**INTERNAL CONTROLS AND FINANCIAL PERFORMANCE OF PUBLIC HOSPITALS IN ELGON REGION, UGANDA: A CASE STUDY OF BUDUDA HOSPITAL**

**BY**

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# DECLARATION

I WALUMOLI MOSES, declare that this dissertation is my original work and that it has never been submitted to any institution of higher learning for both professional and academic purposes where the work of others has been used, due acknowledgement has been made.

Signed……………………………………. Date………………………………..

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# APPROVAL

This dissertation has been prepared under my supervision and is submitted for examination with my approval as the candidate’s supervisor from the School of Business Administration Nkumba University.

Signed……………………………………. Date………………………………..

**MR. OWINO .G. JOSHUA**

**SUPERVISOR**

# DEDICATION

This piece of work is dedicated to my wife, Mrs. Walumoli Junic Naburonya, my beloved parents; Mr. and Mrs. Walumoli and to all my children.

# ACKNOWLEDGEMENTS

I thank God for His hand of mercy which has brought me this far.

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In a special way I thank my family, friends mostly Kyomukiga Evas and Ms. Ndagire Hasifah and classmates for their support. I return the honor and glory to God.

 May the almighty reward you abundantly

# TABLE OF CONTENTS

[DECLARATION i](#_Toc18441091)

[APPROVAL ii](#_Toc18441092)

[DEDICATION iii](#_Toc18441093)

[ACKNOWLEDGEMENTS iv](#_Toc18441094)

[TABLE OF CONTENTS v](#_Toc18441095)

[LIST OF FIGURES xiii](#_Toc18441096)

[LIST OF TABLES xiv](#_Toc18441097)

[LIST OF ACRONYMS xiv](#_Toc18441098)

[ABSTRACT xviii](#_Toc18441099)

[**CHAPTERONE:** 1](#_Toc18441100)[**INTRODUCTION** 1](#_Toc18441101)

[1.0 Chapter overview 1](#_Toc18441102)

[1.1 Background to the study 1](#_Toc18441103)

[1.2 Problem statement 5](#_Toc18441104)

[1.3 Purpose of the study 6](#_Toc18441105)

[1.4 Objectives of the Study 6](#_Toc18441106)

[1.5 Research questions 7](#_Toc18441107)

[1.6 Research hypothesis 7](#_Toc18441108)

[1.7 Scope of the study 7](#_Toc18441109)

[1.7.1 Subject scope 7](#_Toc18441110)

[1.7.2 Geographical scope 7](#_Toc18441111)

[1.7.3 Time scope 8](#_Toc18441112)

[1.8 Setting of the study 8](#_Toc18441113)

[1.9 Significance of the study 8](#_Toc18441114)

[1.10 Structure of the research 9](#_Toc18441115)

[**CHAPTERTWO:**](#_Toc18441116) [**STUDYLITERATURE** 10](#_Toc18441117)

[2.0 Introduction 10](#_Toc18441118)

[2.1 Literature survey 10](#_Toc18441119)

[2.2 Literature review 12](#_Toc18441120)

[2.2.1 Theoretical review 12](#_Toc18441121)

[2.2.1.1 The concept of internal controls 13](#_Toc18441122)

[2.2.1.2 Elements of Internal Control 15](#_Toc18441123)

[2.2.1.3 Control environment 15](#_Toc18441124)

[2.2.1.4 Control activities 16](#_Toc18441125)

[2.2.1.5 Compliance with established laws and procedures 16](#_Toc18441126)

2.2.1.6 [Monitoring of controls 16](#_Toc18441127)

[2.2.1.7 Information and communication 17](#_Toc18441128)

[2.2.1.8 Control environment and reliability of financial reporting 18](#_Toc18441129)

[2.2.1.9. Internal controls and value for money 20](#_Toc18441130)

[2.2.1.10 Information monitoring, communication and accountability for operations 24](#_Toc18441131)

[2.3 Conceptual framework 26](#_Toc18441132)

[**CHAPTERTHREE:**](#_Toc18441134) [**METHODOLOGY** 28](#_Toc18441135)

[3.0 Introduction 28](#_Toc18441136)

[3.1 Research design 28](#_Toc18441137)

[3.2 Research approach 28](#_Toc18441138)

[3.3 Research strategy 28](#_Toc18441139)

[3.4 Research duration 28](#_Toc18441140)

[3.5 Research classification 29](#_Toc18441141)

[3.6 Study area 29](#_Toc18441142)

[3.7 Study population 29](#_Toc18441143)

[3.8 Sample size 30](#_Toc18441144)

[3.9 Background information of respondents 30](#_Toc18441146)

[3.9.1 Gender of respondents 31](#_Toc18441147)

[3.9.2 Age of respondents 31](#_Toc18441149)

[3.9.3 Highest level of education attained 32](#_Toc18441151)

[3.9.4 Length of stay with the hospital 32](#_Toc18441153)

[3.10 Sources of data 33](#_Toc18441155)

[3.10.1 Primary data 33](#_Toc18441156)

[3.10.2 Secondary data 33](#_Toc18441157)

[3.11 Sampling methods 33](#_Toc18441158)

[3.11.1 Census method 33](#_Toc18441159)

[3.12 Data collection method 34](#_Toc18441160)

[3.12.1 Questionnaire survey 34](#_Toc18441161)

[3.12.2 Interviewing 34](#_Toc18441162)

[3.12.3 Documentary review 34](#_Toc18441163)

[3.13 Data collection instruments 34](#_Toc18441164)

[3.13.1 Self-administered questionnaires 34](#_Toc18441165)

[3.13.2 Interview guide 35](#_Toc18441166)

[3.14 Validity and reliability of tools 35](#_Toc18441167)

[3.14.1 Validity 35](#_Toc18441168)

[3.14.2 Reliability 36](#_Toc18441169)

[3.15 Data processing 36](#_Toc18441170)

[3.16 Data analysis 37](#_Toc18441171)

[3.17 Data presentation 37](#_Toc18441172)

[3.18 Ethical considerations 38](#_Toc18441173)

[3.19 Limitations to the study 38](#_Toc18441174)

[**CHAPTER FOUR:**](#_Toc18441175) [**CONTROL ENVIRONMENT AND FINANCIAL REPORTING** 39](#_Toc18441176)

[4.0 Introduction 39](#_Toc18441177)

[4.1 Workers have values that help the hospital to achieve its strategic objectives 40](#_Toc18441178)

[4.2 Management provides leadership for reliable financial reporting to internal and external stakeholders 40](#_Toc18441180)

[4.3 There is commitment to operate the hospital efficiently and effectively 41](#_Toc18441182)

[4.4 The hospital workers comply with all applicable laws and regulations 42](#_Toc18441184)

[4.5 The workers have the responsibility to safeguard all hospital assets 43](#_Toc18441186)

[4.6 There is honest and integrity among the employees of the hospital on a day to day basis 44](#_Toc18441188)

[4.7 Section heads submit weekly reports to the hospital administrator 45](#_Toc18441190)

[4.8 Hospital staff has the knowledge and skills necessary to accomplish tasks 46](#_Toc18441192)

[4.9 Management holds individuals accountable for their internal control responsibilities in the hospital 47](#_Toc18441194)

[4.10 Line of authority and responsibility is clearly defined 48](#_Toc18441196)

[**CHAPTER FIVE:**](#_Toc18441198) [**CONTROL ACTIVITIES AND VALUE FOR MONEY** 50](#_Toc18441199)

[5.0 Introduction 50](#_Toc18441200)

[5.1 Controls in Bududa hospital ensure efficiency and effectiveness of operations in the hospital 51](#_Toc18441201)

[5.2 Proper control systems help to reduce operational costs in the hospital 52](#_Toc18441203)

[5.3 Controls help in maintenance of adequate and reliable accounting records 52](#_Toc18441205)

[5.4 Internal controls check the accuracy and reliability of Bududa hospital accounting data 53](#_Toc18441207)

[5.5 Financial internal controls ensure proper company’s cash receipts and payments 54](#_Toc18441209)

[5.6 The control system helps the hospital to prevent frauds, errors and minimize wastage 55](#_Toc18441211)

[5.7 Properly instituted systems of internal control improve the reporting process 55](#_Toc18441213)

[5.8 Internal controls give rise to reliable reports, which enhance the accountability of the hospital 56](#_Toc18441215)

[5.9 Controls in the hospital ensure timely and reliable financial reports for management 57](#_Toc18441217)

[5.10 The controls lead to the promotion of adherence to laws, regulations, contracts and management directives. 58](#_Toc18441219)

[**CHAPTER SIX:**](#_Toc18441221) [**COMPLIANCEWITHLAWS AND REGULATIONSENSURES ACCOUNTABILITY** 60](#_Toc18441222)

[6.0 Introduction 60](#_Toc18441223)

[6.1 Compliance with laws and regulations enhance reliability of financial statements 60](#_Toc18441224)

[6.2 Compliance with laws and regulations helps in the decision making process in the hospital 61](#_Toc18441226)

[6.3 Compliance with laws helps workers to improve the performance of their duties 62](#_Toc18441228)

[6.4 Regulations help in ensuring that all management activities are appropriately carried out 63](#_Toc18441230)

[6.5 Compliance with laws and regulations ensures that any risks in the hospital are avoided 64](#_Toc18441232)

[6.6 Compliance with laws helps to predict potential problems before they occur, make adjustments, and prevent an error. 65](#_Toc18441234)

[6.7 Compliance with laws and regulations helps to report the occurrence of an omission, an error or a malicious act 66](#_Toc18441236)

[6.8 Compliance with laws helps in raising the morale of the employees at the hospital 67](#_Toc18441238)

[6.9 Compliance with helps to identify, capture, process and report relevant and reliable information in a timely manner 67](#_Toc18441240)

[6.10 Hypothesis testing 69](#_Toc18441242)

[6.11 Regression Analysis 69](#_Toc18441243)

[6.12 ANOVA (Analysis of variance) 69](#_Toc18441245)

[**CHAPTER SEVEN:**](#_Toc18441248) [**TOWARDS HARMONISING FINANCIAL ACCOUNTABILITY AND PERFORMANCE** 71](#_Toc18441249)

[7.0 Introduction 71](#_Toc18441250)

[7.1 Control environment and reliable financial reporting 71](#_Toc18441251)

[7.2 Control activities and value for money 73](#_Toc18441252)

[7.3 Compliance with laws and regulations ensure accountability 74](#_Toc18441253)

[**CHAPTER EIGHT:**](#_Toc18441254) [**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS** 77](#_Toc18441255)

[8.0 Introduction 77](#_Toc18441256)

[8.1 Summary of the findings 77](#_Toc18441257)

[8.1.1 Control environment and reliable financial reporting 77](#_Toc18441258)

[8.1.2 Control activities and value for money 78](#_Toc18441259)

[8.1.3 Compliance with laws and regulations ensure accountability 78](#_Toc18441260)

[8.2 Conclusions 79](#_Toc18441261)

[8.3 Recommendations 80](#_Toc18441262)

[8.3.1 Control environment and reliable financial reporting 80](#_Toc18441263)

[8.3.2 Control activities and value for money 80](#_Toc18441264)

[8.3.3 Compliance with laws and regulations ensure accountability 80](#_Toc18441265)

[8.4 Areas of further studies 80](#_Toc18441266)

[REFERENCES 81](#_Toc18441267)

[APPENDICES 87](#_Toc18441268)

[APPENDIX A: SELF ADMINISTERED QUESTIONNAIRE 87](#_Toc18441269)

[APPENDIX B: INTERVIEW GUIDE 92](#_Toc18441270)

# LIST OF FIGURES

[Figure 2.1: Conceptual framework 26](#_Toc18441133)

# LIST OF TABLES

[Table 3.1: Population and sample size 29](#_Toc18441145)

[Table 3.2: Gender 30](#_Toc18441148)

[Table 3.3: Age 30](#_Toc18441150)

[Table 3.4: Highest level of education attained 31](#_Toc18441152)

[Table 3.5: Length of stay with the hospital 31](#_Toc18441154)

[Table 4.1: Workers have values that help the hospital to achieve its strategic objectives 39](#_Toc18441179)

[Table 4.2: Management provides leadership for reliable financial reporting to internal and external stakeholders. 40](#_Toc18441181)

[Table 4.3: There is commitment to operate the hospital efficiently and effectively. 41](#_Toc18441183)

[Table 4.4: The hospital workers comply with all applicable laws and regulations 42](#_Toc18441185)

[Table 4.5: The workers have the responsibility to safeguard all hospital assets. 43](#_Toc18441187)

[Table 4.6: There is honesty and integrity among the employees of the hospital on a day to day basis 44](#_Toc18441189)

[Table 4.7: Section heads submit weekly reports to the hospital administrator 45](#_Toc18441191)

[Table 4.8: Hospital staff has the knowledge and skills necessary to accomplish tasks. 46](#_Toc18441193)

[Table 4.9: Management holds individuals accountable for their internal control responsibilities in the hospital 47](#_Toc18441195)

[Table 4.10: Line of authority and responsibility is clearly defined 48](#_Toc18441197)

[Table 5.1: Controls in Bududa hospital ensure efficiency and effectiveness of operations in the hospital 50](#_Toc18441202)

[Table 5.2: Proper control systems help to reduce operational costs in the hospital. 51](#_Toc18441204)

[Table 5.3: Controls help in maintenance of adequate and reliable accounting records. 52](#_Toc18441206)

[Table 5.4: Internal controls check the accuracy and reliability of Bududa hospital accounting data. 52](#_Toc18441208)

[Table 5.5: Financial internal controls ensure proper hospital`s cash receipts and payments. 53](#_Toc18441210)

[Table 5.6: The control system helps the hospital to prevent frauds, errors and minimize wastage. 54](#_Toc18441212)

[Table 5.7: Properly instituted systems of internal control improve the reporting process. 55](#_Toc18441214)

[Table 5.8: Internal controls give rise to reliable reports, which enhances the accountability of the hospital 56](#_Toc18441216)

[Table 5.9: Controls in the hospital ensure timely and reliable financial reports for management. 57](#_Toc18441218)

[Table 5.10: The controls lead to the promotion of adherence to laws, regulations, contracts and management directives 58](#_Toc18441220)

[Table 6.1: Compliance with laws and regulations enhance reliability of financial statements. 60](#_Toc18441225)

[Table 6.2: Compliance with laws and regulations helps in the decision making process in the hospital 61](#_Toc18441227)

[Table 6.3: Compliance with laws helps workers to improve the performance of their duties. 61](#_Toc18441229)

[Table 6.4: Regulations help in ensuring that all management activities are appropriately carried out. 62](#_Toc18441231)

[Table 6.5: Compliance with laws and regulations ensures that any risks in the hospital are avoided 63](#_Toc18441233)

[Table 6.6: Compliance with laws helps to predict potential problems before they occur, make adjustments, and prevent an error. 64](#_Toc18441235)

[Table 6.7: Compliance with laws and regulations helps to report the occurrence of an omission, an error or a malicious act 65](#_Toc18441237)

[Table 6.8: Compliance with helps in raising the morale of the employees at the hospital 66](#_Toc18441239)

[Table 6.9: Compliance with helps to identify, capture, process and report relevant and reliable information in a timely manner 67](#_Toc18441241)

[Table 6.10: Model Summary 68](#_Toc18441244)

[Table 6.11: ANOVAa 69](#_Toc18441246)

[Table 6.12: Coefficientsa 69](#_Toc18441247)

# LIST OF ACRONYMS

ACFE : American Certified Fraud Examiners

AICPA : American Institute for Certified Public Accountants

AIDS : Acquired Immune Deficiency Virus

COSO : Committee of Sponsoring Organisations of the Tread way Commission

GoU : Government of Uganda

HIV : Human Immune Virus

IGG : Inspector General of Government

LG : Local Government

LGFC : Local Government Finance Commission

MoH : Ministry of Health

Ugx : Uganda Shillings

# ABSTRACT

The study examined the role of internal controls in the financial performance of public hospitals in Elgon Region of Uganda. It was guided by three objectives i) to establish how the control environment ensures reliable financial reporting in Bududa Hospital, ii) to examine how control activities; promote value for money in Bududa Hospital, iii) to establish how Compliance with laws and regulations ensures accountability in Bududa Hospital.

The researcher used a combination approach using both quantitative and qualitative information. The study had a population of 80 individuals and a sample size of 80 respondents, however, out of the 80 questionnaires, only 60 were returned. The study collected data using two research instruments that is self-administered questionnaire and an interview guide

It is also shown that the Adjusted R square is .451 which is an indication that 45.1% of the changes that do occur in financial performance are due to changes in internal controls. The test also revealed that Bududa hospital’s internal controls have a positive relationship with financial performance and as such the null hypothesis was rejected. In conclusion, the study notes Implementation of the internal control structure corresponds to its effectiveness. Attainment of goals by the business management means achievement of an effective internal control. In recommendation, the study suggested that there is need for the employees responsible for preparation of financial statements and reporting to be transparent and honest and also be held accountable for any misreporting. In addition, the study recommends that there is need to take legal actions for those who have misused organisational funds and recoveries made.

# CHAPTERONE

# INTRODUCTION

# 1.0 Chapter overview

This chapter contains background information about the problem under study, the problem statement, and purpose of the study, research objectives, research questions, scope and significance of the study.

# 1.1 Background to the study

The study is about the role of Internal Controls in the Financial Performance of Public Hospitals in the Elgon Region of Uganda, a case study of Bududa Hospital.

The study on internal controls and financial performance is important to any organization because a sound internal control system helps an organization to prevent frauds, errors and minimize wastage. Custody of assets is strengthened; it provides assurance to the management on the dependability of accounting data eliminates unnecessary suspicion and helps in maintenance of adequate and reliable accounting records. Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way (Jenning et al., 2008).

According to Dixon et.al., (2000) properly instituted systems of internal control improves the reporting process and also gives rise to reliable reports which enhance accountability function of management of an entity.

Kaplan (2008) explains that while no practical control system can absolutely assure that financial reports will not contain material errors or misstatements an effective system of internal control over financial reporting can substantially reduce the risk of such misstatements and inaccuracies in organization’s financial statement.

Brennan and Soloman (2008) define internal controls as the measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions. They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organizations communication processes, internally and externally, and include procedures for handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization’s financial statements, maintaining inventory records of real and other properties and their whereabouts. In this study, internal controls means the control environment, control activities and monitoring and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of Bududa Hospital’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

A process effected by the entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achieving of the objectives in the categories of reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

According to the COSO (2002) Framework, the internal control system can be judged effective when all its components are present and properly functioning. As the internal control system is composed by internal managerial processes that cannot be directly observed from outside, disclosure about internal control system is crucial for investors to make their own assessment on its effectiveness. The recent trend in European regulation shares this view, asking for disclosure covering both the structural components of an internal control system and its processes and functioning such as control environment, risk assessment, control activities, information, and communication and monitoring. Internal control systems are therefore fundamental to the success and survival of organizations. They keep the organizations on the rails. But organizations sometimes go off the rails. This was the problem (US corporate failure) that resulted in the report of the Treadway Commission (on fraudulent financial reporting) and in the formation of the Committee of Sponsoring Organization of the Treadway Commission (COSO).

According to Sebbowa (2009), financial performance is the process of measuring the result of a firm’s policies and operations in monetary terms. Financial performance is the ability of an organization to run its operations efficiently to be able to create profits. Financial performance is considered in terms of measures like profitability (using absolute and relative measures), liquidity (using ratios current ratio, acid test, the ability of the entity to settle its financial obligations) and accountability (in terms of financial accountability). Financial performance was measured in terms of financial reporting, surplus as well as financial accountability. In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects.

Internal controls exist to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Bateman and Snell (2012), contend that the importance of Internal Controls goes beyond preventing risks. The same internal controls can also be used to systematically improve businesses, particularly in regard to effectiveness and efficiency; starting by maintaining the segregation of duties.

Bududa Hospital is a hospital in the Eastern Region of Uganda, with bed capacity of 126, was built in the 1960s by the government of Prime Minister Milton Obote (1962 - 1971). The hospital has not received any renovations since it was constructed. Like many of Uganda's public hospitals, Bududa General Hospital is located in Bududa District, in Bugisu region about 37kilometres (23 mi) southeast of Mbale District. Bududa Hospital works collaboratively with health care policymakers such as Ministry of Health (MOH) Uganda AIDS Commission, managers, providers, and the private sector to increase the efficacy, efficiency, and sustainability of health services by improving management systems, and promoting access to services.

Bududa Hospital is of strategic importance to the community and the country as a whole. It deals with Health Systems Strengthening, Health Service Delivery, and Human Resources for Health, Pharmaceutical Management, and Health Information provision amongst others. Bududa Hospital serves a population of over hundred thousands of people in Bududa district and it is surrounded with the number of districts like Manafwa, Namisindwa, Bulambuli, Part of Sironko (people who come from Sironko pass via Bushika forest). Because of the numerous service provision it covers which include: Health Service Delivery, Human Resources for Health, Pharmaceutical Management, Health Information, HIV and AIDS, Tuberculosis, Family Planning and Reproductive Health, Maternal, Newborn, and Child Health, Other Communicable Diseases Chronic Diseases management among others, all of which are important to human survival, the large resources of Bududa District Local Government funds assigned to Bududa Hospital for instance during the Financial Year 2015/2016 a total of UGX 29,733,400 was released for both TB Care I Project. It is on this basis that one needs to find how such large amount of funds have been used hence the controls put in place. The study is important because of the role played by Bududa Hospital in ensuring the population is living a health life so as to be able to be active economically which can lead to the development of the nation.

Bududa Hospital serves a population of over eight hundred thousand (800,000) of people from the areas of Bumwalukane, Bushiyi, Bumatanda, Buwali, Bukalasi, Bunaporo,Bulucheke, Bukigai, Bushika, Bubita, Bunamubi, Bumayoka, Bumwalye, Bushilibo and Bududa Town council.

According to the Bududa Hospital Strategic Plan (2015-2020), Bududa Hospital overriding mission is to save lives and improve the health of the district’s poorest and most vulnerable people by closing the gap between knowledge and action in public health. Together with partners, Bududa Hospital aims to improve health services for the greatest health impact.

In the Public Accounting and Management Policy (2013), Bududa Hospital recognizes internal control system and the use of internal controls as a key aspect in ensuring improved financial performance. The policy specifically spells out the following objectives in line with the application of internal controls:

1. To provide adequate control environment that ensures reliable financial reports
2. To enhance compliance with established laws through strategic control activities
3. To ensure timely and accurate information and communication of financial related matters
4. To ensure that all funds received are properly receipted and accounted for
5. To monitor and implement performance management systems to ensure efficiency
6. To create a clear system that is understood by users to achieve maximum compliance
7. To ensure that all tasks are being completed according to standards
8. To ensure proper use and safeguards of hospital assets

This study focused on the first three objectives, which are; to provide an internal control environment that ensures reliable financial reports; to enhance compliance with established laws through strategic control activities; and to monitor performance for effectiveness and efficient operations.

# 1.2 Problem statement

In spite of the above stated objectives of internal control systems as stipulated in Bududa Hospital, there is evidence to contrary.

According to Auditor General Report (2016) for the financial years 2013 and 2014, 2014/15; Funds to the tune of UGX 102 million were spent without proper authorization and supporting document. This could be attributed to non-compliance with accounting laws and regulations. Auditor General’s report (2017) indicates that Medicines and health supplies worth UGX.93, 878,108 from Bududa Hospital main store were not properly accounted for. Medicines were purportedly issued to patients whose numbers were duplicated some of the mechanisms were assessed from private clinics in the neighboring districts of Mable and Manafwa.

Auditor General Report further revealed that medicines and health supplies worth UGX.7, 434,985 expired in the store yet patients were referred to buy related drugs and supply. The health monitoring report (2017), pointed out that the hospital administration spent money on items which were not budgeted, including lunch allowance and workshops. It is upon such evidence that the study intends to examine the role of internal control on financial performance of Bududa hospital.

# 1.3 Purpose of the study

The purpose of the study was to examine the role of Internal Controls in the Financial Performance of Public Hospitals in Elgon Region of Uganda, using Bududa Hospital as a case study.

# 1.4 Objectives of the Study

The study was guided by the following objectives:-

1. To establish whether the control environment ensures reliable financial reporting in Bududa Hospital.
2. To examine how control activities; promote value for money in Bududa Hospital.
3. To establish how Compliance with laws and regulations ensures accountability in Bududa Hospital.

# 1.5 Research questions

The study was guided by the following questions.

1. How does the control environment ensure reliable financial reporting in Bududa Hospital?
2. How do control activities promote value for money in Bududa Hospital?
3. How does Compliance with laws and regulations ensure accountability in Bududa Hospital?

# 1.6 Research hypothesis

H0: There is no significant relationship between internal controls and financial performance in Bududa Hospital.

H1: There is a significant relationship between internal controls and financial performance in Bududa Hospital.

# 1.7 Scope of the study

The scope of the study included the subject scope, geographical scope and time scope as shown below:

# 1.7.1 Subject scope

The study focused on establishing how the control environment ensures reliable financial reporting; examining how control activities promote value for money; and establishing how Compliance with laws and regulations ensures accountability for the operations at Bududa Hospital.

# 1.7.2 Geographical scope

The study was carried out in Bududa Hospital. The hospital is located in the town of Bududa, in Bududa District, in Bugisu region, in the Eastern Region of Uganda, about 37 kilometres (23 ml)Southeast of Mbale Regional Referral Hospital. The coordinates of Bududa Hospital are: 1°00'34.0"N; 34°19'58.0"E (Latitude: 1°00'34.0"N; Longitude: 34°19'58.0"E).

# 1.7.3 Time scope

The study considered information for three years compiled from 2014 to 2018. This is the period when the hospital was facing financial performance problems.

# 1.8 Setting of the study

Bududa Hospital is a hospital in the Eastern Region of Uganda, with bed capacity of 100, was built in the 1960s by the government of Prime Minister Milton Obote (1962 - 1971). The hospital has received a renovation of (3) three buildings since it was constructed. The hospital is located in the town of Bududa, in Bududa District, in Bugisu region, in the Eastern Region of Uganda, about 37 kilometres (23 mi) southeast of Mbale District and serves almost 800,000 people from the areas of Buwali, Bulcalasi, Bunaporo, Bulucheke, Bukigai, Bushika, Bubita, Bunamubi, Bumayoka, Bumwalye, Bushilibo and Bududa Town council.

# 1.9 Significance of the study

The research findings, conclusions and recommendations may be beneficial to different stakeholders in various ways as shown below:

**The management of Bududa Hospital:** The findings of this study may be of prime benefit to the management of Bududa Hospital since gaps will be identified in the internal control system and this may help the management to design strategies on how to address such loopholes.

**The management of other related hospitals:** Managers in other related hospitals may use the findings and recommendations of this study to improve on their internal control systems in their management of finances.

**Practitioners:** The findings of this study may further provide gaps for accounting practitioners to improve on their knowledge of internal control systems and their importance.

**Other researchers:** This study may provide valuable information to other researchers on which they can build to do more research on internal control system related issues.

# 1.10 Structure of the research

This research comprised of eight chapters:

**Chapter one:** Chapter one presents the background to the study, problem statement, and objectives of the study, research questions, and purpose of the study, scope and significance of the study.

**Chapter two:** Chapter two presented the study literature. It highlights literature survey, literature review and a conceptual framework.

**Chapter three:** Chapter three Presents research methodology, which includes the research design, study population, sample size, data collection procedures, data collection methods, data collection instruments, data processing, data analysis, ethical considerations and limitations of the study.

**Chapter four:** Presents the findings and discussion related the control environment ensurere liable financial reporting at Bududa Hospital

**Chapter five:** Presents the findings and discussions on how control activities promote value for money at Bududa Hospital

**Chapter six:** Presents the findings and discussions on how Compliance with laws and regulation censure accountability for the operations at Bududa Hospital.

**Chapter seven:** Presents ways and means of consolidating internal control systems and financial performance at Bududa Hospital

**Chapter eight:** Draws conclusions and recommendations from the findings of the study

**CHAPTERTWO**

# STUDYLITERATURE

# 2.0 Introduction

This chapter contains three parts which include the literature survey, literature review and conceptual framework of the study variables. Literature survey looks at research works conducted locally by different scholars in Uganda in the area of internal control systems with the purpose of establishing the gaps left in those studies. This provides a basis for the current study, by proposing how it was addressed to establish the gaps left by previous studies. Literature review examines how the same study problem has been or is being handled elsewhere. The purpose is to provide the conceptual framework upon which the current study can be based on.

# 2.1 Literature survey

In a study by Mpata (2015) on the Effect of Internal Audit Department Function on the Performance of the Internal Control System of a Public Hospital in Uganda, This study set out to examine the effect of the internal audit department junction on the performance of the internal control system in a not-profit making hospital It focused on Mengo Hospital in Uganda. The research was based on the premise that the hospital sector in Uganda has witnessed modest growth over the last decade with numerous financial challenges that culminated into a significant decline in service delivery. One strategy that can work to ameliorate the situation is having in place a system of internal controls that this study examines. A survey questionnaire approach was used for data collection from the different departments of the hospital The study reveals that internal audit junction has significant influence on the performance of the internal control system in public hospitals through the following; (1) management and reporting of financial information (]! =. 648, t= 7.508, p <0.001); (2) compliance with hospital laws and regulations (/I = .311, t = 2.894, p <0.005); (3) adhering to accounting procedures (/I = .600, t = 6.626, p <0.001); and (4) hospital professional finance management practice 05 = .567, t = 6.072, p<0.001). It was coincided therefore that for public hospitals that are not- for profit, there is an urgent need for the governing bodies and top management to ensure that the internal audit function is not only independent as a department but also that such a department is empowered to monitor, verify and control the use of funds so that all the other departments are able to sagaciously carryout their responsibilities and obligations so as to influence the general service delivery and fulfill the mission that is geared towards patient care. This study with similar variables to the current study did not address internal controls and financial performance specific to Bududa hospital which the current study tries to fill.

In a similar study by Ntongo (2015) on internal controls, financial accountability and service delivery in the private health sector in Uganda. The study based on a case study of Agakhan Hospital. This study examined the relationship between internal controls, financial accountability, and service delivery in the private health sector in Uganda. This study was prompted by the wide spread discontent among the people for luck of basic health facilities like drugs and equipment despite government Public Private Partnership in health to improve access and quality of health service delivery. Even NGO’s charge high user fees such that patients still resort to government hospitals where there very high patient turn ups with big numbers not even attended to. A quantitative cross sectional survey design was used to collect data from a sample of 97 Health centers from five divisions in Kampala District. Stratified random sampling techniques were used in selecting the sample. Questionnaire was the main instrument of data collection and the Statistical Package for Social Sciences (SPSS) was used for analysis.

The findings of the study revealed that there is a significant positive relationship between the three variables studded (Internal Controls, Financial Accountability, and Service Delivery). Furthermore, the findings showed that both internal controls and financial accountability were significant predictors of service delivery. However, it was indicated that internal controls was the most significant predictor of service delivery as compared to financial accountability. In addition, it was revealed that there were also other predictor of service delivery apart from internal controls and financial accountability.

This study like the previous one did not look at Bududa Hospital and more so it focused on private hospitals yet the current study intends to fill the gap in literature specific to Bududa Hospital.

# 2.2 Literature review

The theoretical basis for establishing a relationship between financial performance and internal control systems has been documented in various literatures. Internal control systems that have been confirmed to have a relationship with business organization financial performance include: organization, segregation of duties, physical authorization and approval, arithmetical and accounting, personnel, supervision, management, acknowledgement of performance and budgeting (Weber, 2008).

# **2.2.1 Theoretical review**

This study was guided by “The Principal Agency theory” as put across by Jensen and Meckling (1976:l) and later expanded on by Sarens and Abdolmohammadi (2010:1-20). According to the theory, a company consists of a nexus of contracts between the owners of economic resources and managers who are charged with using and controlling those resources (Jensen and Meckling, 1976:5). Principal Agency theory posits that agents have more information than principals and that this Information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly servedby agents. The theory also assumes that principals and agents act rationally and use contracting to maximize their wealth which may lead to moral hazard problem indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals.

As argued by Tanzi (2000:445) between their creation and their final implementation, fiscal decisions go through many stages at which mistakes, indifference, passive resistance, implicit opposition and various forms of principal agent problem may distort the outcome. The Uganda Public Finance Management Act 2015 met such indifference and passive resistance which led to its amendment less than a year after its enactment. The Accountants Act 2013 also met such resistance, leading to the recruitment of non-professional members of the institute in Accounts and Audit departments contrary to Sec 34(2) of the Act which has affected FP in the public sector. Deegan and Unerman (2006:215) noticed that with the agency theory the firm itself is considered to be a “nexus” of contracts. These contracts are used with the intention of ensuring that technocrats who are agents align their own interest with the interest of the council to achieve its objectives. Local government (principal) does not directly promote the achievements of the objectives of the hospital but uses the local government structures to do so by setting up the government rules and incentives to align the interest of the technocrats to that of the local government. Internal control as one of the many mechanisms used in business to address the principal agency problem and it has been proven that internal control reduces agency cost. For the purpose of this study principal agency theory has been chosen. GoU has put in place a reward system for the best-performing government entities to ensure that the technocrats who are agents in this study are motivated to maximize the value of the entity (LG Finance Commission, 2003).

# **2.2.1.1 The concept of internal controls**

Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions. They are a set of policies and procedures adopted by an entity in ensuring that an organization’s transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources. Internal Controls are processes designed and implemented by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Mwindi, 2008). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity’s management and board of directors that the organization’s objectives will be achieved. “The likelihood of achievement is affected by limitations inherent in all systems of internal control” (Hayes et. al, 2005).

Organizations establish systems of internal control to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations. An internal control system comprises the whole network of systems established in an organization to provide reasonable assurance that organizational objectives will be achieved. Benefits of an internal control system include effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

Anduru (2005) points out the importance of internal control systems. He notes that the external auditors find it difficult to rely on internal control systems of small and medium scale enterprises. This is so because such business entities have not established elaborate systems of internal controls, there is no adequate segregation of duties and there are no assurances as to the completeness of recording business transactions. Ongoing monitoring activities of small entities are more likely to be informal and typically performed as part of the overall management of the entity’s operations (Wamae, 2005).Management’s close involvement in operations often will identify significant variances from expectations and inaccuracies in financial data leading to corrective action to the controls. Wolf (2004) argues that basic concepts of the entity’s risk assessment process are relevant to every entity, regardless of the size, but the risk assessment process is likely to be less structured in small entities than in larger, well established entities.

Weber (2008) points out those small entities may implement the control environment elements differently than larger entities. Small entities might not have written codes of conduct. Moreover, those charged with governance in small entities may not include an independent or outside member. Small entities are less committed to the advancement or hiring of qualified personnel to positions of responsibility in business entities. Small scale enterprises are mostly managed by family members and close relatives who show less interest in following internal control systems they have to the latter. Internal controls are a function of internal audit function (Messier, 2007). Small entities have disregarded this important function whose benefits may prove to be more than the costs of having none. Messier (2007) points out that a firm’s performance depends heavily on a sound internal audit function. Small and medium sized businesses are not too small for effective internal controls (Putra, 2011). Even a relatively small business can enforce certain internal controls that are very effective. To have a competitive edge over the rest of the firms, business entities constantly carry out appraisals of their internal control systems. Therefore, the basis of superior enterprise financial performance is stronger, reliable and up to date systems of internal controls.

# **2.2.1.2 Elements of Internal Control**

Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgement resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives. For the purpose of this study, the components of ICS are limited to three; control environment, control activities and monitoring of controls (Anduuru, 2005).

# **2.2.1.3 Control environment**

The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people (Whittington and Pany, 2001). Management attitude should be committed to ethical business practices and to following the established control procedures. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include: Integrity and ethical values; the commitment to competence; leadership philosophy and operating style; and the way management assigns authority and responsibility, and organizes and develops its people.

# **2.2.1.4** Control activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Control activities usually involve two elements: a policy establishing what should be done and procedures to affect the policy. All policies must be implemented thoughtfully, conscientiously and consistently (Anduuru, 2005).

# **2.2.1.5 Compliance with established laws and procedures**

Internal control is a multifaceted concept and has been defined in various ways in management control literature. Dawson (2003), provide one of the narrower definitions of IC and they view IC as a part of the overall management control system comprising of the measures taken by an organization to monitor performance while operations are in progress.

Anthony (2004) suggests that it is not solely a procedure or policy that is performed at certain Point in time but rather a continually operating and integrated system at all levels within an organization which consists of five interrelated components, Control environments, risk assessment, control activities, information and communication; and monitoring of performance. Doyle et.al (2007) concurs that it is generally felt that all the five components must be present for an internal control system to be considered as effective and contribute to monitoring performance.

# 2.2.1.6 Monitoring **of controls**

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance (Colbert and Bowen, 2006). The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards. Internal control systems change over time. The way controls are applied may evolve once effective procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures. Furthermore, circumstances for which the internal control system was originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks (Roth, 2007).

# **2.2.1.7 Information and communication**

According to Britnell (2001), Information and communication refer to the systems put in place by an organization to identify, capture, process and report relevant and reliable information in a timely manner so that people can carry out their responsibilities effectively. In addition, these systems deal with both internally and externally generated/required data and flows both vertically and horizontally in the organization.

Gaskill (2000), looks at information and communication component as the identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish the financial reporting objectives. Open channels of communication are necessary to allow information to flow throughout the entity and into the financial statements and therefore management should discuss the identification, capture, and flow of financial information in its report (Richard and Janet 2007).

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (2005) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 2009). Hitt, et.al (2006) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

# **2.2.1.8 Control environment and reliability of financial reporting**

The AICPA (2003) points out that the control environment protects an organization from fraudulent reporting in the financial statements. There are two ways in which a material misstatement could occur with respect to fraud: misappropriation of assets and fraudulent financial reporting. Misappropriation of assets, as the name suggests, refers to the theft of company assets that may result in the company’s financial statements being materiality misstated (AICPA, 2003). According to ACFE (2007), fraud is any intentional or deliberate act to deprive another of property or money by deception or other unfair means. The association also classifies fraud into eight categories namely; misrepresentation of material facts, concealment of material facts, corruption, illegal gratuity, extortion, conflict of interest, embezzlement and theft .Fraud refers to any illegal act characterized by deceit, concealment, or violation of trust. According to Cressey, Martin et al. (2002), three factors that are present in every situation of fraud: motive or pressure the need for committing fraud: need for money; rationalization - the mind-set of the fraudster that justifies them to commit fraud; and opportunity the situation that enables fraud to occur - often when internal controls are weak or non-existent.

Earlier the control environment used to deal with fraud more directly than today. The situation started to change when the scope of internal control services expanded, so the accent was more on preventing than detecting fraud. It turned out that effects were greater if a good internal control system and management procedures were developed to reduce the possibilities of fraud. Such a transition from fraud detection to development of better systems and procedures for fraud prevention enabled internal auditors to provide more constructive services through the operational audit. However, internal auditors should always be aware of their real responsibilities while providing help in fraud prevention and detection. Management bears the responsibility for proper financial reporting because misrepresentation of financial information could spurn disaster for stakeholders. Nevertheless, there always appears the question during the fraud investigation “When was the last audit conducted? “Or “Where were the auditors? “. Once fraud takes place, auditors become responsible to explain why they failed to detect weaknesses that could lead to a fraud. Internal control is expected to identify possibilities of better prevention which is more desirable than detection. The role of internal control is determined by the standards of professional practice.

According to these standards internal auditors should be aware of intentional violations, mistakes and omissions, inefficiency, spoilage, ineffectiveness, and conflicts of interest. Internal control cannot provide absolute assurance in avoiding irregularities, but it can highlight the probability of faultiness. Standards do not place the responsibility for fraud detection on internal control. Yet these standards require internal auditors to expect potential conditions for fraud, identify the possibility for their existence, and to be aware that fraud might occur during the auditing process. Numerous financial scandals have proven that many financial statement frauds were influenced intentionally or not by external auditors’ advice and lack of warning when the risk of fraud existed. Therefore, companies have realized that it is safer and cheaper to establish their own internal control system in order to prevent fraud in the future.

Employee fraud is a significant problem faced by organizations of all types, sizes, locations and industries. While we would all like to believe our employees are loyal and working for the benefit of the organization (and most of them probably are), there are still many reasons why your employees may commit fraud and several ways in which they might do it. Prevention and detection are crucial to reducing this loss. Every organization should have a plan in place as preventing fraud is much easier than recovering your losses after a fraud has been committed.

# **2.2.1.9 Internal controls and value for money**

Internal controls are policies and procedures put in place to ensure the continued of accounting systems. Accuracy and reliability are paramount in the accounting world. A major objective of most perhaps all service delivery organizations is to procure or to successfully acquire the goods, works or services concerned on the best possible terms. This is often referred to as value for money or efficiency or economic efficiency (Arrow smith, 2000). Without accurate accounting records, managers cannot make fully informed financial decisions, and financial reports can contain errors which affects the value for money. Internal control procedures in accounting can be broken into seven categories, each designed to prevent fraud and identify errors before they become problems.

General controls consist of practices designed to maintain the integrity and availability of information processing functions, networks, and associated application systems. These controls apply to business application processing in computer centers by ensuring complete and accurate processing. These controls ensure that correct data files are processed, processing diagnostics and errors are noted and resolved, applications and functions are processed according to established schedules, file backups are taken at appropriate intervals, recovery procedures for processing failures are established, software development and change control procedures are consistently applied, and actions of computer operators and system administrators are reviewed. Additionally, these controls ensure that physical security and environmental measures are taken to reduce the risk of sabotage, vandalism and destruction of networks and computer processing centers.

Input controls ensure the complete and accurate recording of authorized transactions by only authorized users to procure and acquire goods and services; identify rejected, suspended, and duplicate items; and ensure resubmission of rejected and suspended items. Examples of input controls are error listings, field checks, limit checks, self-checking digits, sequence checks, validity checks, key verification, matching, and completeness checks. Processing controls ensure the complete and accurate processing of authorized transactions. Examples of processing controls are run-to-run control totals, posting checks, end-of-file procedures, concurrency controls, control files, and audit trails.

Output controls ensure that a complete and accurate audit trail of the results of processing is reported to appropriate individuals for review. Examples of output controls are listings of master file changes, error listings, distribution registers, and reviews of output.

Ineffective internal controls have a negative effect on firm operational efficiency for two non­exclusive reasons. First, ineffective internal control leads to greater information risk, which increases agency problems and the likelihood of misappropriation of corporate resources by managers and other employees (Lambert et al. 2007). In addition, ineffective internal control in the form of inadequate physical security, inadequate segregation of duties, and inadequate documentation further allows the misappropriation of resources by employees. If resources available for production are diverted for managers’ and other employees’ personal consumption, the outputs generated for a given amount of inputs will be reduced, leading to lower operational efficiency. Second, ineffective internal control can result in erroneous internal management reports and untimely financial reporting information (Feng et al. 2009). Managers relying on such reports are more likely to make suboptimal operational decisions, leading to inefficiencies such as inventory obsolescence, increased inventory storage costs, and/or idle capacity. This can lead to higher input costs incurred for a given amount of outputs and hence lower operational efficiency.

Feng et.al, (2013) argue that inventory-related material weaknesses in internal control can result in suboptimal order quantities, leading to higher inventory levels and higher holding costs. In addition, inaccurate inventory tracking and internal valuation processes can lead to mismanagement of inventory, resulting in larger and more frequent inventory impairments as out-of-date or obsolete product loses market value. Consistent with their expectations, they find that firms with ineffective internal control over inventory have systematically lower inventory turnover and a higher likelihood and magnitude of inventory impairments.

Doyle et.al, (2007a) and Ashbaugh-Skaife et al. (2008) agree that effective internal control can enhance financial reporting quality, proxied for by accruals quality and the size of abnormal accruals. Beneish et al. (2008) and Ashbaugh-Skaife et al. (2009) agree that effective internal control reduces information risk, which in turn lowers a firm’s cost of equity.

Internal control as comprising the plan of an organization and all the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, prorate operational efficiency and adherence to prescribed managerial policies. The definition of internal control is divided into financial internal control and non- financial (administrative) internal control. Financial internal control pertains to financial activities and may be exemplified by controls over company’s cash receipts and payments financing operations and company’s management of receipts and payments. Non-financial internal control on the other hand deals with activities that are indirectly financial in nature that is controls over company’s personnel section and its operations, fixed assets controls and even controls over laid down procedures (Reid and Ashelby, 2002).

A sound internal control system helps an organization to prevent frauds, errors and minimize wastage. Custody of assets is strengthened; it provides assurance to the management on the dependability of accounting data eliminates unnecessary suspicion and helps in maintenance of adequate and reliable accounting records.

Mawanda (2008), states that “there is a general perception that institution and enforcement of proper internal control systems will always lead to improved financial performance”. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. Preparing reliable financial information is a key responsibility of the management of every public company. The ability to effectively manage the firm’s business requires access to timely and accurate information.

Management’s ability to fulfill its financial reporting responsibilities depends in part on the design and effectiveness of the processes and safeguards it has put in place over accounting and financial reporting. Without such controls, it would be extremely difficult for most business organizations especially those with numerous locations, operations, and processes to prepare timely and reliable financial reports for management, investors, lenders, and other users. While no practical control system can absolutely assure that financial reports will never contain material errors or misstatements, an effective system of internal control over financial reporting can substantially reduce the risk of such misstatements and inaccuracies in a company’s financial statements (Kaplan, 2008).

Cunningham (2004) states that internal control systems begin as internal processes with the positive goal of helping a corporation meet its set objectives. Management primarily provides oversight activity; it sets the entity's objectives and has overall responsibility over the internal control systems. Internal controls are an integral part of any organization’s financial and business policies and procedures. Internal controls consist of all the measures taken by the organization for the purpose of; protecting its resources against waste, fraud and inefficiency; ensuring accuracy and reliability of accounting and operating data; ensuring compliance with the policies of the organization; evaluating the level of performance in all organizational units of the organization.

Internal controls lead to the promotion of adherence to laws, regulations, contracts and management directives and the development and maintenance of reliable financial and management data, and accurately present that data in timely reports (Kaplan, 2008; Cunningham, 2004).

# **2.2.1.10 Information monitoring, communication and accountability for operations**

Information flow is essential to effecting control, information about an organization’s plan, control environment, risks, control activities and performance must be communicated up to provide accountability of operations (Ruttrman Working Group, 2004). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers, 2004). Information systems produce reports, containing operational financial and compliance related information that makes it possible to run and control an organization (COSO, 2002).

Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal control therefore has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Beeler et al, 2009).

Fadzil et al (2005) said that an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular a review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner, 2003).

Most organizations no longer set up internal control system as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out (Kenyon and Tilton, 2006). Further, organizations are making it a point of duty to train, educate, and sensitize their employees on how to use these internal control systems since its effectiveness depends on the competency and dependability of the people using it. All these control actions ensure that any risks that may affect the company’s ability to achieve its goals are appropriately avoided and should occur at all levels and in all functions of the organization ((Doyle et. al, 2005).

There are three major classifications of internal controls; preventive, detective, and corrective. Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omission or malicious act from occurring. The detective controls are used to detect and report the occurrence of an omission, an error or a malicious act. Finally, the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem (Singleton, 2006).

# **2.3 Conceptual framework**

The conceptual framework gives the course of action for the study. It is the foundation on which the study is established.

**Independent variable Dependent variable**

**Internal controls**

* Control environment
* Control activities
* Compliance with laws and regulations

**Financial performance**

* Reliable financial reporting
* Value for money
* Accountability for operation

**Intervening variables**

* Accounting policy
* Competent staff
* Motivated staff
* Appropriate technology

**Source: Adopted from COSO (2002) and modified by the researcher (2019).**

# **Figure 2.1: Conceptual framework**

From the above Conceptual framework, it is clear that Internal controls as an Independent variable as measured by the Control Environment; Control Activities; Information Monitoring and communication; Compliance with laws and regulations; and compliance with policies and procedures affects Financial Performance, a dependent variable as measured by reliable financial reporting; Value for money; and accountability for operations. However, there are also moderating factors like accounting policies established by the hospital, competence of staff employed, motivation of staff and the technology used.

# CHAPTER THREE

# METHODOLOGY

# 3.0 Introduction

This chapter describes the research methodology that were used to guide the study and this included: the research design, target population, sample and sampling design, data collection methods and instruments, data processing, data analysis procedures and limitations of the study.

# 3.1 Research design

According to Owen (1996) a research design is an outline of how an investigation is carried out and indicates how data is to be collected, what instruments to be used and how the data was collected and analyzed. The research design consists: research approach, research strategy, research duration and research classifications.

# 3.2 Research approach

The research approach can either be positivism approach, phenomenological approach or combination approach. The researcher used a combination approach using both quantitative and qualitative information.

# 3.3 Research strategy

A research strategy is a plan of how to answer the research questions. The researcher used a case study strategy which involved collecting data from respondents to find out the role of internal controls in financial performance.

# 3.4 Research duration

The research duration can either be cross sectional, which is a study of particular phenomena at a partial time or longitudinal, which is studying changes and developments over a long period of time. The researcher used a cross sectional research design for this study. The researcher used a cross-sectional survey design because the study intends to pick only some representative sample elements of the cross-section of the population. The study was cross-sectional because it was conducted across participants over a short period of time and it does not necessitate the researcher to make follow-ups of the participants. The survey is also preferred for it allows the researcher to get detailed aspect of the research issue under study.

# 3.5 Research classification

The research was classified according the purpose such as: exploratory, descriptive, explanatory, and multi method. The researcher used the explanatory approach to establish the relationship between the research variables.

# 3.6 Study area

The study was carried out in Bududa Hospital. The hospital is located in the town of Bududa, in Bududa District, in Bugisu sub-region, in the Eastern Region of Uganda, about 37 kilometres(23ml) southeast of Mbale Regional Referral Hospital. The coordinates of Bududa Hospital are: 1°00'34.0"N; 34°19'58.0"E (Latitude: 1°00'34.0"N; Longitude: 34°19'58.0"E).

# 3.7 Study population

The study population comprised of the entire staff of Bududa Hospital in the various departments including Senior Accounts Assistant 1, Accounts Assistant 1, Hospital administrator 1, Human resource officer 1, Personnel officer 1, Store assistant, 1 Dispensary 2, Enrolled Nurses 24, Nursing Assistants 6, Enrolled Midwives 12, Dentist surgeon 1, Dental assistant 1, Senior medical officer 1, Medical officer 2, Laboratory Technologist 1, Laboratory technician 2, Laboratory assistant 1, and Pharmacists 1 totaling to 80.Sekaran (2003) explains that when the population size is less than 100 it better to study it entirely to obtain good results.

# 3.8 Sample size

The sample size for the current study is selected based on census sampling.

# Table 3.1: Population and sample size

|  |  |  |  |
| --- | --- | --- | --- |
| Department | Population | Sample | Sampling method |
| Senior Accounts Assistant  | 1 | 1 | Census |
| Accounts Assistant  | 1 | 1 | Census  |
| Hospital administrator  | 1 | 1 | Census |
| Human resource officer  | 1 | 1 | Census  |
| Personnel officer  | 1 | 1 | Census  |
| Store assistant  | 1 | 1 | Census |
| Dispensary | 2 | 2 | Census |
| Enrolled Nurses | 24 | 24 | Census |
| Nursing Assistants | 16 | 16 | Census |
| Enrolled Midwives | 22 | 22 | Census |
| Dentist surgeon  | 1 | 1 | Census |
| Dental assistant  | 1 | 1 | Census |
| Senior medical officer  | 1 | 1 | Census |
| Medical officer  | 2 | 2 | Census |
| Laboratory Technologist  | 1 | 1 | Census |
| Laboratory technician  | 2 | 2 | Census |
| Laboratory assistant  | 1 | 1 | Census  |
| Pharmacists  | 1 | 1 | Census  |
| Total  | **80** | 80 |  |

**Source: Bududa Hospital Updated Staffing Norm**

# 3.9 Background information of respondents

In this section, respondents were asked to provide their background information and their results are presented in tables.

# 3.9.1 Gender of respondents

Respondents were asked to state the gender category they belonged to. Results are presented in table 3.2

# Table 3.2: Gender

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 24 | 40.0 | 40.0 | 40.0 |
| Female | 36 | 60.0 | 60.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in the table 3.2, results indicate that majority of respondents that is 60.0% belonged to the female gender while minority belonged to the male gender with 40.0%. However, this was not purposively done, but was due to the convenience sampling procedure that was adopted in this study. However, all respondents irrespective of gender fully participated in the study by providing the most relevant information about the study.

# 3.9.2 Age of respondents

Respondents were asked to identify the age bracket they belonged to; results are shown in table 3.3

# Table 3.3: Age

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 20-30 years | 12 | 20.0 | 20.0 | 20.0 |
| 31-40 years | 21 | 35.0 | 35.0 | 55.0 |
| 41-50 years | 20 | 33.3 | 33.3 | 88.3 |
| Above 50 years | 7 | 11.7 | 11.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

It is indicated in table 3.3 that majority of the respondents that is 35. 0 were aged between the age brackets of 31-40 years of age. 20.0% were aged between 20-30 years, 33.3% were aged between 41-50 years while 11.7% were aged above. The results indicate that all respondents were well represented in terms of age.

# 3.9.3 Highest level of education attained

Respondents were also asked to identify the highest level of education attained. Results in are presented in table 3.4.

# Table 3.4: Highest level of education attained

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | O level | 2 | 3.3 | 3.3 | 3.3 |
| A level | 4 | 6.7 | 6.7 | 10.0 |
| Diploma level | 16 | 26.7 | 26.7 | 36.7 |
| Bachelor | 24 | 40.0 | 40.0 | 76.7 |
| Other, specify | 14 | 23.3 | 23.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 3.4 revealed that majority of the respondents had degree of bachelor as the highest level of education, 26.7% had diploma, 23.3% of the respondents specified that they had degree of master or doctorates in various fields, the lowest level of education was Ordinary level which was represented by 3.3%. The results can be interpreted to mean that respondents were knowledgeable to have a clear understanding of about the study variables hence provided reliable and relevant data.

# 3.9.4 Length of stay with the hospital

Respondents were also asked to identify the length of stay they had served with the hospital. Results are captured in table 3.5.

# Table 3.5: Length of stay with the hospital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1 to 3years | 22 | 36.7 | 36.7 | 36.7 |
| 3 to 6years | 19 | 31.7 | 31.7 | 68.3 |
| 6 years and above | 19 | 31.7 | 31.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 3.5 indicate that the majority of respondents that is 36.7% had served for a period of 1-3 years, 31.7% had served for a period of 3-6 years while 31.7% had served for a period of 6 years and above. This can be implied to mean that the respondents had been in the hospital for a longer time to have a clear understanding about the concepts of the study to provide a more reliable and relevant information for the study.

# 3.10 Sources of data

# 3.10.1 Primary data

The study obtained data primarily by using interviews and questionnaires methods.

# 3.10.2 Secondary data

The researcher also collected data from secondary sources; data prepared or developed by some other persons for other purposes other than helping to solve the problem at hand. The researcher got the data from the hospital’s accounting documents, account books and reports.

# 3.11 Sampling methods

The study used census sampling method.

# 3.11.1 Census method

A census is a study of every unit, everyone or everything, in a population. It is known as a complete enumeration, which means a complete count (Alterman, 1969). The researcher used census method taking into account every element in the population.

# 3.12 Data collection method

# 3.12.1 Questionnaire survey

The study utilized a survey where survey questionnaires were used to collect data. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires have advantages over some other types of surveys in that they are cheap, do not require as much effort from the questioner as verbal or telephone surveys that make it simple to compile data.

# 3.12.2 Interviewing

Interviewing is the process of asking respondents questions face to face in research in order to achieve the objectives of the research. The purpose of interviewing is to explore the views, experiences, beliefs and/or motivations of individuals on specific matters.

# 3.12.3 Documentary review

The researcher used documentary review method to get relevant information about the system of accounting used in Bududa Hospital. The researcher reviewed documents like the Hospital Accounting Policy, performance reports, and financial statements among others.

# 3.13 Data collection instruments

The researcher used mainly self-administered questionnaire and interview guides to collect data for the current study.

# 3.13.1 Self**-administered** questionnaires

The researcher used structured questionnaires in gathering data from the respondents. Close ended questionnaires were designed in such a way to reflect the objectives of the study. The researchers personally distributed the questionnaires to the respondents and collect them after the respondents have filled them. Questionnaires were used in data gathering because they are structured in a straight forward way and the information obtained from them is easily computed. Using questionnaires gave respondents convenient time to fill them without any pressure. The questionnaire were evaluated using a Likert scale of 1-5 where 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree.

In self-administered questionnaires, respondents answer at their convenience, there is no need to set up interview appointments, and no interviewer is present to inject bias in the way questions are asked.

# 3.13.2 Interview guide

The researcher also used the interview guide in collection of data required for the study and this was based on the study objectives. This is a qualitative technique and a face to face method that is done in a formal personal interview involving structure interviewing, whereby there is a well-designed document layout of questions in a particular order, making recording down of responses possible and easy. The researcher made appointments with the respondents to be interviewed and he asked questions and recorded them in the interview guide.

An interview allows the participant to describe what is meaningful or important to him or her using his or her own words rather than being restricted to predetermined categories; thusparticipants may feel more relaxed. It also allows the researcher to probe for more details and ensure that participants are interpreting questions the way they were intended.

# 3.14 Validity and reliability of tools

# 3.14.1 Validity

The validity was ensured by testing the instruments for validity of values using expert judgment method as recommended by Amin (2005). Concerning the validity, the researcher contacted administrators of Bududa Hospital to rate the instruments to help the researcher have a valid instrument. The validity of the questionnaires were based on the administrators’ advice. Results revealed that the validity range was 0.848 (84.8%) which is above 0.7, this is in the acceptable range.

CVI= No of items\*100

 Total Items

CVI= 28 \* 100

 33

CVI= 84.8%

# 3.14.2 Reliability

The research assessed reliability of the questionnaire using pilot study test. The pilot study was carried out to test whether the data collection instruments designed were in position to generate the needed information from the respondents. The researcher selected ten (10) people from the study area to test the reliability of set of the questionnaire in order to generate the intended study results.

# 3.15 Data processing

After data collection, the information was processed and analyzed. Data processing involved four processes namely; editing, coding, classification, and tabulation.

**Editing:** This was done just after data collection. The completed interview response schedules were thoroughly checked noting the relationships between the given answers and questions that were asked. The data collected were edited for completeness, accuracy, uniformity, consistency and comprehensibility.

**Coding:** This was done by classifying all the answers given by respondents into meaningful categories for the purpose of bringing out their important patterns. Coding is easier because some questionnaires in the interview schedule were open-ended. Responses to such questions were classified accordingly and a coding frame was constructed.

**Classification:** This was done due to the weight or volume of data. Voluminous raw data necessitated classifying into groups according to their attributes. This process helped to make data tabulation simple.

**Tabulation:** After editing, coding and classification, tabulation was done to give a clear presentation of various responses and the significance of each interpretation. This was based on the magnitude of the corresponding numbers and percentages of total respondents. Tabulation involved the counting and adding up of all the answers to a particular question to enable, statistical analysis of the data.

# 3.16 Data analysis

Data in this study was analyzed using descriptive statistics such as frequency distributions and percentages, correlations and regressions for the purpose of easy interpretation of data in order to infer the findings and draw concrete and comprehensive conclusions. The summarized data were analyzed in terms of frequency counts, percentages and inferential statistics such as; regression analysis and correlation coefficient to determine the relationship between the variables and also to test the hypotheses using SPSS version 20.

# 3.17 Data presentation

The data was collected and analyzed using both quantitative and qualitative data analysis methods. Quantitative method involved both descriptive and inferential analysis. Descriptive analysis such as frequencies and percentages was used to present quantitative data in form of tables and graphs. This involved coding both open and closed ended items in order to run simple descriptive analyses to get reports on data status. Descriptive statistics involved the use of absolute and relative frequencies, correlations and regressions.

# 3.18 Ethical considerations

Ethical considerations were catered for by first seeking authorization from the top management of Bududa Hospital through the introductory letter from the University. Questionnaires were structured in such a way that they did not require the respondents to mention their names. A statement as to the strict confidentiality with which data would be held was clearly stated in the questionnaire. The researcher also briefed the respondents as to the purpose of the study, their relevance in the research process, and expectations from them.

# 3.19 Limitations to the study

The researcher faced the following problems during the course of the study;

Survey method: The survey method has its inherent risk and limitation of subjectivity of the respondents, as every respondent interprets the question in their own understanding, however, the survey design was used, its limitation accepted and conclusions reached.

Some respondents were hesitant to give information as asked in the questionnaires. The researcher however informed them of the objectives of the research and confidentiality of the information that they provided.

Scheduling problems, especially with respondents to be interviewed; some respondents were too busy to be interviewed. The researcher kept in touch with all the respondents to harmonize schedules

# CHAPTER FOUR

# CONTROL ENVIRONMENT AND FINANCIAL REPORTING

# 4.0 Introduction

This chapter deals with the objective of the study; how the control environment ensures financial reporting in Bududa hospital. The chapter aims at examining the situation at Bududa hospital establishing whether the hospital has improved reliable financial reporting through control environment. 80 questionnaires were distributed to the respondents and 60 were filled and returned by the respondents representing 75% response rate. This is above the 50% recommended by Selkar (2003)

Effective internal control reduces the risk of asset loss, and helps ensure that plan information is complete and accurate, financial statements are reliable, and the plan’s operations are conducted in accordance with the provisions of applicable laws and regulations. When internal control is effective, the organization has reasonable assurance that the plan is achieving its financial reporting objectives.

Internal control varies depending on the plan’s size, type and complexity; whether the plan uses outside service organizations to process transactions and manage plan investments; and the size and qualifications of the department responsible for financial reporting.

Internal control should be based on a systematic and risk-oriented approach, to ensure that there are adequate individual controls in areas with high risk, and that they are not excessive in areas with low risk. Before making the decision to adopt a control, analyze the costs of establishing and maintaining it, and consider the potential benefits the control provides and the possible consequences of not implementing it

In an attempt to explore how control environment in Bududa hospital ensures reliable financial reporting, respondents were asked the following question and results are shown in tables below:

# 4.1 Workers have values that help the hospital to achieve its strategic objectives

Respondents were asked whether the workers have values that help the hospital to achieve its strategic objectives and results are summarised in table 4.1

# Table 4.1: Workers have values that help the hospital to achieve its strategic objectives

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 9 | 15.0 | 15.0 | 28.3 |
| Neutral | 7 | 11.7 | 11.7 | 40.0 |
| Agree | 19 | 31.7 | 31.7 | 71.7 |
| Strongly agree | 17 | 28.3 | 28.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to findings in table 4.1, it is indicated that 13.3% strongly disagreed, 15.0% disagreed while 11.7% were neutral, most of the respondents generally agreed to the statement, this had a combined percentage of 60.0% and it can be concluded to mean that employees determine where the organisation is going and how it is going to get there. Respondents also stated that workers have a clear understanding of the hospital’s mission statements, vision statement and applying this understanding into the organisational strategic objectives. In addition, it was revealed that the workers skills are leveraged in even more critical for the hospital.

# 4.2 Management provides leadership for reliable financial reporting to internal and external stakeholders

Respondents were also asked whether management provides leadership for reliable financial reporting to internal and external stakeholders. Results to the question are obtained in table 4.2

# Table 4.2: Management provides leadership for reliable financial reporting to internal and external stakeholders.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 9 | 15.0 | 15.0 | 28.3 |
| Neutral | 7 | 11.7 | 11.7 | 40.0 |
| Agree | 19 | 31.7 | 31.7 | 71.7 |
| Strongly Agree | 17 | 28.3 | 28.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Findings in table 4.2 13.3% of the respondents strongly disagreed, 15.0% disagreed stating that at times management is reluctant in providing leadership in terms of reliable reporting, results also revealed that majority of respondents generally agreed to the statement that is 28.3% who strongly agreed and 31.7% agreed respectively. This is interpreted to mean that management ensures to provide leadership for reliable financial reporting to internal and external stakeholders. During an interview session, one respondent expressed that;

*“Management leadership use financial and non-financial information to manage and direct their operations, while external stakeholders’ investors, suppliers, creditors, banks, and regulators use it to make investment decisions, to undertake transactions with organizations with confidence, and to exercise regulatory oversight. Given the critical role that financial statements play, it is imperative that efforts are made to examine ways to improve their quality, and to understand their purpose and limitations in providing a comprehensive view of an entity’s financial position”.*

# 4.3 There is commitment to operate the hospital efficiently and effectively

Respondents were also asked whether there is commitment to operate the hospital efficiently and effectively. Results are captured in table 4.3.

# Table 4.3: There is commitment to operate the hospital efficiently and effectively.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 22 | 36.7 | 36.7 | 36.7 |
| Disagree | 20 | 33.3 | 33.3 | 70.0 |
| Neutral | 5 | 8.3 | 8.3 | 78.3 |
| Agree | 10 | 16.7 | 16.7 | 95.0 |
| Strongly Agree | 3 | 5.0 | 5.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 4.3 revealed that majority of the respondents generally disagreed to the statement, which is 36.7% and 33.3% who strongly disagreed and disagreed respectively. Since this was the majority results, it can be concluded to mean that employees are not keen to following the right application of control environment. Respondents also stated that internal control is accompanied by accountability practices in place which have a significant relationship with return on investment of the hospital, therefore the employee’s lack of commitment to efficiently and effectively run the internal control system is a great hindrance to the hospital. 16.7% and 5.0% of the respondents agreed and strongly agreed respectively, these noted that some employees are responsible for the efficient and effective work performance at the hospital.

# 4.4 The hospital workers comply with all applicable laws and regulations

Respondents were also asked whether the hospital workers comply with all applicable laws and regulations. Results are presented in table 4.4.

# Table 4.4: The hospital workers comply with all applicable laws and regulations

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 21 | 35.0 | 35.0 | 35.0 |
| Disagree | 18 | 30.0 | 30.0 | 65.0 |
| Neutral | 7 | 11.7 | 11.7 | 76.7 |
| Agree | 8 | 13.3 | 13.3 | 90.0 |
| Strongly Agree | 6 | 10.0 | 10.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.4, it can be revealed that 13.3% agreed, 10.0% strongly agreed while 11.7% were neutral. 35.0% strongly disagreed while 30.0% disagreed to the statement; this is the majority results and can be implied to mean that employees do not comply with internal control and audit regulations. Respondents stated that the most hospital stuff do not understand cost inflation which can easily reflect significant changes in the product that the hospital offers. It was also stated that there are inconsistencies in the internal audit office which is responsible for providing an independent, objective and impartial appraisal of the activities of the hospital so as to contribute to the board assessment of the effectiveness of the systems of governance, risk management, controls and compliance. These inconsistencies of the internal control department make compliance with laws and regulations hard to follow.

# 4.5 The workers have the responsibility to safeguard all hospital assets

Respondents were also asked whether workers have the responsibility to safeguard all hospital assets. The results to this question are presented in table 4.5.

# Table 4.5: The workers have the responsibility to safeguard all hospital assets.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 5 | 8.3 | 8.3 | 8.3 |
| Disagree | 4 | 6.7 | 6.7 | 15.0 |
| Neutral | 2 | 3.3 | 3.3 | 18.3 |
| Agree | 24 | 40.0 | 40.0 | 58.3 |
| Strongly Agree | 25 | 41.7 | 41.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.5, the findings indicate that 8.3% of the respondents strongly disagreed, 6.7% disagreed while 3.3% were neutral and the majority of workers generally agreed to the statement, this was presented by 40.0% and 41.7% who agreed and strongly agreed. This can be used to conclude that the workers in particular internal control department is emphasised to safeguard all hospital assets with great accountability. During an interview session, one respondent from administration stated that;

*“It is generally agreed that one of the basic responsibilities of an organization’s management is to take prudent and reasonable measures to protect all of its assets. That responsibility extends to its information assets. In many instances-including hospitals’ information holdings have become its largest and most valuable asset. Employees commonly are held to share in this asset protection responsibility”.*

# 4.6 There is honest and integrity among the employees of the hospital on a day to day basis

Respondents were also asked whether there is honesty and integrity among the employees of the hospital on a day to day basis. Results to the question are presented in table 4.6.

# Table 4.6: There is honesty and integrity among the employees of the hospital on a day to day basis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 23 | 38.3 | 38.3 | 38.3 |
| Disagree | 20 | 33.3 | 33.3 | 71.7 |
| Neutral | 4 | 6.7 | 6.7 | 78.3 |
| Agree | 6 | 10.0 | 10.0 | 88.3 |
| Strongly Agree | 7 | 11.7 | 11.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 4.6 indicate that 6.7% of the respondents were neutral, 10.0% agreed while 11.7% strongly agreed, 38.3% of the respondents strongly disagreed while 33.3% disagreed to the statement. This response had a combined percentage of 71.6% who generally agreed, this can be implied to mean that there is some level of dishonesty and low integrity among employees of the hospitals. Respondents also stated that there is misappropriation of funds, misrepresentation of accounting figures and several tendencies of fraud. It was also revealed that accountants at times do not refrain from personal gain or advantage using confidential information for various fraudulent purposes. It was stated that at one instance a member of the hospital opened up a bank account in the same hospital account name and received payments from clients in an unlawful manner.

# 4.7 Section heads submit weekly reports to the hospital administrator

The respondents were asked whether the section heads submit weekly reports to the hospital administrator. The results to the question are summarised in table 4.7.

# Table 4.7: Section heads submit weekly reports to the hospital administrator

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 16.7 | 16.7 | 16.7 |
| Disagree | 5 | 8.3 | 8.3 | 25.0 |
| Neutral | 9 | 15.0 | 15.0 | 40.0 |
| Agree | 19 | 31.7 | 31.7 | 71.7 |
| Strongly Agree | 17 | 28.3 | 28.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 4.7 indicate that majority of the respondents 60.0% generally agreed to the statement, this was seen with 28.3% and 31.7% who strongly agreed and agreed respectively. 16.7% strongly disagreed while 8.3% disagreed stating that the submission of weekly reports is not consistent. The results can be implied to mean that accounts personnel always submit weekly reports to the administrators for review. Respondents also revealed that the weekly reports are prepared by the finance clerk who is supposed to keep track of all financial expenditures and revenues throughout the week in order to keep management informed about the operating and running balance on the corporation accounts. This means that administration is informed about the corporation’s activity performance.

# 4.8 Hospital staff has the knowledge and skills necessary to accomplish tasks

Respondents were also asked whether the hospital has the knowledge and skills necessary to accomplish tasks. Results to the question are presented in table 4.8.

# Table 4.8: Hospital staff has the knowledge and skills necessary to accomplish tasks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 20 | 33.3 | 33.3 | 33.3 |
| Disagree | 21 | 35.0 | 35.0 | 68.3 |
| Neutral | 7 | 11.7 | 11.7 | 80.0 |
| Agree | 8 | 13.3 | 13.3 | 93.3 |
| Strongly Agree | 4 | 6.7 | 6.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.8, findings indicate that 11.7% were neutral stating they had no direct information on the skill set of all employees, 13.3% agreed while 6.7% strongly agreed that employees accomplish tasks due skills and knowledge. 33.3% strongly disagreed to the statement while 35.0% disagreed, this majority of the respondents disagreed, it can be implied to mean that some hospital staff lacks the technical know-how or skills to operate the internal control system application. This could be attributed to reluctance of administration in providing training for new recruits and it also means the tasks usually come out vaguely. It was also revealed that the internal control activities at Bududa hospital has internal bottlenecks which lead to producing inaccurate and unreliable financial reports which causes issues with hospital administration.

# 4.9 Management holds individuals accountable for their internal control responsibilities in the hospital

Respondents were also asked whether the hospital management holds individuals accountable for their internal control responsibilities. Results to the question are shown in table 4.9

# Table 4.9: Management holds individuals accountable for their internal control responsibilities in the hospital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 5 | 8.3 | 8.3 | 8.3 |
| Disagree | 6 | 10.0 | 10.0 | 18.3 |
| Neutral | 8 | 13.3 | 13.3 | 31.7 |
| Agree | 29 | 48.3 | 48.3 | 80.0 |
| Strongly Agree | 12 | 20.0 | 20.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Findings in table 4.9 indicate that 8.3% of the respondents strongly disagreed, while 10.0% disagreed respectively. 20.0% of the respondents strongly agreed while 48.3% agreed respectively. Since this is the majority results it can be interpreted to mean that employees are responsible for adhering to the performance programs of the system, policies and procedures and internal control standards which are established to guide the employees. It was also revealed that the hospital has a general principle applicable to all managers and employees are that they are to have personal and professional integrity. The employees are to maintain a level of competence that allows them to accomplish their assigned duties as well as to understand the importance of developing and implementing cost effective internal controls. This means that all persons are held accountable for their actions and duties performed and this is supposed to be handed in a report for review.

# 4.10 Line of authority and responsibility is clearly defined

Respondents were also asked whether the line authority and responsibility is clearly defined. Results to the question are obtained in table 4.10.

# Table 4.10: Line of authority and responsibility is clearly defined

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Neutral | 13 | 21.7 | 21.7 | 21.7 |
| Agree | 24 | 40.0 | 40.0 | 61.7 |
| Strongly Agree | 23 | 38.3 | 38.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to the findings in table 4.10, it is indicated that generally, respondents agreed to the statement, this was represented by a combined percentage of 78.3%, this can be implied to mean that clear definition of authority avoids confusion and clearly defines the paths of employees while job descriptions also clearly define the full scope of the authority for each position. It was also stated that employees circumvent the authority of others within the hospital and effectively relieves others the responsibility and accountability for un-specified length of time. It was further stated that the authority within the hospital is delegated along with equal and corresponding responsibility and the extent of such delegation is clearly spelled out in writing. Results also showed that 21.7% of the respondents were neutral stating that their responsibilities do not have direct link to access such knowledge.

# CHAPTER FIVE

# CONTROL ACTIVITIES AND VALUE FOR MONEY

# 5.0 Introduction

This chapter deals with the objective of the study; how do control activities promote value for money in Bududa Hospital. The chapter aims at examining the situation at Bududa hospital establishing whether the hospital has achieved value for money through control activities.

A value for money (VFM) audit is a systematic, purposeful, organized and objective examination of government activities. It provides Parliament with an assessment on the performance of these activities; with information, observations and recommendations designed to promote answerable, honest and productive government; and encourage accountability and best practices. In Simple words, A VFM Audit or value audit is designed to check proper arrangements which have been made to secure economy, efficiency and effectiveness in the use of resources for desired quality

[cost effectiveness analysis](http://betterevaluation.org/evaluation-options/CostEffectivenessAnalysis) and [cost utility analysis](http://betterevaluation.org/evaluation-options/cost_utility_analysis) are useful for evaluating programs that aim to reach the same goal. These methods evaluate the effectiveness of programs in non-monetary terms. For education programs that might mean a goal to increase school enrollment, attendance, completion, or overall degrees attained. Qualitative measures could be cognitive development, academic achievement, or non-cognitive skills. The difference between the two methods is that CU takes beneficiary perspectives into account. Well known application of CU analysis is in the health sector is the use of Quality Adjusted Life Years (QALYs). The QALY measures programs according to how they extend life expectancy while also improving the quality of each year lived. Clearly this indicator involves working with beneficiaries to determine their satisfaction from different health states.

In an attempt to explore how control activities in Bududa hospital ensure value for money, respondents were asked the following question and results are shown in tables below:

# 5.1 Controls in Bududa hospital ensure efficiency and effectiveness of operations in the hospital

Respondents were also asked whether the controls in the hospital ensure efficiency of operations. Results to the question are summarised in table 5.1.

# Table 5.1: Controls in Bududa hospital ensure efficiency and effectiveness of operations in the hospital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 21 | 35.0 | 35.0 | 35.0 |
| Disagree | 24 | 40.0 | 40.0 | 75.0 |
| Neutral | 6 | 10.0 | 10.0 | 85.0 |
| Agree | 4 | 6.7 | 6.7 | 91.7 |
| Strongly Agree | 5 | 8.3 | 8.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table revealed that minority of respondents 15.0% generally agreed, majority of the respondents generally disagreed to the statement, 35.0% and 40.0% strongly disagreed and disagreed respectively. This can be interpreted to mean that the controls in the hospital do not ensure efficiency and effectiveness of operations. Respondents also stated that the controls in the system do not always provide accurate and timely information for hospital operations. It was revealed that the control activities are not effective in preventing risks, the economic relations in the country are evolving overtime, and this has greatly affected the way in which hospital management functions. Accordingly, the management of the hospital has become unable to control operations directly, making it a necessity for businesses to obtain timely and reliable data for a number of purposes.

# 5.2 Proper control systems help to reduce operational costs in the hospital

Respondents were also asked whether proper control systems help to reduce operational costs in the hospital. Results to the question are also presented in table 5.2

# Table 5.2: Proper control systems help to reduce operational costs in the hospital.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 15.0 | 15.0 | 15.0 |
| Disagree | 8 | 13.3 | 13.3 | 28.3 |
| Neutral | 5 | 8.3 | 8.3 | 36.7 |
| Agree | 19 | 31.7 | 31.7 | 68.3 |
| Strongly Agree | 19 | 31.7 | 31.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.2, findings indicate that 15.0% of the respondents strongly disagreed, 13.3% disagreed and 8.3% were neutral. 31.7% of the respondents strongly agreed, 31.7% also agreed, this was the majority results and it can be implied to mean that if an organisation or hospital has proper control system, it can help to reduce operational costs. During an interview session, one respondent expressed that;

*“Proper control systems have maintenance strategies; these are besides maintenance run to failure maintenance, which are designed to improve the efficiency and effectiveness of maintenance activities which, in turn, leads to reduced operational expenses. In the hospital, these efforts are part of formal wide program in nature and limited to departments”.*

# 5.3 Controls help in maintenance of adequate and reliable accounting records

Respondents were also asked whether controls help in maintenance of adequate and reliable accounting records. Results to the question are obtained in table 5.3

# Table 5.3: Controls help in maintenance of adequate and reliable accounting records.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 7 | 11.7 | 11.7 | 11.7 |
| Disagree | 6 | 10.0 | 10.0 | 21.7 |
| Neutral | 12 | 20.0 | 20.0 | 41.7 |
| Agree | 18 | 30.0 | 30.0 | 71.7 |
| Strongly Agree | 17 | 28.3 | 28.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to findings in table 5.3 show 11.7% of the respondents strongly disagreed, 10.0% disagreed and majority of respondents generally agreed to the statement, this was represented by 28.3% and 30.0% who strongly agreed and agreed respectively. This can be used to conclude that the internal activities are put in place to ensure the combined reliability of accounting system is adequate. Respondents stated that accuracy and reliability of accounting records are paramount in the accounting department of the hospital. It was also revealed that without accurate accounting records, the hospital management cannot make fully informed financial decisions, and financial reports can usually contain errors.

# 5.4 Internal controls check the accuracy and reliability of Bududa hospital accounting data

Respondents were also asked whether internal controls check the accuracy and reliability of the hospital accounting data. The results are captured in table 5.4.

# Table 5.4: Internal controls check the accuracy and reliability of Bududa hospital accounting data.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 19 | 31.7 | 31.7 | 31.7 |
| Disagree | 20 | 33.3 | 33.3 | 65.0 |
| Neutral | 9 | 15.0 | 15.0 | 80.0 |
| Agree | 12 | 20.0 | 20.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 5.4 revealed that 15.0% were neutral while 20.0% agreed, majority of the respondents that is 31.7% and 33.3% generally disagreed. This can be implied to mean that the internal control system at the hospital is not reliable in checking accuracy of accounting data. Respondents stated that this is mostly attributed to inexperienced staffs that are not well trained in applying the system. The respondents stated that the physical audits such as hand counting cash and physical assets are not easily tracked in the accounting system. It was also stated that physical counting does not reveal well hidden discrepancies in account balances by bypassing electronic records altogether.

# 5.5 Financial internal controls ensure proper company’s cash receipts and payments

Respondents were asked whether the financial internal controls ensure proper hospital’s cash receipts and payments. The results are presented in table 5.5.

# Table 5.5: Financial internal controls ensure proper hospital`s cash receipts and payments.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 15.0 | 15.0 | 15.0 |
| Disagree | 8 | 13.3 | 13.3 | 28.3 |
| Neutral | 7 | 11.7 | 11.7 | 40.0 |
| Agree | 20 | 33.3 | 33.3 | 73.3 |
| Strongly Agree | 16 | 26.7 | 26.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Findings in table 5.5 also indicate that 15.0% strongly disagreed, 13.3% disagreed while majority of respondents that is 26.7% and 33.3% generally agreed to the statement. Since this is the highest results, it can be interpreted to mean that the internal control provides occasional accounting reconciliations that can ensure balances in the accounting system matchup with what was received or paid. It was stated that “providing cash receipts and payments avoids errors or discrepancies in the hospital accounts or any other errors that may originate within the hospital.

# 5.6 The control system helps the hospital to prevent frauds, errors and minimize wastage

Respondents were also asked whether the control system helps the hospital to prevent fraud, errors and minimise wastage. Results to the question are captured in table 5.6.

# Table 5.6: The control system helps the hospital to prevent frauds, errors and minimize wastage.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Neutral | 12 | 20.0 | 20.0 | 20.0 |
| Agree | 29 | 48.3 | 48.3 | 68.3 |
| Strongly Agree | 19 | 31.7 | 31.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 5.6 revealed that a combined percentage of 80.0% generally agreed to the statement, this means that controls in the hospital serves to prevent fraud or errors, this is done by boosting the awareness of senior hospital employees who usually refrain from committing fraud and errors. During an interview session, one respondent expressed that;

*“internal controls have been active in creating awareness as the key prerequisite in building any effective fraud prevention strategy within the hospital, especially important attention at the supervisory level. The hospital management has been proactive in evaluating the current system and considers the effectiveness of its preventive and detective controls on an ongoing basis which can help to ensure that the hospital’s processes are functioning properly”.*

# 5.7 Properly instituted systems of internal control improve the reporting process

Respondents were also asked whether properly instituted of internal control improve the reporting process. Results to question are presented in table 5.7.

# Table 5.7: Properly instituted systems of internal control improve the reporting process.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 7 | 11.7 | 11.7 | 25.0 |
| Neutral | 4 | 6.7 | 6.7 | 31.7 |
| Agree | 17 | 28.3 | 28.3 | 60.0 |
| Strongly Agree | 24 | 40.0 | 40.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to findings in table 5.7, results indicate that 13.3% of the respondents strongly disagreed while 11.7% disagreed to the statement. 40.0% of the respondents strongly agreed while 28.3% agreed respectively to statement. This means that effective internal control systems provide reasonable assurance that the reporting of the hospital process is improved. Respondents also indicated that the systems ensure the quality of internal and external reporting, and help to ensure compliance with applicable laws and regulations. It was noted that the hospital audit committee is always on the move to be satisfied that proper control policies, procedures and activities are established and are operating as intended. The annual review exercise consider the issues dealt with in the reports reviewed during the year, together with additional information necessary to ensure that the board has taken account of all significant aspects of internal control.

# 5.8 Internal controls give rise to reliable reports, which enhance the accountability of the hospital

Respondents were also asked whether internal controls give rise to reliable reports, which enhance the accountability of the hospital. Results to the question are summarised in table 5.8.

# Table 5.8: Internal controls give rise to reliable reports, which enhances the accountability of the hospital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 4 | 6.7 | 6.7 | 6.7 |
| Disagree | 6 | 10.0 | 10.0 | 16.7 |
| Neutral | 7 | 11.7 | 11.7 | 28.3 |
| Agree | 17 | 28.3 | 28.3 | 56.7 |
| Strongly Agree | 26 | 43.3 | 43.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to findings in table 5.8, it is indicated that 43.3% of the respondents strongly agreed and 28.3% agreed respectively. Since majority of the respondents generally agreed, it can be implied to mean that effective internal controls will help to protect an organization's assets and assist in their proper management. Respondents also stated that internal control of the hospital is used as a management function which is crucial for proper accountability and accountability for all funds to be maintained at all times. The hospital just like any other organisation is subject to some kind of risks upon several factors through which it is financed and the way it utilises its resources. This means that Bududa hospital internal control systems enhance financial accountability

# 5.9 Controls in the hospital ensure timely and reliable financial reports for management

Respondents were also asked whether controls in the hospital ensure timely and reliable financial reports for management. Results to the question are captured in table 5.9.

# Table 5.9: Controls in the hospital ensure timely and reliable financial reports for management.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 9 | 15.0 | 15.0 | 28.3 |
| Agree | 14 | 23.3 | 23.3 | 51.7 |
| Strongly Agree | 29 | 48.3 | 48.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to findings in table 5.9, it is revealed that 13.3% strongly disagreed while 15.0% disagreed. 48.3% of the respondents strongly agreed, 23.3% agreed, this was the majority results and it can be implied to mean that decision making in reference to company financial reports is always on time. During one of the interview sessions, one respondent stated that;

*“Some personnel at the company state that it the system is fast in entering and processing accounting data into the installed accounting internal control system. They opined that this is regular system updates which ensure that the system is never slow”*

# 5.10 The controls lead to the promotion of adherence to laws, regulations, contracts and management directives.

Respondents were asked whether the controls lead to the promotion of adherence to laws, regulations, contracts and management directives. The results to the question are summarised in table 5.10.

# Table 5.10: The controls lead to the promotion of adherence to laws, regulations, contracts and management directives

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 20 | 33.3 | 33.3 | 33.3 |
| Disagree | 15 | 25.0 | 25.0 | 58.3 |
| Neutral | 13 | 21.7 | 21.7 | 80.0 |
| Agree | 4 | 6.7 | 6.7 | 86.7 |
| Strongly Agree | 8 | 13.3 | 13.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 5.10 show that majority of the respondents generally disagreed, this was represented by 33.3% of the respondents who strongly disagreed and 25.0% who disagreed respectively. This means that employees at the hospital operate in a manner that most times brings risks to the hospital. Respondents stated that there is are common scenarios of orderly and inefficient conduct of operations by employees, there is also much need to improve organizational compliance from the front line to the executive ranks, as internal controls are yet to be standardized and automated with workflow management systems.

# CHAPTER SIX

# COMPLIANCE WITH LAWS AND REGULATIONS ENSURES ACCOUNTABILITY

# 6.0 Introduction

This chapter deals with the objective of the study; how does compliance with laws and regulations ensure accountability in Bududa Hospital. The chapter aims at examining the situation at Bududa hospital establishing whether the hospital has achieved accountability through compliance with laws and regulations.

Organizations are tasked with providing proper risk prevention practices and effective internal controls for operations, finance, HR, strategy, and legal to ensure all [corporate compliance](https://www.integrify.com/solutions/department/workflow-for-compliance/) obligations are met. To greatly improve organizational compliance from the front line to the executive ranks, internal controls should be standardized and automated with workflow management systems.

Companies often employ workflow automation to provide a framework for processes in need of internal controls. Workflow automation provides consistent control procedures, checkpoints, approvals, and structure that force process users to comply with established rules. As a process user moves through a process, internal controls govern the information provided, when a process can proceed (if requirements are met), when a part of a process requires review

In an attempt to explore how compliance with laws and regulations ensure accountability, respondents were asked the following question and results are shown in tables below:

# 6.1 Compliance with laws and regulations enhance reliability of financial statements

Respondents were asked whether compliance with laws and regulations enhance reliability of financial statements. The results are presented in table 6.1.

# Table 6.1: Compliance with laws and regulations enhance reliability of financial statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Neutral | 12 | 20.0 | 20.0 | 20.0 |
| Agree | 13 | 21.7 | 21.7 | 41.7 |
| Strongly Agree | 35 | 58.3 | 58.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 6.1 indicate that majority 80.0% of the respondents generally agreed to the statement, this was represented by 58.3% and 21.7% who strongly agreed and agreed respectively. This means that the reliability of financial statements is greatly determined by the level at which employees in the hospital comply with the regulations and laws stipulated under internal control. During one interview session, one respondent expressed that;

*“Compliance to laws and regulations is done under policies and procedures that ensure management directives are always carried out. The regulations also ensure that necessary actions are taken to address risks to achievement of the entity’s objectives through accountability. These control activities occur throughout the organization, at all levels and in all functions”.*

This means that compliance with laws and regulations is a major contributing factor in providing reliable financial statements

# 6.2 Compliance with laws and regulations helps in the decision making process in the hospital

Respondents were also asked whether compliance with laws and regulations helps in the decision making process in the hospital. Results to the question are summarised in table 6.2.

# Table 6.2: Compliance with laws and regulations helps in the decision making process in the hospital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Neutral | 4 | 6.7 | 6.7 | 6.7 |
| Agree | 21 | 35.0 | 35.0 | 41.7 |
| Strongly Agree | 35 | 58.3 | 58.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 6.2 revealed that 6.7% of the respondents neutral and 58.3% of the respondents strongly agreed while 35.0% of the respondents agreed respectively. Since this was the majority response it can be concluded to mean that compliance in internal control is a path to secure hospital operation decisions. It was noted that following policies and procedures is an essential part of Bududa hospital. Together, [policies and procedures](https://www.powerdms.com/blog/what-are-policies-and-procedures/) provide a roadmap for day-to-day operations and they ensure compliance with laws and regulations, give guidance for decision-making, and streamline internal processes within the hospital. However, this can only be achieved if employees do follow the laws and regulations.

# 6.3 Compliance with laws helps workers to improve the performance of their duties

Respondents were also asked whether compliance with laws helps workers to improve the performance of their duties. The results in the table are obtained in table 6.3.

# Table 6.3: Compliance with laws helps workers to improve the performance of their duties.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 16.7 | 16.7 | 16.7 |
| Disagree | 8 | 13.3 | 13.3 | 30.0 |
| Neutral | 12 | 20.0 | 20.0 | 50.0 |
| Agree | 21 | 35.0 | 35.0 | 85.0 |
| Strongly Agree | 9 | 15.0 | 15.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 6.3 above show that 16.7% of the respondents strongly disagreed, 13.3% disagreed and majority of the respondents that is 50.0% generally agreed to the statement, this was represented by 35.0% and 15.0% who agreed and strongly agreed respectively, this can be implied to mean that compliance with laws ensure that the hospital hires and retains the right people who can serve efficiently in the internal control department which ensures that their performance is improved. However, despite this fact, respondents expressed that a large extent of employee’s performance has not completely improved as the hospital would desire, this is attributed to numerous laws and regulations governing internal control in the hospital which are quit hard to get familiar with in order to improve on performance. This means that employees do not accurately interpret the regulations

# 6.4 Regulations help in ensuring that all management activities are appropriately carried out

Respondents were asked whether the hospital regulations are of help in ensuring that all management activities are appropriately carried out. The results are captured in table 6.4.

# Table 6.4: Regulations help in ensuring that all management activities are appropriately carried out.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 5 | 8.3 | 8.3 | 8.3 |
| Disagree | 6 | 10.0 | 10.0 | 18.3 |
| Neutral | 5 | 8.3 | 8.3 | 26.7 |
| Agree | 18 | 30.0 | 30.0 | 56.7 |
| Strongly Agree | 26 | 43.3 | 43.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Findings in table 6.4 indicate that 8.3% of the respondents strongly disagreed and 10.0% disagreed to the statement, 43.3% of the respondents strongly agreed, while 30.0% of the respondents agreed to the statement respectively. Since this is the majority response it can be interpreted to mean that internal control is effective if management and interested stakeholders have reasonable assurance that there is compliance with applicable laws and regulations. It was revealed that management's role in the internal control system is critical to its effectiveness. Managers, like hospital auditors, don't have to look at every single piece of information to determine that the controls are functioning and should focus their monitoring activities in high-risk areas. It was also revealed that the hospital has spot-checking transactions or basic sampling techniques which provide a reasonable level of confidence that the controls are functioning as intended.

# 6.5 Compliance with laws and regulations ensures that any risks in the hospital are avoided

Respondents were also asked whether compliance with laws and regulations ensures that any risks in the hospital are avoided. The results are presented in table 6.5

# Table 6.5: Compliance with laws and regulations ensures that any risks in the hospital are avoided

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 16.7 | 16.7 | 16.7 |
| Disagree | 14 | 23.3 | 23.3 | 40.0 |
| Neutral | 5 | 8.3 | 8.3 | 48.3 |
| Agree | 19 | 31.7 | 31.7 | 80.0 |
| Strongly Agree | 12 | 20.0 | 20.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.5 indicate that 20.0% of the respondents strongly agreed while 31.7% agreed respectively with the statement. Since was the majority response with a combined response percentage of 51.7% it can be concluded that preventive controls are designed in the hospital to avoid errors or irregularities from occurring. During an interview session, one respondent from management stated that;

*“Risk management is extremely important in achieving overall organizational goals and objectives. Achieving organizational goals amid risks entails determining and implementing critical success factors. More work experience in the management position enables me to conclude that the significance of impact of risk management on the corporation or any other organisation as reduction in design/production time, improved public perception, and improved team morale and productivity”.*

# 6.6 Compliance with laws helps to predict potential problems before they occur, make adjustments, and prevent an error.

Respondents were also asked whether potential problems are predicted before they occur. Results to the question are summarised in table 6.6.

# Table 6.6: Compliance with laws helps to predict potential problems before they occur, make adjustments, and prevent an error.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 8 | 13.3 | 13.3 | 26.7 |
| Neutral | 9 | 15.0 | 15.0 | 41.7 |
| Agree | 20 | 33.3 | 33.3 | 75.0 |
| Strongly Agree | 15 | 25.0 | 25.0 | 98.3 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to the findings in table 6.6, it is revealed that 13.3% of the respondents strongly disagreed and disagreed to the statement, stating that at times employees go off script by not following compliance, majority of the respondents 58.3% generally agreed to the statement. This was presented by 33.3% and 25.0% who agreed and strongly agreed respectively. This means that the detective controls are used to detect and report the occurrence of an error or a malicious act. It was also stated that the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Indeed, corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem.

# 6.7 Compliance with laws and regulations helps to report the occurrence of an omission, an error or a malicious act

Respondents were asked whether compliance with laws and regulations help to report the occurrence of an omission, an error or a malicious act. This is shown in table 6.7.

# Table 6.7: Compliance with laws and regulations helps to report the occurrence of an omission, an error or a malicious act

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 5 | 8.3 | 8.3 | 8.3 |
| Disagree | 8 | 13.3 | 13.3 | 21.7 |
| Neutral | 10 | 16.7 | 16.7 | 38.3 |
| Agree | 11 | 18.3 | 18.3 | 56.7 |
| Strongly Agree | 26 | 43.3 | 43.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 6.7 indicate that majority of respondents 43.3% and 18.3% strongly agreed and agreed respectively to the statement, this can be implied to mean that risk management and internal control systems complement each other in controlling the hospital’s activities. During an interview session, one key respondent expressed that;

*“The hospital’s internal control system’s aim is to identify and analyze the main risks. Risks that exceed the acceptable levels set by the hospital are dealt with subject to plans of action. For some time now, risk management in general and internal control more specifically; have been considered as fundamental elements of the hospital’s governance”.*

This means that the system can process reports whenever desired by management.

# 6.8 Compliance with laws helps in raising the morale of the employees at the hospital

Respondents were asked whether compliance with laws helps in raising the morale of the employees at the hospital. The results are shown in table 6.8

# Table 6.8: Compliance with helps in raising the morale of the employees at the hospital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 17 | 28.3 | 28.3 | 28.3 |
| Disagree | 20 | 33.3 | 33.3 | 61.7 |
| Neutral | 8 | 13.3 | 13.3 | 75.0 |
| Agree | 11 | 18.3 | 18.3 | 93.3 |
| Strongly Agree | 4 | 6.7 | 6.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 6.8 show that 13.3% were neutral, 18.3% agreed while 6.7% strongly agreed, 28.3% of the respondents strongly disagreed while 33.3% of the respondents disagreed respectively. Since this is the majority, it can be interpreted to mean that managers and staff at Bududa hospital do not maintain or demonstrate personal and professional integrity and ethical values for operating the system. It was also noted that there is a low level of skills necessary to help ensure effective and efficient performance and this is mainly attributed to the lack of complete understanding of internal control sufficient to effectively discharge their responsibilities. It was established that personnel are not periodically reminded of their obligations under an operative code of conduct that comes from top management.

# 6.9 Compliance with helps to identify, capture, process and report relevant and reliable information in a timely manner

Respondents were also asked whether Compliance with helps to identify, capture, process and report relevant and reliable information in a timely manner. Responses to the question are presented in table 6.9

# Table 6.9: Compliance with helps to identify, capture, process and report relevant and reliable information in a timely manner

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagree | 20 | 33.3 | 33.3 | 33.3 |
| Disagree | 23 | 38.3 | 38.3 | 71.7 |
| Neutral | 5 | 8.3 | 8.3 | 80.0 |
| Agree | 9 | 15.0 | 15.0 | 95.0 |
| Strongly Agree | 3 | 5.0 | 5.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to findings in table 6.9, it is revealed that 33.3% strongly disagreed to the statement, 38.3% disagreed, 8.3% were neutral, 15.0% agreed while 5.0% strongly agreed. Majority of the respondents generally disagreed (71.6%) and this meant that the persons primarily responsible for the maintenance and operation of the accounting function don’t understand accounting basics. During one of the interview sessions, one respondent expressed that;

*“Bududa hospital personnel who work on the internal control software lack accounting knowledge. This has been a common thing as most have been fired many times. However, without that intrinsic knowledge, the data input decisions quickly go astray, and the output of the computerized system becomes hopelessly trashed. Management has still failed to understand that internal control and accounting knowledge is essential in the successful implementation and use of most any computerized system and the reports it produces”*

This means that the problems of delay in processing data are as a result of inexperienced staff.

**6.10 Hypothesis testing**

The hypothesis Ho: There is no significant relationship between internal controls and financial performance in Bududa Hospital. Hi: There is a significant relationship between internal controls and financial performance in Bududa Hospital.

# 6.11 Regression Analysis

Multiple regression analysis was performed in order to establish the extent to which internal controls explained the degree of variance in financial performance in Bududa Hospital. The result obtained is presented in the model summary table 6.10

# Table 6.10: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .680a | .462 | .451 | .66145 |
| a. Predictors: (Constant), Internal controls |

Results in table 6.10 show the model summary of the regression which yielded an Adjusted R Square of .451. This means that internal controls in Bududa hospital contributes 45.1% to financial performance, the remaining 54.9% is contributed to other factors that were outside the scope of this current study. These factors were outside the scope of the study and were not explored.

# 6.12 ANOVA (Analysis of variance)

ANOVA analysis was performed to test the equivalent hypothesis that there is a significant relationship between internal controls and financial performance in Bududa Hospital. The results are summarized in table 6.11.

# Table 6.11: ANOVAa

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 18.797 | 1 | 18.797 | 42.964 | .000b |
| Residual | 21.876 | 50 | .438 |  |  |
| Total | 40.673 | 51 |  |  |  |
| a. Dependent Variable: Financial performance |
| b. Predictors: (Constant), Internal controls |

F= 42.964, p<000, the null hypothesis that there is no significant relationship between internal controls and financial performance in Bududa Hospital is rejected. This means that there is a significant relationship between internal controls and financial performance in Bududa Hospital.

The regression coefficient is not zero and therefore an increase in efficiency and effectiveness in internal controls in the hospital will ultimately lead to an increase in financial performance in Bududa hospital.

# Table 6.12: Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.992 | .351 |  | 5.678 | .000 |
| Internal controls | .547 | .083 | .680 | 6.555 | .000 |
| a. Dependent Variable: Financial performance (reliable financial reporting, value for money, accountability) |

The test revealed that internal controls have an influence on financial performance of Bududa hospital (reliable financial reporting, value for money, accountability), this is because the test yielded a significant relationship since the Beta value is positive presented by (p= .680, P<0.01).

In view of the above tests, it can be concluded that, Bududa hospital internal controls have not significantly influenced financial performance as it only contributes 45.1% as indicated in the model summary, this is below average.

# CHAPTER SEVEN

# TOWARDS HARMONISING FINANCIAL ACCOUNTABILITY AND PERFORMANCE

# 7.0 Introduction

This chapter sets out to link study findings to the literature review by discussing the findings in relationship with literature review, and then suggest a way forward for Bududa hospital. Implications are, deduced, from the findings, discussed and interpreted basing on the research hypotheses of the study.

# 7.1 Control environment and reliable financial reporting

Findings on this question revealed that a combined percentage of 60.0% of the respondents generally agreed that workers have values that help the hospital to achieve its strategic objectives. Majority of respondents 28.3% strongly agreed and 31.7% agreed that management provides leadership for reliable financial reporting to internal and external stakeholders. Results also revealed that 36.7% and 33.3% strongly disagreed and disagreed respectively that there is commitment to operate the hospital efficiently and effectively. In addition, 35.0% strongly disagreed while 30.0% disagreed that the hospital workers comply with all applicable laws and regulations. The results also showed that 40.0% and 41.7% agreed and strongly agreed that the workers have the responsibility to safeguard all hospital assets. A combined percentage of 71.6% generally agreed that there is honesty and integrity among the employees of the hospital on a day to day basis. 28.3% and 31.7% strongly agreed and agreed respectively that Section heads submit weekly reports to the hospital administrator. Findings indicate that 33.3% strongly disagreed and 35.0% disagreed that the hospital staff has the knowledge and skills necessary to accomplish tasks. Furthermore, it was revealed that 20.0% of the respondents strongly agreed while 48.3% agreed respectively that management holds individuals accountable for their internal control responsibilities in the hospital.

The accounting profession’s strong focus on internal control and fraudulent financial reporting has led to new standards relating to internal control and fraudulent financial reporting. The control environment and specifically, management integrity, is an important component. The reliability of financial reporting is effective to internal control efficiency to ensure that transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time. Moreover, it is very important that organizations have fairly summarized accounting information data disclosure Sebbowa (2009). However, in general, a quality reporting is affected by internal control mechanism.

There is a general perception that corporation and enforcement of proper internal control systems will always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

Internal control ensures effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations to which the company is subject. According to Mawanda (2008), a sound internal control system helps the firm to prevent frauds, errors and minimize wastage. The increase of business units has encouraged the use of internal control as it ensures orderly and efficient conduct of business including adherence to internal policies. The completeness and accuracy of accounting records, timely preparation of financial information, can only be achieved if the proper internal control system is in place. The corporation’s ability to maximize its profit depends in part on the design and effectiveness of the processes and safeguards it has put in place over accounting and financial reporting.

While no practical control system can absolutely assure financial reports will never contain material errors or misstatements, an effective system of internal control over financial reporting can substantially reduce the risk of such misstatements and inaccuracies in company’s financial statements (Kaplan, 2008).

# 7.2 Control activities and value for money

In this regard, results indicated that 35.0% and 40.0% strongly disagreed and disagreed respectively to the statement that controls in Bududa hospital ensure efficiency and effectiveness of operations in the hospital. In addition, 31.7% of the respondents strongly agreed and 31.7% also agreed that proper control systems help to reduce operational costs in the hospital. The findings in table 5.3 show that majority of respondents generally agreed to the statement controls help in maintenance of adequate and reliable accounting records. The findings in table 5.4 revealed that majority of the respondents that is 31.7% and 33.3% generally disagreed to the statement that internal controls check the accuracy and reliability of Bududa hospital accounting data. Findings in table 5.5 also indicate that majority of respondents that is 26.7% and 33.3% generally agreed to the statement that financial internal controls ensure proper hospital`s cash receipts and payments. Furthermore, the findings in table 5.6 revealed that a combined percentage of 80.0% generally agreed to the statement that the control system helps the hospital to prevent frauds, errors and minimize wastage. Results indicate that 40.0% of the respondents strongly agreed while 28.3% agreed respectively to statement that properly instituted systems of internal control improve the reporting process. The findings in table 5.10 show that majority of the respondents generally disagreed that the controls lead to the promotion of adherence to laws, regulations, contracts and management directives.

Internal control activity in government organisations ensures that activities are carried out in compliance with the rules and regulations for prevention or reduction of risks that can affect accomplishments of its objectives. For internal control activity to be effective, the policies and procedures established addresses the risks that are related to the achievement of the government’s objectives and are appropriate, comprehensive, cost effective, reasonably and functioning consistently according to plan throughout the period and relates to control objectives (INTOSAI, 2001).

The aim of internal control activity includes fraud prevention, provision of reliable reports and safeguarding assets of the local government (Ntongo, 2012). The control activity if adequately established and working effectively as planned is a mechanism for financial accountability and transparency at government level. This is evidenced by Brinkerhoff (2001) and Rabrenovic (2009) who states that the higher the level of internal control activity, the more financially accountable in the activities of an organization.

Minja, (2013) asserts that control activities are to make management instructions designed could be effective implementation of various policies and procedures. Control activities can help enterprises to ensure that it has already took measures to reduce a loss according to realization the goal of the enterprise. From the point of daily business activities, control activities including authorized management. It refers to that the manager decentralize powers his subordinate to make them have the right to address the problem and make a choice and share corresponding responsibility.

This refers to define the authority and responsibility according to the principle of combining functions of department and it’s characteristic. Business process and operation procedures. Business process is the procedure of all the business. An operation procedure is to say how to operate of every matter in detail (Obat, 2010).

# 7.3 Compliance with laws and regulations ensure accountability

On this question, the findings in table 6.1 indicate that majority 80.0% of the respondents generally agreed to the statement that Compliance with laws and regulations enhance reliability of financial statements. The findings in table 6.2 revealed that 58.3% of the respondents strongly agreed while 35.0% of the respondents agreed that compliance with laws and regulations helps in the decision making process in the hospital. The findings in table 6.3 above show that majority of the respondents that is 50.0% generally agreed to the statement that compliance with laws helps workers to improve the performance of their duties. Findings in table 6.4 indicate that 43.3% of the respondents strongly agreed, while 30.0% of the respondents agreed to the statement that regulations help in ensuring that all management activities are appropriately carried out. In addition, the results in table 6.5 indicate that 20.0% of the respondents strongly agreed while 31.7% agreed respectively with the statement that compliance with laws and regulations ensures that any risks in the hospital are avoided. The findings in table 6.7 indicate that majority of respondents 43.3% and 18.3% strongly agreed and agreed that compliance with laws and regulations helps to report the occurrence of an omission, an error or a malicious act. The findings in table 6.8 show that 28.3% of the respondents strongly disagreed while 33.3% of the respondents disagreed respectively that Compliance with helps in raising the morale of the employees at the hospital.

According to Frank (2009), there are three types of controls that the entity's internal audit function should recognize: preventive, authorization and detective controls. Preventative controls prevent risks from occurring for example; segregation of duties, recruiting and training the right staff. Authorization controls prevent fraudulent or erroneous transactions from taking place. Detective controls which detect errors or fraud that has not been prevented. These help to deter undesirable acts in the organization especially in public sector. They could be exceptional reports that would reveal that controls have been bypassed. They provide evidence that a loss has occurred but do not prevent loss from occurring, for example, large payments from government treasury being made without authorization.

Financial accountability is the liability that one assumes for ensuring that an obligation to perform a responsibility is fulfilled (Frost, 2012). Financial accountability means being able to provide an explanation or justification and accept responsibility for events or transactions and one's own actions in relation to these events or transactions (Kikonyogo, 2009). In his view, financial accountability is like a Semantic tree: the trunk is governance; a main branch is public accountability which feeds other branches like budgeting, accounting, auditing, and records management.

Financial accountability is also concerned with tracking, and reporting on allocation, disbursement and utilization of financial resources, using the tools of auditing, budgeting and accounting. The literature in this area deals with compliance with the laws, rules and regulations regarding financial control and management (Brinkerhoff, 2003). In his view, accountability involves the delegation of individuals or agencies to provide information about and/or justification for their actions.

Cox (2000) noted that financial accountability implies accountability to the public. In essence, this suggested need for management to be transparent and conscious when spending the organizational resources while undertaking their activities in a bid to effectively achieve the corporation mission, ethical standards and good governance. Therefore, the key to achieving financial prudence and in identifying opportunities for growth in an organization as well as in the public sector is financial accountability. This can be achieved through putting financial controls in monitoring and recording assets, authorization, periodic update of job descriptions for officers and employees, personnel policies such as health insurance policy, continuous training, conflicts of interest policy and code of ethics, audit committee, among others.

# CHAPTER EIGHT

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# 8.0 Introduction

This chapter comprises of the summary of findings, conclusion and recommendation of the study according to the study objectives. The study is about internal control and financial performance. The recommendations are on a basis of the findings and relates to advice and the interventions that the researcher feels should be brought to the attention of Bududa hospital to improve financial performance. The study ends by presenting the areas that the researcher considers vital for further studies

# 8.1 Summary of the findings

# 8.1.1 Control environment and reliable financial reporting

The results revealed that workers have a clear understanding of the hospital’s mission statements, vision statement and applying this understanding into the organisational strategic objectives. Results showed that management ensures to provide leadership for reliable financial reporting to internal and external stakeholders. It was revealed that internal control is accompanied by accountability practices in place which have a significant relationship with return on investment of the hospital. Results showed that the most hospital stuff do not understand cost inflation which can easily reflect significant changes in the product that the hospital offers. It was also noted that the workers in particular internal control department is emphasised to safeguard all hospital assets with great accountability. Results showed that there is misappropriation of funds, misrepresentation of accounting figures and several tendencies of fraud.. Respondents also revealed that the weekly reports are prepared by the finance clerk who is supposed to keep track of all financial expenditures and revenues throughout the week in order to keep management informed about the operating and running balance on the corporation accounts.

# 8.1.2 Control activities and value for money

Results showed that the controls in the system do not always provide accurate and timely information for hospital operations. Respondents stated that accuracy and reliability of accounting records are paramount in the accounting department of the hospital. It was revealed that the physical audits such as hand counting cash and physical assets are not easily tracked in the accounting system. It was stated that “providing cash receipts and payments avoids errors or discrepancies in the hospital accounts or any other errors that may originate within the hospital. Results also indicated that the systems ensure the quality of internal and external reporting, and help to ensure compliance with applicable laws and regulations. Respondents also stated that internal control of the hospital is used as a management function which is crucial for proper accountability and accountability for all funds to be maintained at all times. Respondents stated that there are common scenarios of orderly and inefficient conduct of operations by employees; there is also much need to improve organizational compliance from the front line to the executive ranks.

# 8.1.3 Compliance with laws and regulations ensure accountability

Results revealed that [policies and procedures](https://www.powerdms.com/blog/what-are-policies-and-procedures/) provide a roadmap for day-to-day operations and they ensure compliance with laws and regulations, give guidance for decision-making, and streamline internal processes within the hospital. It was revealed a large extent of employee’s performance has not completely improved as the hospital would desire, this is attributed to numerous laws and regulations governing internal control in the hospital which are quit hard to get familiar with in order to improve on performance. It was also revealed that the hospital has spot-checking transactions or basic sampling techniques which provide a reasonable level of confidence that the controls are functioning as intended. It was also stated that the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. It was also noted that there is a low level of skills necessary to help ensure effective and efficient performance and this is mainly attributed to the lack of complete understanding of internal control sufficient to effectively discharge their responsibilities.

# 8.2 Conclusions

The study concludes that establishment and implementation of an internal control structure at a business will ensure proper use of all business resources, prevent unnecessary increase in costs as well as delay in production-sales, purchasing-entry, sales entry processes, leading to increased effectiveness and efficiency in business operations. It is easier to perform operations effectively and compare operating results with budgetary and estimated results. This, in turn, will document the level of attainment of goals level of effectiveness and efficiency.

Implementation of the internal control structure corresponds to its effectiveness. Attainment of goals by the business management means achievement of an effective internal control. If inventories are protected, costs are reduced through effectiveness and achieved and planned targets are comparable, every person performs their duty, timely access to information under authorization scheme is possible, and timely reporting can be made to the management, then the internal control is considered to achieve its goals. This, in turn, corresponds to achievement of internal control goals.

The more capable the internal control structure is to prevent or avoid potential risks, the more effective the business is with their operations. Mitigating and preventing risks through concentration of internal control measures is important, particularly for risky areas. In case of identification of risks (theft) in collections and pays, for instance, higher concentration should be placed on controls relating to outflows from inventory, collections and transfers to the accounting environment. In case of a higher-than-expected rate of wastage, wastage or deficiency in inventories, places where inventories are protected should be kept in better conditions, outdated or obsolete inventories should be continuously monitored, inflows and outflows should be entered to inventory cards on timely basis, and physical inventory should be taken with sufficiently short intervals.

# 8.3 Recommendations

# 8.3.1 Control environment and reliable financial reporting

The study suggests that for the corporations to perform well financially, their internal control systems need to be improved, cultivated and implemented diligently.

# 8.3.2 Control activities and value for money

There is need for the employees responsible for preparation of financial statements and reporting to be transparent and honest and also be held accountable for any misreporting.

# 8.3.3 Compliance with laws and regulations ensure accountability

The officers entitled with the authority to incur and approve expenditure need also to be accountable for every resource utilized and the organization gets value for its investments.

There is need to take legal actions for those who have misused organizational funds and recoveries made.

# 8.4 Areas of further studies

The study selects the following areas for future study;

The influence of financial reporting on performance of government corporations learning in Uganda

The challenges in effecting organizational internal control systems in Uganda

Influence of information and communication technology on internal control systems efficiency among government corporations in Uganda

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# APPENDICES

# APPENDIX A: SELF ADMINISTERED QUESTIONNAIRE

Dear Respondent,

I am Walumoli Moses a student of Nkumba University pursuing a Master’s Degree in Business Administration. I am conducting a research titled “Internal controls and financial performance of public hospitals in Elgon Sub-region of Uganda, A case study of Bududa hospital”. I kindly request you to spare some time and fill in this questionnaire. This is purely an academic research and any responses given will be treated with utmost confidentiality. So feel free to give the most appropriate answer by ticking in the box or filling in the space provided.

**SECTION A: Personal data**

Please tick and fill in where appropriate

1. Gender

Male Female

1. Age

20-30 years 31-40 years 41-50 years 51+ years

1. **Marital status**

Single Married Divorced

1. **Highest level of education attained**

O’level A’level Diploma level Degree

Others (please specify)………………………………………………………………………..

1. **Length of stay with the hospital**

0-3 years 3-6 years over 6 years

NB: From section B to section D, Please tick in box that contains the right answer based on the following scales;

1. -Strongly Disagree
2. -Disagree
3. Neutral
4. Agree
5. Strongly Agree

**SECTION B: Establishing how the control environment ensures reliable financial reporting at Bududa Hospital**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| NO | Statement | 1 | 2 | 3 | 4 | 5 |  |
| 1 | Workers have values that help the hospital to achieve its strategic objectives. |  |  |  |  |  |  |
| 2 | Management provides leadership for reliable financial reporting to internal and external stakeholders. |  |  |  |  |  |  |
| 3 | There is commitment to operate the hospital efficiently and effectively. |  |  |  |  |  |  |
| 4 | The hospital workers comply with all applicable laws and regulations. |  |  |  |  |  |  |
| 5 | The workers have the responsibility to safeguard all hospital assets. |  |  |  |  |  |  |
| 6 | There is honesty and integrity among the employees of the hospital on a day-to-day basis. |  |  |  |  |  |  |
| 7 | Section heads to the-- hospital administrator submit weekly reports.  |  |  |  |  |  |  |
| 8 | Hospital staff have the knowledge and skills necessary to accomplish tasks. |  |  |  |  |  |  |
| 9 | Management holds individuals accountable for their internal control responsibilities in the hospital. |  |  |  |  |  |  |
| 10 | Line of authority and responsibility is clearly defined |  |  |  |  |  |  |

**SECTION C: Examining how control activities promote value for money at Bududa Hospital**.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| NO | Statement | 1 | 2 | 3 | 4 | 5 |  |
| 1 | Controls in Bududa hospital ensure efficiency and effectiveness of operations in the hospital. |  |  |  |  |  |  |
| 2 | Proper control systems help to reduce operational costs in the hospital. |  |  |  |  |  |  |
| 3 | Controls help in maintenance of adequate and reliable accounting records. |  |  |  |  |  |  |
| 4 | Internal controls check the accuracy and reliability of Bududa hospital accounting data. |  |  |  |  |  |  |
| 5 | Financial internal controls ensure proper company’s cash receipts and payments. |  |  |  |  |  |  |
| 6 | The control system helps the hospital to prevent frauds, errors and minimize wastage. |  |  |  |  |  |  |
| 7 | Properly instituted systems of internal control improve the reporting process. |  |  |  |  |  |  |
| 8 | Internal controls give rise to reliable reports, which enhances the accountability of the hospital. |  |  |  |  |  |  |
| 9 | Controls in the hospital ensure timely and reliable financial reports for management. |  |  |  |  |  |  |
| 10 | The controls lead to the promotion of adherence to laws, regulations, contracts and management directives. |  |  |  |  |  |  |

**SECTION D: Establishing how complaisance with laws and regulation ensures accountability in Bududa hospital**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| NO | Statement | 1 | 2 | 3 | 4 | 5 |  |
| 1 | Compliance with laws and regulations enhance reliability of financial statements. |  |  |  |  |  |  |
| 2 | Compliance with laws and regulations helps in the decision making process in the hospital. |  |  |  |  |  |  |
| 3 | Compliance with laws helps workers to improve the performance of their duties. |  |  |  |  |  |  |
| 4 | Regulations help in ensuring that all management activities are appropriately carried out. |  |  |  |  |  |  |
| 5 | Compliance with laws and regulations ensures that any risks in the hospital are avoided. |  |  |  |  |  |  |
| 6 | Compliance with laws helps to predict potential problems before they occur, make adjustments, and prevent an error. |  |  |  |  |  |  |
| 7 | Compliance with laws and regulations helps to report the occurrence of an omission, an error or a malicious act. |  |  |  |  |  |  |
| 8 | Compliance with laws helps in raising the morale of the employees at the hospital. |  |  |  |  |  |  |
| 9 | Compliance with helps to identify, capture, process and report relevant and reliable information in a timely manner. |  |  |  |  |  |  |

# APPENDIX B**:** INTERVIEW GUIDE

1. Age

20-30 years 31-40 years 41-50 years 51+ years

1. **Marital status**

Single Married Divorced

1. **Highest level of education attained**

O’level A’level Diploma level Degree

Professional (please specify)………………………………………………………………………..

1. **Length of stay with the hospital**

0-3 years 3-6 years over 6 years

1. **Do you understand the term internal control?**

Yes NO

1. **Does the hospital have internal controls?**

Yes NO

1. **If yes, what internal controls does the hospital has?**

**………………………………………………………………………………………………**

1. **What is the importance of the internal controls in Bududa hospital?**

**………………………………………………………………………………………………**

1. **Do your internal controls ensure reliable financial reporting at Bududa Hospital?**

Yes No

1. **If yes, please explain how?**

………………………………………………………………………………………………..

1. **How have your Internal Controls increased values for money in Bududa Hospital?**

………………………………………………………………………………………………………….

1. **How do you rate your financial performance at Bududa Hospital?**

Fair Good Very good

1. How do your Internal Controls ensure accountability for the operations at Bududa Hospital?

………………………………………………………………………………………………………….

**Thank you for your cooperation**