondary data reflects the available information that can answer the research questions (Richardson & Pelletier, 2014). Secondary data analysis involves the use of existing data by researchers and investigators to replicate or expand on previous findings or to answer new research questions (Greenhoot & Dowsett, 2012). The researcher obtained permission from Oola et al., (2010) to use the datasets from the dissertation available in the Faculty of Business and Development Studies. Upon consent, the researcher reviewed the survey instrument and identified those questions that were relevant to this study's variables. The original data was collected using a questionnaire from a target population of 149 respondents involving the District Councillors, Administrators/Heads of department, Accounting staff, Auditors and Community Based Organizations (CBOs) within Amuru District local government. After cleaning the data, analysis was done using SPSS Version 20. The data set was reduced from the original and only includes those variables of interest for the primary research question analyses. A univariate analysis, a statistical technique, was used for a descriptive analysis, followed by relational analysis using Pearson's Chi-Square test of correlation and regression analysis. The recommendations from the original study include improving the control environment, strengthening the institutional capacity and improving financial accountability. Validity and reliability (Tabachnick & Fidelli, 2007) support the use of the existing survey instrument. According to Tabachnick & Fidelli, (2007), acceptable Cronbach's alpha measures should be at minimum 0.70 to establish internal consistency and decrease threats of unreliability. Reliability of the survey instrument was acceptable as all of the Cronbach alpha scores exceeded 0.70 the required cut-off. It is necessary to establish survey instrument validity in order to allow for a more confident interpretation of the survey results (Burton & Mazerolle, 2011). The results of the original research were that the test-retest reliability was essential for the reliability of the study. In this study, the Cronbach's Alpha Value was within 0.807 – 0.940 of which according to Tabachnick & Fidell, (2007), this is considered to be very reliable.

3.1. Descriptive Statistics

Out of the one hundred and forty nine (149) respondents that constituted the population in the study, the actual response was one hundred and three (103) giving the response rate at 70%. As Table 1 below indicates, 70 (68%) of the respondents were males, while females constituted 33 (32%). Findings revealed that 2 (2%) of the respondents were aged between 15-20 years, 34 (33%) were between 21 – 25 years, 31 (30%) between 26 – 30 years while 36(35%) were 30 and above. 3(3%), of the respondents were primary school dropouts, 22(21%) were secondary school dropouts, 42 (41%) were diploma holders, 21(20.4%) were degree holders and 15(15%) were holders of degrees and above.

Findings revealed that 22(21%) of the respondents were single, 76(74%) married, 2(2%) separated, 2(2%) also divorced while 1(1%) were widowed. 33(32%) of the respondents were Protestants, 61(59%) belongs to the catholic faith, 5(5%) were Moslem, 3(3%) Pentecostal faith while 1(1%) belong to other faith. 33(32%) of the respondents perform clerical work, 27(26%) were supervisors, 35(34%) were middle level Managers while 8 (8%) were top managers. 57(55%) of the respondents had worked in their position less than five years, 35 (34%) between 5-10 years, 9(9%) were 11-15 years and 2(2%) for 20 years and above.

	Frequency	Valid Percentage
Gender		
Male	70	68
Female	33	32
Age (Years)		
15-20	2	2
21-25	34	33
26-30	31	30
Over 30	36	35
Level of Education		
Primary	3	3
Secondary	22	21
Diploma	42	41
Degree	21	20
Postgraduate	15	15
Marital Status		
Single	22	21
Married	76	74
Separated	2	2
Divorced	2	2
Widowed	1	1
Religion		
Protestant	33	32
Catholic	61	59
Moslem	5	5
Pentecostal	3	3
Other	1	1
Position		
Clerical	33	32
Supervisors	27	26
Middle Managers	35	34
Top Managers	8	8
Duration		
Less than 5 years	57	55
5-10	35	34
11-15	9	9
Over 15 years	2	2

Table 1: Demographic Characteristics
Source: Secondary Data

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min	Max	F	Sig.
					Lower Bound	Upper Bound				
Control environment										
Clerical	33	3.61	.496	.086	3.43	3.78	3	4	.437	.727
Supervision	27	3.74	.447	.086	3.56	3.92	3	4		
Middle Management	35	3.71	.572	.097	3.52	3.91	2	5		
Top Management	8	3.63	.518	.183	3.19	4.06	3	4		
Total	103	3.68	.509	.050	3.58	3.78	2	5		
Institutional capacity										
Clerical	33	3.30	.585	.102	3.10	3.51	2	5	.248	.862
Supervision	27	3.19	.483	.093	2.99	3.38	2	4		
Middle Management	35	3.31	.796	.135	3.04	3.59	2	5		
Top Management	8	3.25	.463	.164	2.86	3.64	3	4		
Total	103	3.27	.629	.062	3.15	3.39	2	5		
Financial accountability										
Clerical	33	3.52	.566	.098	3.31	3.72	2	4	.707	.550
Supervision	27	3.63	.629	.121	3.38	3.88	2	5		
Middle Management	35	3.71	.519	.088	3.54	3.89	2	4		
Top Management	8	3.63	.518	.183	3.19	4.06	3	4		
Total	103	3.62	.562	.055	3.51	3.73	2	5		

Table 2: Analysis of Variance: Perceptions on Study Variables
Source: Secondary Data

From Table 2 above, on average, top managers perceived lower institutional capacity in local government (Mean = 3.25, SD = 0.463) and higher control environment (Mean = 3.63, SD = 0.518). However, these variations were not significant.

3.2. Correlation Analysis

		Control Environment	Institutional Capacity	Financial Accountability
control environment	Pearson Correlation	1		
	Sig. (2-tailed)	.		
	N	103		
institutional capacity	Pearson Correlation	.305(**)	1	
	Sig. (2-tailed)	.002	.	
	N	103	103	
financial accountability	Pearson Correlation	.634(**)	.211(*)	1
	Sig. (2-tailed)	.000	.033	.
	N	103	103	103

Table 3: Correlations of Variables

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

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

Source: Secondary data

In Table 3 above, financial accountability had the highest positive significant relationship with control environment ($r = 0.634$; $p < 0.001$). This means that we can be 99% confident that there is a significant positive relationship between control environment and financial accountability. We can also note that financial accountability had positive significant relationship with institutional capacity ($r = 0.211$; $p < 0.05$). This finding is in agreement with the findings of Luwo, (2013). There is a significant positive relationship between control environment and institutional capacity ($r = 0.305$, $p = 0.002$).

3.3. Regression Analysis

For this study, our model prediction was done using a regression analysis.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.656(a)	.430	.413	.431	.430	24.883	3	99	.000

Table 1: Control Environment, Institutional Capacity and Financial Accountability Regression Model Summary Regression Model a Predictors: (Constant), institutional capacity, control environment

In Table 4 above, it is observed that financial accountability is explained by control environment and institutional capacity to the extent of 41% (Adjusted $R^2 = 0.413$, $p = 0.000$).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.673	.373		1.804	.074
	control environment	.650	.090	.588	7.198	.000
	institutional capacity	.025	.074	.028	.336	.737

Table 5: Regression Coefficients (a)

a Dependent Variable: financial accountability

From the Table5 above, it is observed that the best predictor for financial accountability is control environment ($B = 0.650$; $Sig. = 0.000$). Thus, there is a statistically positive relationship between control environment and financial accountability. Objective one and its corresponding hypothesis H1 is achieved. Interestingly, the relationship between institutional capacity and financial accountability is positive but not statistically significant ($B = 0.025$, $p = 0.737$). Objective two and its corresponding hypothesis H2 are partially met.

3.3.1. Control Environment and Financial Accountability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.676(a)	.457	.405	.434	.457	8.713	9	93	.000

Table 6: Control Environment and Financial Accountability Regression Model Summary

a Predictors: (Constant), compensation, risk taking, delegation, financial reporting, integrity, reliance on policies and procedures, promotion, training, human resource policies, hiring
 Results in Table 6 above indicate that 41% of the variations in financial accountability are explained by control environment (Adjusted R² = 0.405, p = 0.000).

3.3.2. Institutional Capacity and Financial Accountability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.530(a)	.281	.220	.497	.281	4.594	8	94	.000

Table 2: Institutional capacity and financial accountability Regression Model Summary

a Predictors: (Constant), records, skills, concept, rules, devices, accounting system, personnel, procedure, attitude that result in improved performance
 As indicated in Table 7 above, 22% of the variations in financial accountability are accounted for by institutional capacity (Adj.R² = 0.220, p = 0.000).

3.4. Mediation Tests

Mediation tests were computed to determine whether the conditions suggested by Baron and Kenny (1986) are satisfied. The *Med Graph* programme, a customized version of *Sobel* test was used to generate the *sobel* z-value and the significance of mediation role of institutional capacity on the relationship between control environment and financial accountability. The results are displayed in Table 8 and Figure 2 respectively.

From Table 8 and Figure 2, it is evident that the three conditions for mediation as suggested by Baron and Kenny (1986) are satisfied. First, the effect or relationship to be mediated is existent (R²=0.457: F =8.713; p < 0.01). Secondly, there exists a significant relationship between control environment and the mediator (institutional capacity) (R² = 0.430; F= 24.883; p < 0.01). Thirdly, the beta coefficient of the independent variable (Control environment) is significant in regression model in Table 5 (β= 0.650; p<0.01). Lastly, there is a reduction in the total effect of institutional capacity on financial accountability in Figure 2 from (Standardized beta 0.634 to 0.588) than in Figure 2 (Standardized β= 0.211, p<0.01).The results of Sobel’s z value as indicated in Table 8 point to partial type of mediation, in view of the fact that the supreme effect of control environment on financial accountability reduced to a considerable and significant level (β = 0.634** to β = 0.588**). These results demonstrate insignificant mediation of institutional capacity in the association between control environment and financial accountability (Table 8). Finally, the ratio index or proportional index of 1.3 percent derived by (0.009/0.634*100) means that 1.3 percent of the effect of control environment on financial accountability goes through institutional capacity while the 98.7 percent of the effect is direct. Based on these results, hypothesis four(H4) is partially achieved.

Significance of Mediation		Null
Sobel z-value	0.337469	p = 0.735764
95% Symmetrical Confidence Interval		
Lower	-.07813	
Upper	.11063	
Unstandardized indirect effect		
a*b	.01625	
se	.04815	
Effect size Measures		
<u>Standardized Coefficients</u>		
Total:	.634	
Direct:	.588	
Indirect:	.009	
Indirect to Total Ratio:	.013	

Table 8: Test of mediation Significance

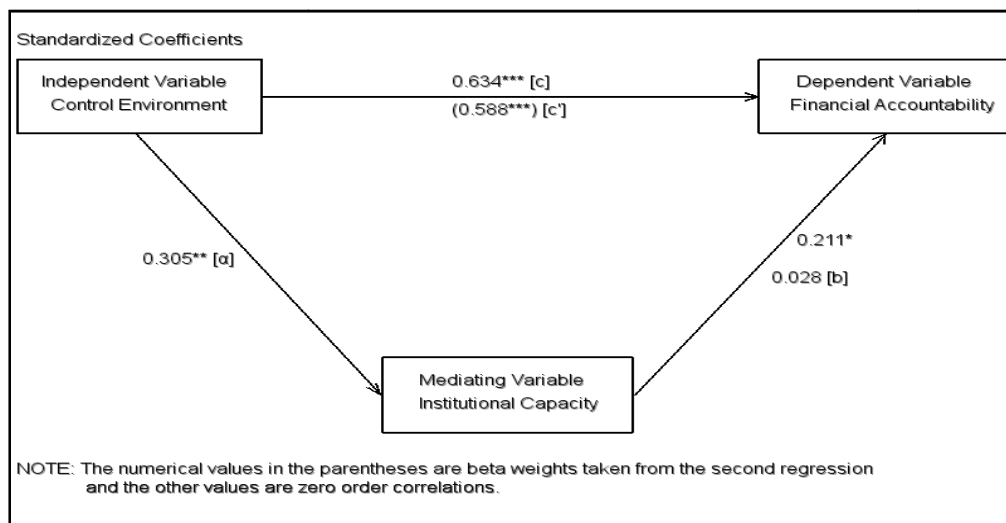


Figure 2: MedGraph Showing Mediation

4. Discussion

The objective of this study was to examine whether institutional capacity mediates the relationship between control environment and financial accountability. The technique used in this study looked at secondary data analysis and determined that this field of study has not been extensively researched. The findings indicate that respondents, on average, perceive institutional capacity in local government to be lower compared to how they perceive control environment. Results of the secondary data analysis indicated that control environment had the highest significant positive relationship with financial accountability. Results also indicated a significant positive relationship between institutional capacity and financial accountability. These results were in agreement with those of previous studies (Luwo, 2013). As suggested by Kakumba, (2012), adequate qualified staff, motivated and well facilitated human capital (institutional capacity) and an enabling environment enforces financial accountability.

Objective one tested whether there is a positive relationship between control environment and institutional capacity. Results from this study indicated that there was a significant positive relationship between control environment and institutional capacity. Hence H1 was supported.

Regarding objective two, the study found that 41% of the variations in financial accountability were accounted for by control environment. Results indicate that there was a significant positive relationship between control environment and financial accountability. This finding is supported by previous research findings (Luwo, 2013). Managers in Amuru District Local Government must evaluate the internal control environment in their own unit and departments as the first step in the process of analyzing internal controls.

For objective three, findings indicated that 22% of the variations in financial accountability are explained by institutional capacity. These results confirm the perception of respondents that institutional capacity in local government is still low. Findings indicate that there was an insignificant positive relationship between institutional capacity and financial accountability.

Objective four and its corresponding hypothesis, H4, tested whether institutional capacity mediated the relationship between control environment and financial accountability. Results from the mediation test indicate that 1.3 percent of the effect of control environment on financial accountability goes through institutional capacity while the 98.7 percent of the effect is direct. Based on these results, hypothesis four (H4) is partially achieved.

5. Conclusion

The control environment sets the tone of the organization and it is the foundation for all other components of internal control. This study established that there is a significant positive relationship between control environment and financial accountability at the local government setting. Adequate qualified staff, motivated and well facilitated human capital and an enabling environment enforces financial accountability. While this may be the norm, this study indicates that institutional capacity is mediocre in the study area local government.

5.1. Recommendations and areas for Further Research

Public financial accountability stakeholders may consider evaluating their strategies against the themes discussed in this study. If there are no effective institutional capacity in a local government, the government agencies and other stakeholders should gradually develop the institutional capacity for effective services delivery through financial accountability. If government agencies and local leaders decide to implement control environment and institutional capacity, they should do so along best practices stipulated in the relevant constitution and local government statutes.

Findings from this study are essential to policy makers and academicians. The application of an effective control environment and institutional capacity may allow the policy makers and the academia to evaluate financial accountability and enhance the much yearned for service delivery in local governments.

Researchers should consider the results and conclusions of this study in further research. For instance, more research can focus on comparing the institutional capacities of local governments that have provided reasonable service delivery in Uganda, if any. Future researchers should also study local governments that have remained consistent in their financial accountability pursuit.

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