# MAKERERE UNIVERSITY

**INTERNAL CONTROLS, MANAGERIAL COMPETENCE AND FINANCIAL ACCOUNTABILITY IN TECHINICAL AND VOCATIONAL INSTITUTIONS IN UGANDA:**


**BY**

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**A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE OF MAKERERE UNIVERSITY**

**PLAN A**

**2018**

## DECLARATION

**I Amin Baganzi,** do hereby declare, to the best of my knowledge, that this research dissertation is original and from my own efforts, and has never been published or submitted to any academic awarding university or institution of higher learning for any academic award.

**Sign** .......................................................... **Date** 23/09/2018

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## APPROVAL

This is to certify that this research dissertation titled **"Internal controls, Staff Competence and Financial Accountability in technical and vocational institutions in Uganda"** has been submitted for further examination with our approval as University supervisors.

**SUPERVISOR**

Signature ...................................................... Date 23/11/2018 ...............................................

**ASSOC. PROF. NKUNDABANYANGA STEPHEN**

**SUPERVISOR**

Signature ...................................................... Date 23 | 10 | 2018 ...............................................

**MR. OPISO JULIUS**

## DEDICATION

I dedicate this work to my wife Nakku Fatuma, all children and my elder brother, Hajji Kamira Abdullah

## ACKNOWLEDGEMENT

I wish to express my sincere gratitude to my supervisors Assoc. Prof. Nkundabanyanga Stephen and Mr. Julius Opiso for their guidance. This study would not have been successfully carried out without their support and encouragement.

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## ABSTRACT

The purpose of the study was to establish the relationship between internal controls, managerial competence and financial accountability in technical and vocational institutions in Uganda. Internal control and managerial competence were the independent variables while financial accountability was the dependent variable.

The study was guided by the following objectives: to examine the relationship between internal controls and financial accountability, to examine the relationship between managerial competence and financial accountability, to examine the predictive power of internal controls and managerial competence on financial accountability

The study adopted a cross sectional survey design to study internal controls, managerial competence and financial accountability in technical and vocational institutions in Uganda. Primary data was collected using self-administered questionnaire issued to the respondents. The study population consisted of 128 respondents drawn from the technical and vocational institutions in Uganda. A sample of 97 was reached using Morgan and Kreijcie table. Only 81 questionnaires were used for the analysis out of the 97 that were distributed to the respondents.

Data was analysed using statistical package for social scientists (SPSS) package and Pearson correlation coefficient was used to measure the strength of relationships between the variables understudy. The findings obtained revealed that there was a positive and significant relationship between internal control, managerial competence and financial accountability in technical and vocational training institutions in Uganda.

# CHAPTER ONE:

# INTRODUCTION

## 1.1 Back ground of the study

Countries all over the world are putting emphasis on financial accountability as a measure for combating the high prevalence of corruption tendencies in institutions and providing better value for money in use of public funds (Goets& Jenkins, 2008; Auld & Gulbrandsen, 2010). Financial accountability promotes organisational growth and development through responsible stewardship and the use of public money (Goetz & Jenkins, 2008; Harrison *et. al*, 2011). Organisations that have embraced the notion of financial accountability systems are said to have recorded greater levels of growth and development (Hall and Ferris, 2011; Green, 2013). According to Premchand (1999), financial accountability and transparency have the crucial influence on the performance of political system and the quality of public administration not only in government but also in public and private institutions.

Studies carried out in France, United Kingdom and Serbia with the main objective of establishing the level of financial accountability as a requirement for joining the European Union indicate that these countries have established effective financial accountability system and has been used as a precondition for combating the high rate of corruption and providing better value for money in the use of public funds (Cendon, 1993; Winterson, 2005).

In Uganda, financial accountability is considered essential among public institutions that receive government funding. This is because financial accountability promotes organisational growth and development through responsible stewardship in the use of public money (Hedger and Blink, 2016). Finance Management Act (2015) regulations mandate every public entity and administrative unit to provide financial accountability for the funds expended to them.

However, technical and vocational training institutions (TVTI) in Uganda have been found to be unable to account for the funds meant to further the development of such institutions (UNESCO-IBE, 2010; Ziderman 2013). For instance, Moyo Technical Institute was implicated for failure to account for UGX 21,828,500 for class room block construction, UGX.71, 906,500 for administration advances and UGX. 87,195,183 meant for procurement initiation process using Public Procurement forms for the 2014/2015, 2015/2016 and 2016/2017 respectively (MoES, Internal audit report, 2016/2017). In the related scenario, Nakawa Training institute also failed to account for the finances up to the tune of UGX 239,601,642 million meant for the expansion and refurbishment of the dining hall (Auditor Report, 20115; Walukamba, 2015). Jinja vocational training institute did not account for UGX 109,223,143 (Audit report, 2016). This persistent lack of financial accountability in technical and vocational training institutions could be attributed to lack of effectiveness of internal control system and incompetent managers employed in technical and vocational training institutions.

Internal controls improve financial accountability through ensuring operational effectiveness and efficiency, providing reliable financial and administrative information, safeguard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies (COSO 2013; Lee, Johnson and Joyce, 2014). Managerial competence on the other hand improves financial accountability especially if the experiences and skills are in line with the job description. A majority of studies such as (Hooge, Burns & Wilkoszewski, 2012; Mattie, Hanley & Cassidy, 2012; Fernando, 2014) have attempted to explain accountability practices using variables like corporate governance and stakeholder involvement however, the research findings derived from these studies have not been conclusive. For example, Smallman (2008) concluded that corporate governance and financial accountability are positively related only in the prior years of a firm’s existence but the relationship diminishes as the firm expands in size.

This study employed internal control and managerial competence as explanatory variables specifically to address the lack of financial accountability in technical and vocational institutions backed by institutional theory (Scott, 2001) and stewardship theory (Freeman 1986). Institutional theory puts emphasis on cognitive, normative, and regulative aspects as pillars that enforce compliance with the systems in place. Stewardship theory stipulates that the manager is a steward of the firm’s resources with behaviors and objectives consistent with those of the owners.

**1.2 Statement of the problem**

Most government institutions in Uganda have failed to account for the finances expended to them. For instance, Moyo Technical Institute was implicated for failure to account for UGX 21,828,500 for construction of a class room block, UGX.71, 906,500 for administration advances and UGX. 87,195,183 meant for initiating the procurement process using Public Procurement forms for the 2014/2015, 2015/2016 and 2016/2017 respectively (MoES, Internal audit report, 2016/2017). In the related scenario, Nakawa Training institute also failed to account for the finances up to the tune of UGX 239,601,642 million meant for the refurbishment of the dining hall for the financial year 2015/2016 (Auditor Report, 2015). Jinja vocational training institute did not account for UGX 109,223,143 (Audit report, 2016). Such occurrences of inadequate accountability could be arising from weak internal controls and managerial incompetence in public institutions.

**Purpose of the study**

The purpose of the study was to examine the relationship between internal controls, managerial competence and financial accountability.

**Research objectives**

| **Research objectives** | **Research hypothesis** |
|---|---|
| 1. To examine the relationship between internal controls and financial accountability. | **1.** ***$H_1$***: There is a positive relationship between internal controls and financial accountability. |
| 2. To examine the relationship between managerial competence and financial accountability. | **2.** ***$H_2$***: There is a positive relationship between managerial competence and financial accountability. |
| 3. To examine the predictive power of internal controls and managerial competence on financial accountability | **3.** ***$H_3$***: Internal controls and managerial competence positively predict financial accountability |

## 1.5 Research questions

i. What is the relationship between internal control and financial accountability?

ii. What is the relationship between managerial and financial accountability?

iii. What is the predictive power of internal control and managerial competenceon financial accountability?

## 1.6 Study scope

### 1.6.1 Subject scope

The study focused on examining the relationship between internal controls, managerial competence and financial accountability in technical and vocational training institutions.

### 1.6.2 Geographical scope

The study was conducted in technical and vocational training institutions in Uganda. Technical and vocational training institutions have been chosen for this study because they are the beneficiaries of government conditional grants. In addition, they are conduits for government to provide services to its citizens (Ministry of Finance Report, 2016, UNESCO-IBE 2010).

### 1.6.3 Time scope

This study was carried out within the period of one year 2017- 2018 since it is a cross sectional study.

## 1.7 Significance of the study

The study findings provided policy makers with up-to-date information on how to improve financial accountability in TVTI in Uganda.

The findings from this research study will be useful to the practioners by ensuring proper and effective accountability in the use of institutional financial resources.

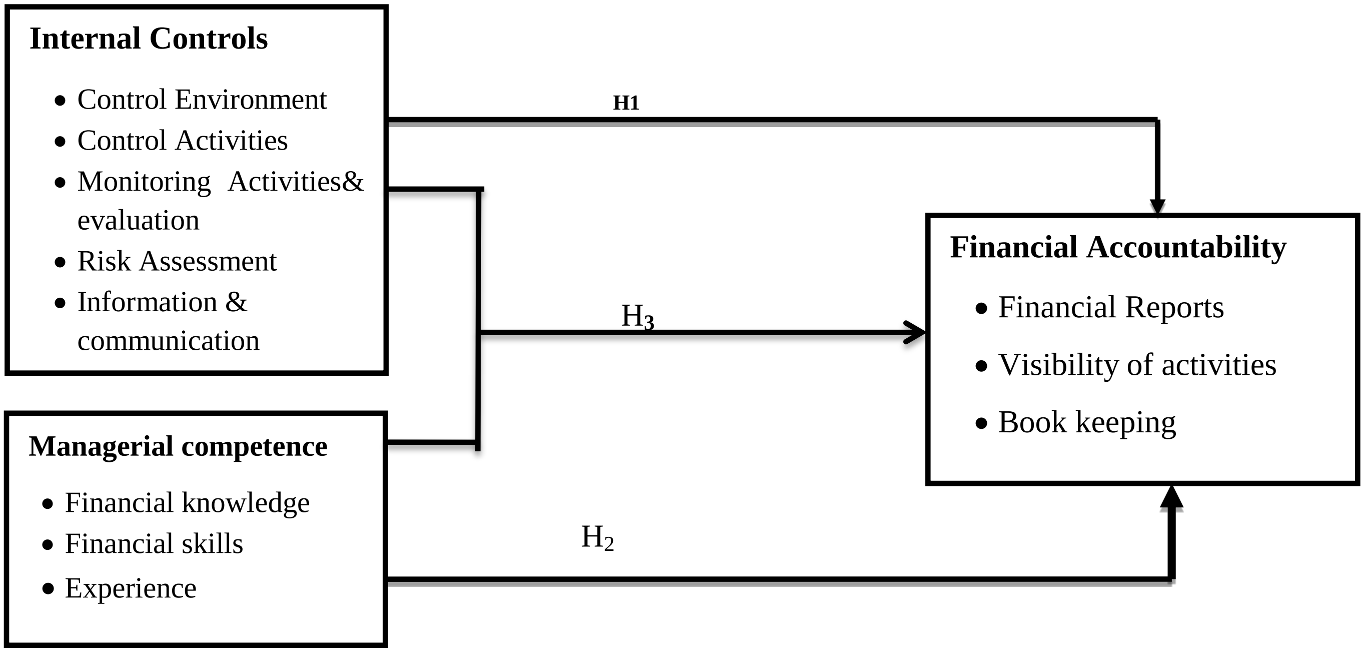
The study findings will provide a basis for further research regarding on how to promote financial accountability practices in other institutions in Uganda.

## 1.8 Conceptual framework

The conceptual framework below illustrates the relationship between the independent and dependent variables of the study. Internal controls and managerial competence are the independent variables while financial accountability is the dependent variable. Internal controls was studied in terms of control environment, control activities, monitoring and evaluation, risk assessment, information and communication (COSO, 2013) while managerial competence was studied in terms of financial knowledge, skills and experience of the employees (Mohamad and

Sidek, 2014). In addition, financial accountability was measured using financial reports, visibility of activities and book keeping (Cendon, 2010).

**Figure 1. 1: Diagrammatic representation of the conceptual frame work**




**Source:** *Reviewed literature (COSO, 2013; Mohamad and Sidek, 2014; Cendon, 2010).*

# CHAPTER TWO:
# THEORETICAL REVIEW

## 2.1 Introduction

This chapter reviewed the theoretical and conceptual literature on the study variables; internal controls, managerial competence and financial accountability in technical and vocational training institutions in Uganda and how they are related. The chapter is divided into sections covering; definition of variables and the relationships between the variables understudy.

## 2.2 Theoretical review

### 2.2.1 Institutional theory

The study was guided by Institutional and stewardship theories. Institutional theory by Scott (2001) assumes efficiency in the running of institutions. This theory adopts a sociological perspective to explain organizational structures and behavior (Dunn, 2010). It draws attention to how organizations decision making is influenced by the social and cultural factors as identified by Scott, (2001), and in particular how rationalized activities are adopted by organizations. The theory emphasizes the use of rules, laws and sanctions as enforcement mechanism, with expedience as basis for compliance with principles within the organisational environment (Scott 2004). This theory explains the contractor selection and monitoring as an effect of institutional decision making and the influence of the regulatory and oversight agencies in influencing performance (Scott, 2001). Institutional theory helps in showing the relevance of structures, processes and systems. However, these formal structures of legitimacy can reduce efficiency and hinder the organization's competitive position in their technical environment. To reduce this negative effect, organizations often decouple their technical core from these legitimizing structures. Organizations minimize or ceremonialize evaluation and neglect program implementation to maintain external and internal confidence in formal structures while reducing their efficiency impact. This lent support to stewardship theory.

Stewardship theory as proposed by R. Edward Freeman (1986) assumes that the manager is a steward of the business with behaviors and objectives consistent with those of the owners. The theory suggests that the firm's purpose is to contribute to humanity by "serving customers, employees and the community" (Karns, 2011). At the centre of the theory's foundation is the concept that the business is here to serve rather than produce a profit. Stewardship theory further states that a firm should align itself with the needs of society and through risk taking and innovation, attempts to improve the life of others against personal interests (Karns, 2011). Managers should not be motivated by personal interests, but rather act as stewards with the same purposes and objectives as the proprietors of the firm (Davis, Schoorman& Donaldson, 1997). Integrity, justice, and respect are core values of the firm and serve as the foundation for management's actions on all decisions. When the firm puts the needs of the society ahead of their personal needs, the issue of financial accountability does not arise as a challenge in institutions

### 2.3 Definition of the variables

**Internal Controls** are systems or guidelines and measures that safeguard the assets of an organization, by creating reliable financial reporting system, promoting compliance with laws and regulations to achieve effective and efficient operations (Aramide, 2015; COSO, 1999).

***Control environment*** is the awareness of the organization that compels members to conduct their activities and tasks as per the laid down control objectives (Aramide, 2015).

***Control activities*** are specific policies and procedures that are put in place to mitigate the risk of error, noncompliance, and fraudulent activities (Amudo & Inanga, 2009; COSO, 2013).

***Risk assessment*** is the identification and analysis of relevant risks to achievement of the entity's objectives, forming a basis for the determination of how the risks should be managed." (COSO, 2013).

***Monitoring Activities and evaluation:*** Craig (1999) defines control activities as the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution.

**Managerial competence** According to Spencer and Spencer (2003), managerial competence refer to the potential ability and/or capability to function in a given situation. Mohamad and Sidek (2014) suggested that managerial competence can be explained through dimensions of knowledge, financial skills and abilities.

***Financial knowledge:*** according to Nuthall (2006), knowledge is information processed by individuals including ideas, facts, expertise and judgment relevant for individual, team and organizational performance.

***Financial skills:*** Ziderman (2013) suggested that financial skills encompass the ability of managers to use available financial resources optimally and solve financial problems.

**Financial Accountability** is defined as the relationship between the company management and stakeholders, where the latter holds the former to account for stewardship of company resources (Cendon, 2000).Financial accountability is conceptualized in terms of transparency and disclosure of financial information.

***Financial reports:*** is a formal record of the financial activities and position of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form easy to understand (Going Concern and Financial Reporting, 2008).

**Visibility of activities** is the ability to accurately and completely view the processes, transactions and other activities operating within an enterprise (Cendon, 2010)

**Book keeping** is the recording of financial transactions, and is part of the process of accounting in business (OECD, 2012).

### 2.4 Relationships between variables

#### 2.4.1 Relationship between internal controls and financial accountability

COSO (2013) defined internal control as a process by which an entity's board of directors, management, and other personnel, design a system that provides reasonable assurance regarding the achievement of objectives in terms of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations. World over, several scholars have assessed the relationship between internal controls and financial accountability with many concluding that no matter the type of institution, internal controls are indisputably vital in ensuring accountability for financial resources. According to Sarens & De Beelde, (2006); and Arwinge, (2013), internal controls supports operations, lays the foundation for successful business strategies and acts as a platform upon which policies and regulations concerning expenditure for resources are based. In the same way, the internal control system aims, amongst other things, to provide reasonable assurance that all people comply with these controls (COSO, 2013; Fernando, 2014). Hence, an organization’s financial resources become more prone to abuse in a situation where there are no effective controls. On the contrary, a study by Adepeju (2013) revealed that internal controls are effective in boosting accountability during the initial years of the firm but as the entity grows in age, the positive relationship diminishes. As such, there is a negative relationship between the age of an enterprise and the effectiveness of its system of internal control. In particular, Markgraf (2015) argued that no matter how well internal control systems have been designed, they can only provide reasonable assurance that the organization objectives will be achieved. This therefore means that it does not always lead to positive financial accountability outcomes. Similarly, Amudo and Inanga (2009) also noted that there are inherent weaknesses in internal control system adopted by organizations that prevent them from achieving the intended goals. These include among others human judgment, breakdown of controls, management override and employees' collusion (Markgraf, 2015).

Despite the above weaknesses, Adepeju (2013) and Bovens (2005) insist that internal controls are crucial for proper accountability among office bearers while executing their duties and responsibilities. Every organization is subject to some kind of risks depending upon several factors such as the products and services it offers, the market in which it functions, the sources through which it is financed and the way it utilizes its resources. Moreover, innovative developments in the financial sector involving the use of sophisticated software for reporting purposes have led to an increased demand for effective risk management strategies. Hence, internal control activities that are required in the implementation of an effective risk management plan such as timely bank reconciliations, authorizations and approval, reviewing of employee performance, security of assets and segregation of duties are vital in boosting financial accountability (Sarens *et a.*, 2006; Mattie *et al*. 2012).Furthermore, the benefits such as detection of errors can be derived through the implementation of an effective internal control system. This study hypothesizes that;

***$H_1$*****:** *There is a positive a relationship between internal controls and financial accountability.*

### 2.4.2 Relationship between managerial competence and financial accountability

According to Munene (2004), managerial competence is one of the rare, valuable and difficult human resource proficiencies that enable firms to achieve financial accountability objectives related to public funds. Munene argues that, managerial competence involves knowledge, skills, personal traits and abilities which are predictors of success in financial reporting at the work place that in turn influence the financial accountability outcomes. For example, skilled and knowledgeable managers about the procedures and regulations governing certain transactions will endeavor to seek appropriate approvals and authorizations before committing resources to different expenditure items (Le Deist & Winterson, 2005; Douglas, 2011; Chieh, 2008). In the same way, personal traits and abilities coupled with experience guide managers to avert risky scenarios that could cause loss of public resources. Notably, having proper skills for analyzing financial reports and making regular reconciliations could easily unearth variances between planned and actual expenditure. This ensures that the gaps are identified early enough and a corrective action is taken and ultimately promotes sound accountability for resources.

Furthermore, efficient use of resources depends on the prudential decisions taken by the management team in the normal course of running a firm’s operations (Ismail & Abidin 2010). Besides, the efficient use of resources determines the level of financial accountability that a company can attain. The same view was also complemented by Blair (2010) who noted that financial accountability among firms is not merely about having better resources but rather having the right people to take decisions that ensure better use of such resources. This enhances the optimal use of funds thereby promoting financial accountability. Ismail (2010) observed that firms with highly skilled personnel are better managed and are likely to provide proper accountability than those with technically incompetent managers. This study hypothesizes that;

***H*$_2$: *There is a positive a relationship between managerial competence and financial accountability.*

### 2.4.3Internal controls and managerial competence positively relate with financial accountability

The probable predictive power of internal control and managerial on financial accountability in technical and vocational institutions has not been sufficiently addressed by the existing literature. Internal controls and managerial competence may positively influence financial accountability. Internal controls are said to be able to influence financial accountability because they can detect fault and fraud, diminish illegal actions and promote compliance and improve the competitiveness of the enterprise (Zabra 2010; Munene, 2004). Internal control is an integral process of continuous actions and activities of leaders and managerial s for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, security of assets and compliance with laws, regulations and policies thoroughly run in an organisation thus enhancing financial accountability (Aristanti, 2015).Managerial competence on the other hand will positively influence financial accountability because it looks at the employees' competence and management philosophy in the organization. These components are critical because they are the foundation of other components that build a system of financial internal control that will lead to financial accountability (COSO, 2005). International Organization of Supreme Audit Institutions (INTOSAI) adds that control environment entails the human resource that directly affects the control consciousness of the entire organisation. This study hypothesizes that*:*

***H*$_3$*: Internal controls and managerial competence positively relate with financial accountability.*

## CHAPTER THREE
## METHODOLOGY

### 3.1Introduction

This section explores the research setting, research design, target population, sample size and sampling techniques, data sources, data collection methods, measurement of the variables, validity and reliability of the instrument and data analysis methods

### 3.2 Research setting

Technical and vocational training institutions are institutions which equip the learners with technical skills. These skills include plumbing, block laying and concrete practice, tailoring, electrical installation, motor vehicle mechanics among others (Walukamba, 2015; Masinde, 2015). There are enormous challenges facing technical and vocational institutions in Uganda. The major ones include inadequate funding to run the institutional programmes. Of late despite the underfunding, the little that has been expended to them has not been properly accounted for (Walukamba, 2015; Masinde, 2015, UNESCO-IBE, 2010).

### 3.3 Research design

The study adopted a cross sectional and descriptive research design adopting quantitative and qualitative approaches. This research design was chosen because it provided a snapshot of the variables of the study as derived from the sample at a specified period of time(Ezeani, 2009). It provided a picture of financial accountability within technical and vocational training institutions.

### 3.4 Study population

The study target 130 technical and vocational training institutions in Uganda. The unit of analysis for the study was the technical and vocational institutions while the unit of inquiry was the principal and bursar. The technical and vocational institutions were chosen because they receive government funding every financial year for the programmes such as skilling Uganda that are government funded. Therefore government holds them accountable for the funds disbursed to them (Ministry of finance 2015).In addition, the categories of the respondents were chosen because they are believed to have adequate knowledge about the subject being investigated (Mc Evily and Marcus, 2005).

**3.5 Sample size and sampling techniques**

The study used a sample of 97 institutions. This sample was determined using Krejcie and Morgan (1970) table for selecting a sample size from a known population of 130 institutions. The researcher selected the accounting officer (Principal) and the Bursar from each institution who have served for a period of five years as potential respondents. Financial management of these institutions is anchored in the hands of the bursar and principal who are believed to be having much financial knowledge regarding the running of these institutions.

**3.6 Sample characteristics**

Frequency distributions were generated (see appendix 2). The sample characteristic covered both the technical and vocational institutions and the individual respondents. The aim was to understand various categories of the respondents that participated in this study. Among the respondents, 46.9% were males and 53.1% female demonstrating fair gender distribution. In addition, the average age was 49 years and 35% had the first degree.

From the results, it is clear that the majority of the respondents were mature and highly qualified hence competent enough to provide accurate answers. Besides, the majority of the respondents had served for the period more than five (5) years hence were knowledgeable and experienced in financial management.

### 3.7 Data sources

Primary data was collected directly from the field by the respondents filling in the questionnaires. The selected officers were reached using structured questionnaires which were physically delivered to them in their offices on appointment. A survey was adopted as the most appropriate method of data collection and the previous research support the validity and reliability of self-reposted measures (Lechner et al, 2006)

### 3.8 Data collection and questionnaire design

Quantitative data was collected from the respondents and these were gathered using self-administered questionnaire (see appendix 1) that were delivered to the respondents on appointment in their offices. The principals and bursars were identified with the help of the human resources manager of the institution. The questionnaire was used to survey and was administered to 81 respondents. The pretest was carried out to check for validity and reliability so as to minimize the vagueness of the results to be generated and all the generated pretest results for the study variables were all above 0.7 (0.93, 0.88 and 0.78).

The questionnaire was divided into sections A and section B. Section A consisted of social demographics and section B consisted of study variables based on the research title (Internal controls, Managerial competence and financial accountability). A five Likert scale (ranging from strongly disagree 1 to strongly agree 5) that were specific to technical and vocational institutions and targeting the principal and bursar.

### 3.9 Validity and reliability

Reliability of the research instrument was tested using Cronbach's alpha coefficient (Cronbach, 1946). An alpha coefficient of 0.7 or higher meant that the instrument was adequate (Nunnally, 1960). Validity test was established through expert judgment of the items in the questionnaire.

**Table 3. 1 Cronbach's Alphas for the study variables**

| Variable | Alpha from pretest | Alpha from final test | No. of items in the final test | No. of items deleted |
|---|---|---|---|---|
| Internal controls | 0.955 | 0.93 | 16 | 18 |
| Managerial competence | 0.912 | 0.88 | 10 | 3 |
| Financial accountability | 0.602 | 0.78 | 15 | 0 |

***Source***: Primary data

### 3.10 Measurement of variables

**Table 3. 2: The study variables were measured using the items developed by (COSO, 2013, Mohammed, 2014 and Cendon, 2010)**

| Global Variables | Definitions | Dimensions | Measurements | Sample question |
|---|---|---|---|---|
| Internal controls | Internal control is an integral process of continuous actions and activities for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, security of assets and compliance with laws, regulations and policies (COSO, 2013; Aristanti, 2016). | Control Environment<br>Control Activities<br>Monitoring Activities<br>Risk Assessment<br>Information & communication | Respondents' perception on the effectiveness of internal controls will be tested using items developed by (COSO, 2013) anchored on a five-point likert scale | All employees understand the concept and importance of internal controls including the division of responsibility |
| Managerial competence | Managerial competence is that potential ability and/or capability to function in a given situation and it includes dimensions of knowledge, financial skills and abilities (Spencer and Spencer 2003; Mohamad and Sidek, 2014). | Financial knowledge<br>Financial skills<br>Experience | Respondents' perception on managerial competence will be tested using items developed by (Mohammed, 2014) anchored on a five-point likert scale. | The managerial workforce within our institution is balanced in terms of their level of proficiency |
| Financial accountabilit y | Financial accountability is the relationship between the company management and stakeholders, where the latter holds the former to account for stewardship of company resources (Cendon, 2000; Monfardini (2010) | Financial Reports<br>Visibility of activities<br>Book keeping | Respondents' Perception on financial accountability will be tested using items developed by(Cendon, 2010) anchored on a five-point likert scale. | The financial statement notes include all the relevant information that users need for proper analysis. |

## 3.11 Data processing and analysis

Collected data was compiled, sorted, edited, and checked for quality, accuracy and completeness. Data was expressed in numeric terms for analysis using SPSS program (version 20) to provide descriptive outcomes in order to develop the relationship among variables. In addition, frequency distribution, tables, mean, standard deviation and other measures of central tendency were used in data analysis. The significance of the relationship among the variables was analysed using Pearson correlation coefficient.

## 3.12 Data cleaning

The researcher generated simple frequencies to screen the data so as to identify missing values and outliers. The missing values arise as a result of omissions made by respondents while filling the questionnaire (Field, 2006). From the simple frequency tables generated, no missing values were found.

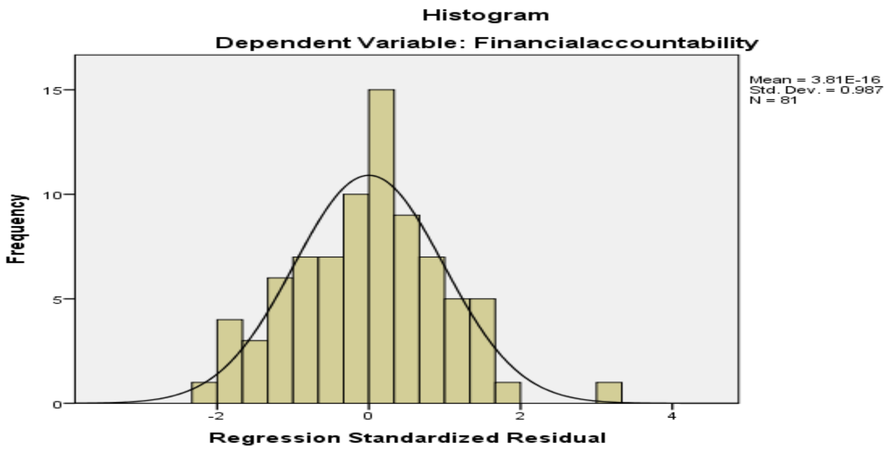
### 3.12.1 Diagnostic tests

Diagnostic tests on the data set were carried out to determine the behavior of the data before running the correlations and regression analysis.

#### 3.12.1.1 Normality assumption test

A normality test was used to determine whether sample data has been drawn from a normally distributed population or within some tolerance (Rana, 2009).

**Figure 3.  1: Normality assumption test**



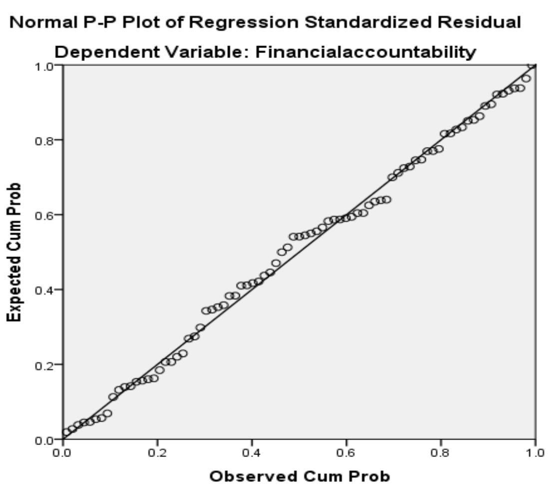

***Source*****:** Primary data

Results suggest that the assumption of normality has been met since results indicate normally distributed data with a peak in the middle and fairly symmetrical (Rana, Habshah, 2009).

### 3.12.1.2 Linearity assumption test

The linearity assumption test was done to check whether the mean values of the outcome variable for each increment of the predictor(s) lie along a straight line and the test results are presented in figure 3

Figure 3.  2**: Linearity assumption test**




**Source:***primary data*

Indeed the results confirm that the relationship between the study variables is linear since most the plots of the predictors lie along the straight line (Graham, Guthrie& Thompson, 2003).

# CHAPTER FOUR

# PRESENTATION, ANALYSIS AND INTERPRETATIONS OF THE FINDINGS

## 4.1 Introduction

This chapter presents analysis of results of data collected on the basis of the objectives formulated in chapter one. This chapter presents the details of descriptive analysis, correlation and regression. These tests were based on the following objectives:

1. To examine the relationship between internal control and financial accountability.
2. To examine the relationship between managerial competence and financial accountability.
3. To examine the predictive power of internal control and managerial competence on financial accountability.

## 4.2 Descriptive statistics

The researcher carried out the descriptive statistics (means, standard deviations, minimum and maximum values) to check whether the calculated means represent the observed data, that is, whether the mean is a good model of reality (Field, 2009). The summary of the descriptive analysis is presented in table 4.1

**Table 4. 1: Summary of the descriptive statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Internal controls | 81 | 1.56 | 4.62 | 3.5061 | 0.7726 |
| Managerial competence | 81 | 1.30 | 4.70 | 3.5321 | 0.7247 |
| Financial accountability | 81 | 2.87 | 4.93 | 3.8238 | 0.4145 |
| Valid N (listwise) | 81 | | | | |

***Source:*** Primary data

Statistical results from table 4.1indicate that all mean scores of the constructs in the model range between 3.5 and 3.8 with the standard deviations in the range of 0.41 and 0.77. The fact that standard deviations values are smaller compared to mean values is a good indication that the calculated means are a good replica of reality (Saunders et al., 2006).

### 4.3. Correlation analysis of the variables

Pearson's correlation coefficient analysis was conducted to establish the relationships between internal controls, managerial competence and financial accountability in technical and vocational institutions in Uganda. Bivariate-correlation analysis was performed and correlation coefficients were generated to measure the extent of the relationship between the study variables (Field, 2006). To obtain the relationship between internal control, managerial competence and financial accountability in technical and vocational institutions, Pearson correlation tests were ran and results presented in table 4.2

**Table 4. 2: Pearson correlation analysis coefficient of the variables**

| | | 1 | 2 | 3 |
|---|---|---|---|---|
| Internal controls | 1 | 1. | | |
| Managerial competence | 2 | .817** | 1. | |
| Financial accountability | 3 | .580** | .526** | 1. |

***Source*:** Primary data

The statistical test revealed a significant and positive correlation between internal controls and financial accountability (r = 0.580 and $P < 0.5$).Thus, $H_1$ which states that there is a positive relationship between internal controls and financial accountability is validated. That is to say; suitable internal controls have a close connotation with improvement in financial accountability in vocational and technical institutions. Similarly managerial competence and financial accountability revealed a significant and positive relationship (r = 0.526 and $P < 0.5$); meaning that managerial competence is associated with financial accountability in technical and vocational institutions in Uganda. This finding provides support for $H_2$ which states that there is a positive relationship between managerial competence and financial accountability in vocational and technical institutions in Uganda

Lastly, internal controls and managerial competence revealed a significant and positive relationship with financial accountability.

Regression analysis of the variables was conducted and results shown in table 4.3

**Table 4. 3: Linear regression analysis**

| | | **Unstandardized Coefficients** | | **Standardized Coefficients** | | | **Collinearity Statistics** | |
|---|---|---|---|---|---|---|---|---|
| | Model | B | SE | β | t | sig. | Tolerance | VIF |
| | (Constant) | 39.8412 | .887 | 13.800 | | | | |
| 1 | Internal controls | .227 | .080 | .451 | 2.842 | .006 | .3333 | .002 |
| | Managerial competence | .135 | .136 | .158 | .994 | .323 | .3333 | .002 |

Notes: R= 0.587[a], $R^2$ = 0.345, adj. $R^2$ = 0.328. e = 7.82686Dependent Variable: Financial accountability.
Predictors: Internal controls and managerial competence**.**

Source: primary data

The results show that the model accounts for only 32.8% of the variance in financial accountability in technical and vocational institutions. Also, internal controls is a better predictor of financial accountability ($\beta$ = 0.451, $P$ <0.05) compared to managerial competence ($\beta$= 0.158,$P$ <0.323). Therefore the $H_3$ stated earlier on that internal controls and managerial competence positively relate with financial accountability is not validated since only internal controls are significant.

# CHAPTER FIVE

# DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the discussions, conclusions, and recommendations drawn from the study findings of the previous chapter. The chapter is organized in four sections; the first section deals with discussions related to the research objectives, the second section focuses on conclusions, the third section provides the recommendations, and finally, the fourth section presents areas for further study.

## 5.2 Discussion

### 5.2.1 Internal controls and Financial Accountability.

The results from the study revealed that there is a significant positive relationship between internal controls and financial accountability. The findings are consistent with the view that internal control is a management function that is perilous for proper accountability (Gendion, Cooper & Townley, 2000)

The findings further confirm that internal controls prevent errors and irregularities by detecting them in a timely manner hence promoting reliable and correct accounting record. According to Lame and Tan (2000), internal controls are able to quickly resolve issues arising as a result of reporting blunders. It protects the interests of employees by clearly specifying their duties and responsibilities and safeguarding them against being accused of irregularities or misappropriations (Gendron, Cooper, &Townley, 2001). According to Adler and Kwoh (2002), when proper internal controls are exercised, it becomes easy to prepare sound financial information that helps in planning and forging away forward. Financial information is useful in determining the performance of the institution. This implies that weak internal control systems in an organisation are the reason for poor financial accountability in institutions.

### 5.2.2 Managerial competence and Financial Accountability.

The statistical results indicated a positive relationship between managerial competence and financial accountability. This implies that if the workers are trained on how to carry out their activities well regarding the institutions, they will focus all their attention on achieving the organisational goals. For example, skilled and knowledgeable managers about the procedures and regulations governing certain transactions will endeavor to seek appropriate approvals and authorizations before committing resources to different expenditure items (Le Deist &Hedger, E., and Blick, 2016; 2005; Douglas, 2011; Chieh, 2008).

Furthermore, Titman (2004) notes that efficient use of resources depends on the prudential decisions taken by the management in the normal course of running a firm's operations. Besides, the efficient use of resources also determines the level of financial accountability that an organisation can attain. The same view was also complemented by Blair (2010) who noted that financial accountability among firms is not merely about having better resources but rather having the right people to take decisions that ensure better use of the available resources. This enhances the optimal use of funds thereby promoting financial accountability. Hedger and Blick (2016) observed that firms with highly skilled personnel are better managed and are likely to provide proper accountability than those with technically incompetent managers.

### 5.2.3Internal controls, managerial competence and financial accountability

Statistical results indicate that internal control is the only predictor of financial accountability in technical and vocational institutions in Uganda. This meant that in order to enhance financial accountability in technical and vocational institutions, internal control mechanisms should be enforced.

However the findings are contrary to earlier observations by Carmen et al (2004) who argued that the essence of accountability is to make power holders to account for or take responsibility for the actions and resources at their disposal through the establishment of an effective and efficient organization. Managerial competence is responsible for policy implementation, recruiting competent/knowledgeable staff, putting in place systems to monitor/evaluate performance, and providing refresher courses on leadership and management of resources. That is why organisations with competent leadership thrive in terms of development according to Jenny and Pamela (2006).

## 5.3 Conclusions

According to the study, there is a significant positive relationship between internal controls and financial accountability which means that with effective internal control, better financial accountability can be realized. Supplemented by managers and employees who are knowledgeable, experienced and having appropriate skills necessary for financial accountability

The significant findings (internal control and managerial competence) as per this study, if embraced could enable technical and vocational institutions in Uganda to account for the funds disbursed to them by government.

## 5.4 Recommendations

The findings revealed that there was a significant positive relationship between internal control and financial accountability. If internal controls are not well implemented, it will negatively affect performance and productivity of a firm. The researcher therefore recommends the following;

Technical and vocational institutions in Uganda should promote effective internal controls that facilitate financial accountability.

The management of technical and vocational institutions should continuously monitor the internal control system to ensure high level of financial accountability.

Routine monitoring and evaluation of performance should be done so that errors and misappropriations are reduced or eliminated.

Managerial competencies are vital in management of technical and vocation institutions. The researcher therefore recommends that managers should be given refresher training so that they are equipped with knowledge and skills for the smooth running of these institutions.

### 5.5 Areas for Further Research

This study focused on internal controls and managerial competence which accounted for32.8% of the variance in financial accountability in technical and vocational institutions in Uganda. More research studies should be done to find out other factors that could enhance effectiveness of financial accountability in technical and vocational institutions.

While the focus of this study was technical and vocational institutions in Uganda, future research studies should consider similar studies in other institutions like health institutions in Uganda.

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## APENDICES

### Appendix I: QuestionnaireGuide

Dear Respondent,

This questionnaire is designed to collect data to examine the relationship between internal controls, managerial competence and financial accountability within the business, technical and vocational education training (BTVET) institutions in Uganda. The data collected shall be used for academic purposes only and it will be treated with the confidentiality it deserves. You are highly encouraged to respond to the statements in this questionnaire in the most truthful and objective way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided using the following key: 1- Strongly Disagree (SD), 2-Disagree (D), 3- Neutral, 4- Agree (A) and 5- Strongly Agree (SA).

***AMIN BAGANZI***

***STUDENT***

**SECTION A: Socio demographics**

Please tick the option that best describes you.

1. Level of education

| Diploma | Degree | Masters | Others |
|---|---|---|---|
| 1 | 2 | 3 | 4 |

2. Managerial position

| Principle | Bursar |
|---|---|
| 1 | 2 |

3. Period taken serving in the institution

| 5 years and less | 6 – 10 years | 11 – 15 years | 16 years & above |
|---|---|---|---|
| 1 | 2 | 3 | 4 |

4. Category of the institution

| Technical Institute | Vocational Institute |
|---|---|
| 1 | 2 |

**SECTION B: PRACTICES**

Under this section, the study is interested in establishing the relationship between internal controls and financial accountability and the mediating effect of corporate governance. You are required to answer following the key for which 1 means Strongly Disagree (**SD**), 2- Disagree (**D**), 3- Not Sure (**NS**), 4- Agree (**A**) and 5 represents Strongly Agree (**SA**).

| | INTERNAL CONTROL | SD | D | N S | A | SA |
|---|---|---|---|---|---|---|
| | ***Control environment*** | | | | | |
| **CE1** | This institution communicates all internal control policies to employees | 1 | 2 | 3 | 4 | 5 |
| **CE2** | In this institution, staff ethics or codes of conduct are viewed as important aspects | 1 | 2 | 3 | 4 | 5 |
| **CE3** | The institution's policies and procedures are periodically reviewed | 1 | 2 | 3 | 4 | 5 |
| **CE4** | In this institution, internal auditors report their findings directly to the management team | 1 | 2 | 3 | 4 | 5 |
| **CE5** | The management team takes appropriate follow-up on issues of non-compliance that are reported to it | 1 | 2 | 3 | 4 | 5 |
| | ***Control activities*** | | | | | |
| **CA1** | Employees are frequently rotated in this institution | 1 | 2 | 3 | 4 | 5 |
| **CA2** | Some employees have unlimited rights to the financial reporting system | 1 | 2 | 3 | 4 | 5 |
| **CA3** | Our controls are able to mitigate all risks of the institution | 1 | 2 | 3 | 4 | 5 |
| **CA4** | This institution changes software after a specified period | 1 | 2 | 3 | 4 | 5 |
| **CA5** | All transactions are sanctioned by appropriate authority before they are effected | 1 | 2 | 3 | 4 | 5 |
| | ***Information and communication*** | | | | | |
| **IC1** | Everyone within this institution can freely disseminate information to all levels of management. | 1 | 2 | 3 | 4 | 5 |
| **IC2** | Management has identified individuals who are responsible for coordinating the various activities within the institution. | 1 | 2 | 3 | 4 | 5 |
| **IC3** | All employees understand the concept and importance of internal controls including the division of | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | responsibility | | | | | |
| **IC4** | Communication helps to evaluate how well guidelines and policies of the institution are working and being implemented | 1 | 2 | 3 | 4 | 5 |
| **IC5** | The reporting system of our institution spells out all responsibilities of each section/unit in the institution | 1 | 2 | 3 | 4 | 5 |
| | ***Risk assessment*** | | | | | |
| **RA1** | The management team appropriately evaluates risks when planning | 1 | 2 | 3 | 4 | 5 |
| **RA2** | The management team appropriately evaluates risks when approving new activities | 1 | 2 | 3 | 4 | 5 |
| **RA3** | This institution always budgets for activities related to managing all risky activities. | 1 | 2 | 3 | 4 | 5 |
| **RA4** | Internal audit team often meets with employees to assess risks | 1 | 2 | 3 | 4 | 5 |
| **RA5** | This institution has competent employees in risk management activities | 1 | 2 | 3 | 4 | 5 |
| | ***Monitoring activities*** | | | | | |
| **MA1** | There are independent process checks and evaluations of controls activities on an ongoing basis | 1 | 2 | 3 | 4 | 5 |
| **MA2** | Internal reviews of implementation of internal controls in our departments are conducted periodically | 1 | 2 | 3 | 4 | 5 |
| **MA3** | Of late, monitoring has helped us in assessing the quality of accountability of the institution over time | 1 | 2 | 3 | 4 | 5 |
| **MA4** | Management has assigned responsibilities for the timely review of audit reports. | 1 | 2 | 3 | 4 | 5 |
| **MA5** | We have a system in place that monitors audit recommendations for all departments of this organization. | 1 | 2 | 3 | 4 | 5 |
| | **MANAGERIAL COMPETENCE** | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | ***Financial knowledge*** | | | | | |
| **KN1** | We understand how budgets are prepared in our institution | 1 | 2 | 3 | 4 | 5 |
| **KN2** | We understand the benefits of expenditure according to budget. | 1 | 2 | 3 | 4 | 5 |
| **KN3** | We are aware of the different places to save and what to consider for saving account | 1 | 2 | 3 | 4 | 5 |
| **KN4** | We understand the formal financial system operate in Uganda | 1 | 2 | 3 | 4 | 5 |
| **KN5** | In our institution, we are aware of financial products and services provided by financial institutions | 1 | 2 | 3 | 4 | 5 |
| | ***Financial skills*** | | | | | |
| **FS1** | In our institution, we have adequate skills in financial management | 1 | 2 | 3 | 4 | 5 |
| **FS2** | We can track our cash flow easily | 1 | 2 | 3 | 4 | 5 |
| **FS3** | We participate in budget preparation for our institution | 1 | 2 | 3 | 4 | 5 |
| **FS4** | Most staff within the institution can analyze financial reports with ease | 1 | 2 | 3 | 4 | 5 |
| **FS5** | We can interpret financial statements well | 1 | 2 | 3 | 4 | 5 |
| | ***Abilities*** | | | | | |
| **AB1** | The staff workforce within our institution is balanced in terms of their level of expertise | 1 | 2 | 3 | 4 | 5 |
| **AB2** | All departmental managers are in position to make sound decisions in respect to public resources | 1 | 2 | 3 | 4 | 5 |
| **AB3** | Creativity is one of the key attributes that candidates must demonstrate before receiving a job appointment | 1 | 2 | 3 | 4 | 5 |
| **AB4** | All employees are driven by specific performance goals | 1 | 2 | 3 | 4 | 5 |
| **AB5** | All employees within the institution are able to fulfill their monthly performance targets from time to time | 1 | 2 | 3 | 4 | 5 |

| | FINANCIAL ACCOUNTABILITY | | | | | |
|---|---|---|---|---|---|---|
| **ID1** | Reports necessary for providing accountability within the organization are presented on time | 1 | 2 | 3 | 4 | 5 |
| **ID2** | Everyone within this institution has access to financial reports | 1 | 2 | 3 | 4 | 5 |
| **ID3** | The financial statement notes include all the relevant information that users need for proper analysis | 1 | 2 | 3 | 4 | 5 |
| **ID4** | Everyone in this institution understands the financial statements | 1 | 2 | 3 | 4 | 5 |
| **ID5** | Proper amounts are included in the disclosures. | 1 | 2 | 3 | 4 | 5 |
| **ID6** | The institution's reports presented are reliable | 1 | 2 | 3 | 4 | 5 |
| **ID7** | Books of accounts are audited periodically | 1 | 2 | 3 | 4 | 5 |
| **ID8** | All transactions incurred in this institution have source documents. | 1 | 2 | 3 | 4 | 5 |

***Thanks for your time!!***

**Appendix 2**

**Table showing the respondents and firm characteristics**

| **Details** | **Frequency** | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| **Gender** | | | | |
| Male | 38 | 46.9 | 46.9 | 46.9 |
| Female | 43 | 53.1 | 53.1 | 100 |
| **Age** | | | | |
| Less than 30 yrs | 10 | 12.3 | 12.3 | 12.3 |
| 30-39 yrs | 29 | 35.8 | 35.8 | 48.1 |
| 40-49 yrs | 32 | 39.5 | 39.5 | 87.7 |
| 50 above | 10 | 12.3 | 12.3 | 100.0 |
| **Qualification** | | | | |
| High school | 3 | 3.7 | 3.7 | 3.7 |
| Diploma | 17 | 21.0 | 21.0 | 24.7 |
| 1st Degree | 29 | 35.8 | 35.8 | 60.5 |
| Masters | 24 | 29.6 | 29.6 | 90.1 |
| Professional | 7 | 8.6 | 8.6 | 98.8 |
| PHD | 1 | 1.2 | 1.2 | 100.0 |
| **Period taken serving in the institution** | | | | |
| Less than 5yrs | 21 | 25.9 | 25.9 | 25.9 |
| 5-9 yrs | 26 | 32.1 | 32.1 | 58.0 |
| 10-14 yrs | 19 | 23.5 | 23.5 | 81.5 |
| 15-19 yrs | 10 | 12.3 | 12.3 | 93.8 |
| Over 20 yrs | 5 | 6.2 | 6.2 | 25.9 |
| **position occupied by the respondent** | | | | |
| Principal | 37 | 45.6 | 45.6 | 45.6 |
| Bursar | 44 | 54.3 | 54.3 | 100 |

**Appendix 3**

Table 3.1

*Table for Determining Sample Size of a Known Population*

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

*Note: N is Population Size; S is Sample Size* *Source: Krejcie & Morgan, 1970*