



MAKERERE UNIVERSITY BUSINESS SCHOOL

**INTERNAL AUDIT EFFECTIVENESS, ETHICAL ENVIRONMENT AND
FINANCIAL ACCOUNTABILITY IN GOVERNMENT ENTITIES IN
UGANDA**

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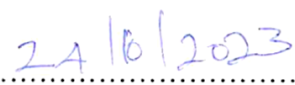
**A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL
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ADMINISTRATION OF MAKERERE UNIVERSITY**

PLAN A

OCTOBER, 2023

DECLARATION

I, Itengo Akajo Miriam, do hereby declare to the best of my knowledge that this thesis is out of my own efforts and has never been submitted to any university or institution of higher learning for any academic award.

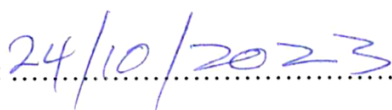
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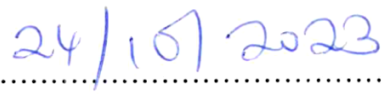
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APPROVAL

This is to certify the thesis entitled, "*Internal Audit Effectiveness, Ethical Environment and Financial Accountability in Government Entities in Uganda*" was submitted for external examination with our approval as university supervisors.

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Ms. Wanyana Barbra

DEDICATION

To my children Havillah May and Alvah Kriss as well as my dear brother Daniel Criss Eteng.

ACKNOWLEDGEMENT

I am very grateful to the Almighty God for giving me strength and the gift of life to go through this demanding but rewarding exercise. The completion of this study was realized through the will of God and the contribution and support of many people who whole heartedly supported me.

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LIST OF ACRONYMS

COSASE	Committee on Commissions, Statutory Authorities and State Enterprises
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CVI	Content Validity Index
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
UNRA	Uganda National Roads Authority

ABSTRACT

This study examined the relationship between internal audit effectiveness, ethical environment and financial accountability within government entities in Uganda. A cross-sectional research design was used along with a quantitative research approach. The sample constituted 80 government entities from a total of 102. Data was obtained from accounting officers, internal audit officers and assistant heads of internal audit using a structured questionnaire. Validity of the instrument was determined using CVI and reliability using Cronbach Alpha Coefficient. SPSS v.25 analyzed the results to obtain frequency tables, correlation and regression tables to interpret results. This study obtained a positive relationship between internal audit effectiveness and financial accountability. Subcomponents of internal audit effectiveness of risk management, regulatory compliance and internal control review were found to be positively related with financial accountability. The study found a positive relationship between environment and financial accountability. In addition, the sub-constructs of ethical environment of benevolence, egoism and principled were also found positively associated with financial accountability. The study found out that internal audit effectiveness is positively related with ethical environment. More so, the findings revealed that subcomponents of internal control, that is; risk management, regulatory compliance; and internal control review are positively associated with ethical environment. Furthermore, the study found that internal audit and ethical environment are significant predictors of financial accountability. The study confirmed that positive variations in internal audit results in positive variations in financial accountability. Further, the study revealed that positive variations in ethical environment results in positive variations in financial accountability. Moreover, the study obtained that the ethical environment is a better predictor of the variance in financial accountability. This study concludes that internal audit effectiveness and ethical environment are critical factors for fostering financial accountability. Also, the study confirms that government entities need to direct more attention towards ethical environment if they are to intensify the level of transparency and disclosure as well as financial reporting. The study recommends; sensitization of employees about the code of ethics; continuously regulatory compliance audit; and risk management.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

As the world increasingly becomes a globalized village, scrutiny for the use of public resources has gained more prominence than ever before (Ssonko, 2010). There has also been a wide range of scandals reported in the corporate world that have caused loss of huge sums of money resulting from unethical behaviour and concealment of information from oversight bodies (Yilmaz, Eltas & Erkan, 2009; Mukherjee, 2016). In the same way, concerns over inadequate transparency have been on the rise in recent times among corporate entities. These occurrences have led to the increased importance of the concept of financial accountability in financial management research and a much sought-after aspect among executives in the quest for proper use of public resources (Mohamed & Handley-Schachler, 2015). Likewise, AbdAziz, AbRahman, Alam and Said (2015) argue that financial accountability is the hallmark for ensuring transparency, disclosure, trustworthiness and a tool for promoting public interest in organizations through proper safeguard of resources entrusted to office bearers.

However, while the relevance of financial accountability is undisputed, the corporate world has been rocked by numerous high-profile scandals ranging from the ill-fated collapse of WorldCom, fraud at Enron, corruption at Adelphia to bankruptcy at Lehman Brothers (PWC, 2015; Jones, 2016). These collapses caused global financial meltdown as well as massive losses of public funds leading to deep financial scars that have never been healed to date. This has attracted debate on whether corporate entities have effective internal audit and ethical environment of their employees. Uganda is not an exception

either (ACCU Report, 2016). Specifically, Auditor General's Report (2016) indicate that receivables in form of advance payments offered by UNRA to road contractors amounting to UGX.765bn remained outstanding in UNRA records without proper accountability. Furthermore, the National Agricultural Advisory Services was implicated for mischarge of expenditures to a tune of UGX. 1,384,980,133 on items which do not reflect the nature of the expenditure (Auditor General's Report, 2017). Additional evidence also indicates that expenditure by various government agencies amounting to UGX. 8,539,367,250 was not accounted for contrary to the treasury instructions (Auditor General's Report, 2017).

Prior research by several scholars indicates that internal audit effectiveness (Coram, Ferguson & Moroney, 2008; Leung, Cooper & Perera, 2011; IIA, 2012; Baharud-din, Shokiyah & Ibrahim, 2014) and ethical environment (Ermelinda & Vieira, 2013; Hijal-Moghrabi, Sabharwal & Berman, 2015; Downe, Cowell & Morgan, 2016) are positively related to sound financial accountability within firms. Specifically, Baharud-din, Shokiyah and Ibrahim (2014) observed that the establishment of internal audit function is an essential internal assurance mechanism in public financial controls and is a strong tool for monitoring and evaluating financial management activities in government agencies. On the other hand, Hijal-Moghrabi, Sabharwal and Berman (2015) argued that it is vital for organizations to set ethical standards for their employees along with providing an environment that fosters trust and commitment, provides leadership and creates a high quality of workforce to improve financial accountability.

Nevertheless, while several studies are readily available to explain the influence of factors such as internal audit function towards financial accountability (Thumbi (2016; Abbott, Daugherty, Parker & Peters, 2016; Laković, Cerović & Stanovčić, 2016), or ethical environment and financial accountability (Aminu & Oladipo, 2015; Meymandi, Rajabdoory & Asoodeh, 2015). Melé, Rosanas & Fontrodona (2017), limited studies have studied all the three variables in a single study. The dearth of knowledge is even more pronounced when it comes to a country like Uganda. For instance, much as a study by Bananuka, Nkundabanyanga, Nalukenge and Kaawaase (2018) had internal audit effectiveness as one of the ascendants of financial accountability, it was studied along with audit committee effectiveness. In another study by Nalukenge, Nkundabanyanga and Ntayi (2018), issues of ethics were studied along with corporate governance in examining how the two-influence compliance with International Financial Reporting Standards (IFRS). As a consequence, the knowledge gap is widening when it comes to understanding the extent to which internal audit effectiveness and ethical environment influence financial reporting among government entities. To close this lacuna, this study is established specifically to examine the relationship between internal audit effectiveness, ethical environment and financial accountability among government agencies in Uganda.

1.2 Statement of the problem

One of the major highlighted issues in the auditor general reports in Uganda related to inadequate financial accountability (Auditor General Report, 2016). Many government entities have sometimes incurred expenditures and failed to disclose such expenses within their final accounts. In some cases, the quoted expenditure figures have been found to be

above the actual amounts spend (Auditor General's Report, 2017). For instance, National Agricultural Advisory Services highlighted having spent UGX. 1,384,980,133, although the items on which such funds had been spent was unclear. Inadequate financial accountability has resulted in loss of public funds within the Uganda. It is still unclear whether tendencies of inadequate financial accountability among government entities may be attributed to inadequate internal audit and poor ethical environment (Baharud-din *et al.*, 2014; Hijal-Moghrabi *et al.*, 2015). This prompts the researcher to seek further inquiry to establish the extent to which internal audit effectiveness and ethical environment influence financial accountability to close this knowledge gap.

1.3 Purpose of the study

This study examined the relationship between internal audit effectiveness, ethical environment and financial accountability within government entities in Uganda.

1.4 Research objectives

- (i) To establish the relationship between internal audit effectiveness and financial accountability within government agencies in Uganda
- (ii) To identify the relationship between ethical environment and financial accountability within government agencies in Uganda
- (iii) To ascertain the relationship between internal audit effectiveness and ethical environment within government agencies within Uganda
- (iv) To examine the influence of internal audit effectiveness and ethical environment on financial accountability within government agencies in Uganda.

1.5 Research questions

- (i) What is the relationship between internal audit effectiveness and financial accountability within government agencies in Uganda?
- (ii) What is the relationship between ethical environment and financial accountability within government agencies in Uganda?
- (iii) What is the relationship between internal audit effectiveness and ethical environment within government agencies within Uganda?
- (iv) What is the influence of internal audit effectiveness and ethical environment on financial accountability within government agencies in Uganda?

1.6 Scope of the study

1.6.1 Content scope

This study focused on three concepts of internal audit effectiveness, ethical environment and financial accountability. The concepts of internal audit and ethical environment were studied as independent variables while financial accountability was the dependent variable. Focus herein was directed towards exploring how the variables relate and their influence on the dependent variable.

1.6.2 Geographical scope

This study was carried out among government entities in Uganda because of the consistent concerns of financial accountability identified during the annual audit exercise (Auditor General Report, 2016; 2017). Most of these government entities had been reported with widespread financial irregularities and funds mismanagement.

1.7 Significance of the study

- i.) The significance of this study lies in the fact that public organizations worldwide score significantly lower on financial accountability than private organizations do. Therefore, finding evidence regarding the relevance of internal audit function and ethical environment in determining financial accountability can help office bearers in public organizations devise ways and means to strengthen their internal audit departments and foster ethical environment.
- ii.) Besides, to the managers and practitioners within government agencies, the study will provide recommendations which can be adopted to enhance financial accountability practices within various agencies. This could help in minimizing fraudulent activities as well as opportunistic behaviour by holders of public offices.
- iii.) To academicians, the study findings could provide a foundation for further research regarding how internal audit function and ethical environment are important in promoting financial accountability issues within government entities.

1.8 Conceptual framework

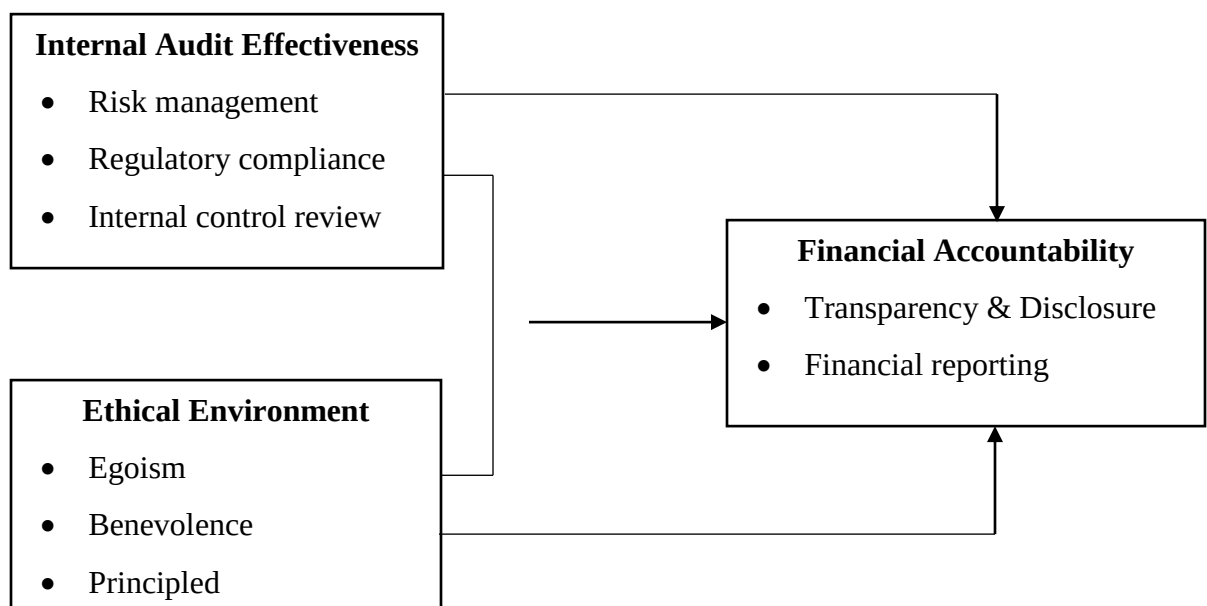


Figure 1: Conceptual Framework

Source: Adopted and modified from literature review (Bananuka et al., 2018; Johl, Johl, Subramaniam & Cooper, 2013; Kabuye, Nkundabanyanga, Opiso & Nakabuye, 2017; Kang, Stewart & Kim, 2011; Shafer, 2009; Shafer, Poon & Tjosvold, 2013; Okpara & Wynn, 2008).

The conceptual framework is a diagrammatic representation of the independent and dependent variables of the study. In the framework, internal audit effectiveness and ethical environment have been conceptualized as predictors for financial accountability within organizations. Thus, financial accountability has been hypothesized to be influenced by internal audit effectiveness and ethical environment in isolation or a combination of the two variables. As per the framework, internal audit effectiveness can be studied in terms of risk management, compliance with regulations and internal control review (Bananuka et al., 2018; Kabuye et al., 2017; Sari, Ghazali & Achmad, 2017). Furthermore, in order to assess the ethical environment within firms, attributes of egoism, benevolence and principled ethical framework is applied (Victor & Cullen, 1987; Kang et al., 2011; Shafer, 2009; Shafer et al., 2013; Okpara & Wynn, 2008). Financial accountability has been conceptualized in terms of transparency & disclosure and financial reporting (Bananuka et al., 2018).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides a review of literature guided by the objectives of the study which were to examine the relationship; between internal audit effectiveness and financial accountability; ethical commitment and financial accountability; internal audit and ethical commitment; and internal audit effectiveness, ethical commitment and financial accountability within government agencies in Uganda. The chapter also provides literature about the major variables studied herein.

2.1 Internal Audit Effectiveness

Internal audit effectiveness is an independent, objective and consulting activity which focuses on ensuring the existence, fulfillment, effectiveness of internal control in order to improve the effectiveness of risk management, control and governance processes (Pizzini, Lin & Ziegenfuss, 2014). Internal audit effectiveness is inevitable in every organization and considered a key component for effectively enhancing accounting systems. It has further been described as the backbone of the business accounting since it maps all transactions that occur within the entity. Historically, internal audit effectiveness has been regarded as the “organizational policeman and watchdog” (Karagiorgos, Drogalas, Gotzamanis & Tampakoudis, 2010, p. 16). Indeed, Joksimović and Alseddig (2017) highlight that internal audit effectiveness increases compliance with laws and regulations in addition to facilitating the work of external auditors. Furthermore, internal audit effectiveness is able to highlight the weaknesses of the company and provide an independent assessment of the organization. In the same regard, Al-Matari, Al-Swidi and

Fadzil (2014) indicates that internal audit effectiveness improves the effectiveness of risk management, control, and governance processes. Internal audit effectiveness is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of activities and business processes (Al-Matari *et al.*, 2014).

Shamsuddin, Manijegar, Kirupanangtan, Rahman and Selvanathan (2014) indicate that for internal audit effectiveness to flourish, audit activities must be exercised independently and objectively. Independence of the audit function is assessed based on the extent to which the audit team is free to access to all activities, files, and processes. The audit department should be independent in the sense that it reports directly to the board than management (Lélis, 2012). In addition, the Institute of Internal Auditors (IIA, 2013) indicates that internal audit is considered independent when it is directly linked to the board of directors instead of the top management officials within the organization. Internal audit independence increases audit quality and sets a strong platform for increasing organizational placement and strong governance environment. Objectivity is the extent to which the internal audit ably exercises professional zeal towards the work without any conflicting interest. They are also supposed to obey specific methodologies and pay attention to objectives and most importantly, report a fair view of the company without any form of influence by other parties concerned or reporting in favor of a specific person or group. Empirical studies (Bananuka *et al.*, 2018; Johl *et al.*, 2013; Kabuye *et al.*, 2017) indicate that internal audit is explained by a trilogy of risk management, regulatory compliance and internal control reviews.

9.1.1 Risk management

COSO (2013) defines risk management as a process, affected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. Al-Matari *et al.*, (2014) point out that risk management is concerned about a holistic, company-wide approach in managing risks, and centralized the information according to the risk exposures. According to Shamsuddin *et al.*, (2014), institutions consider risk management a critical aspect due to various reasons including the desire to reduce potential financial losses, the need to improve business performance, the aspiration to fulfil regulatory compliance requirements as well as the organization's desire to increase risk monitoring and accountability.

9.1.2 Regulatory compliance

Soh and Martinov-Bennie (2011) indicates that one of the critical functions of audit is to ensure that the organization acts in congruence with the systems in place. In a typical organizational setup, there are specific statutes and prudent practices that are supposed to guide the actions of individuals and the organization (Sari, Ghazali & Achmad, 2017). Internal audit is supposed to play an oversight role by ensuring that the actions within the organization are consistent with the financial reporting practices and other applicable laws and regulations guiding the way the business is supposed to be executed (Al-Matari, Al-Swidi & Fadzil, 2014). Internal audit through ensuring compliance with regulations facilitates external auditors in providing reassurance in the financial reporting status of the company. In addition, compliance evaluation by audit team is necessary for boosting

governance structure and detecting various weaknesses within the business procedures and proposals (Joksimović & Alseddig, 2017).

9.1.3 Internal control review

While systems are implemented within the organization, not all turnout to be effective (Shamsuddin *et al.*, 2014). Internal audit is supposed to develop and maintain a system that continuously monitors the effectiveness of the prevailing policies and guidelines, thereby contributing to the improvement of internal controls (Kabuye *et al.*, 2017). There is consensus that internal control review is a proxy of advisory role widely inclined to the audit team, although it calls for independence of the audit team to effectively evaluate the progress of such policies. Depending on the effectiveness of the control review, internal audit is able to ensure that prevailing is appropriate and suitable for the facility, detect weaknesses of the current procedures and propose modifications required (Bananuka *et al.*, 2018).

2.2 Ethical Environment

Ethics has widely been embraced in literature with many scholars concurring that an ethical environment is vital for all (Seyedin, Zaboli, Malmoon & Azami, 2012; Tunde & Omobolaji, 2009). It refers to the exhibition of normatively appropriate conduct through personal actions and interpersonal relationships (Cheng, Chang, Kuo & Cheung, 2014). Henceforth, ethical environment examines the way an individual exhibits good or bad, right or wrong behavior. According to Engelbrecht, Heine and Mahembe (2017) ethical environment encompasses specific values related to integrity such as trustworthy, caring, honest and fairness. In addition, values of neutrality, transparency, diligence, effectiveness and impartiality have also been revealed important although peculiar to

individual countries (Tunde & Omobolaji, 2009). Accordingly, most organizations or companies make ethical environment that reflect values that society expects of them depending on the products or services the organizations offer (Cheng *et al.*, 2014). Ethical environment is inevitable and it is regarded as an effective tool through which organizations can improve performance, especially when different approaches in creating an ethical culture are adopted (Valentine *et al.*, 2011). Previous studies have measured work ethics with a variety of indicators. Similarly, Okpozo, Gong, Ennis and Adenuga (2017) indicate that ethical environment increases proficiency, open communication and increases clarification of expectations and responsibilities within the organization. As indicated in a range of empirical work, ethical environment is best understood in a three-dimension which constitutes attributes of egoism, benevolence and principled ethical framework is applied (Victor & Cullen, 1987; Kang *et al.*, 2011; Shafer, 2009; Shafer *et al.*, 2013; Okpara & Wynn, 2008).

9.2.1 Egoism

It is sometimes referred to as instrumental criterion, and it is based on the egoism moral tendencies which prompts employees to perceive that focusing on individual's best interest dominates ethical reasoning (Okpara & Wynn, 2008). In egoistic ethical environment, people focus on personal benefits or self-interest whenever they encounter ethical dilemma. This ethical environment encourages employees to compromise their own ethical or moral principles and promote organizational interests (Shafer, 2009).

9.2.2 Benevolence

Benevolence, also commonly referred to as utilitarian criterion suggests that individuals can decide to exhibit ethical morals upon making a reflection of the positive or negative

consequences of actions on referent others (Kang *et al.*, 2011). Furthermore, Shafer *et al.*, (2013) denote that benevolence enhances employees to do what is best for the society as a whole, or emphasizing social responsibility and serving public interest. In this regard, individuals emphasize friendship and a concern for organizational collective such as esprit de corps and team interest.

9.2.3 Principled

Principled or deontological criterion is guided by deontological moral principles. It postulates that an organization makes ethical decisions after considering actions which they consider universal and consistent principles of what is right and wrong (Kang *et al.*, 2011). Among other critical issues, principled ethical environment guided by specific rules and codes of conduct as a mechanism of promoting a systematic way of doing things. In addition, principled environment is associated with a reducing in conflict of interest and enhancement in professionalism in task execution.

2.3 Financial Accountability

In recent times, financial accountability has become a major concept when it comes to the public sector. Kewo (2017) indicates that financial accountability draws its origin from financial accounting, which is focused on checking the way the books of accounts are kept and how the money is spent and of late has widely been embraced by many public sectors as a means of increasing value for money. However, it is a concept that been variedly defined by different scholars. According to Mohamed and Ali (2014) financial accountability is an agreement where one party is mandated to provide information to the other for purposes of assessing whether the actions exhibited are consistent with the prior established rules or principles. In the context of public financial finance, Hulme and

Sanderatne (2008, p. 4) define accountability as the “responsibility of government and its agents towards the public to achieve previously set objectives and to account for them in public”. The study identifies a state of connection between the two definitions. First and foremost, it is clear that financial accountability is an obligation of one party to another party. Secondly, financial resources occur when the obliged party provides explanation or justification for spending financial resources in the manner it has been spent. Henceforth, it is conclusive that that financial accountability in public financial management is focused towards ensuring value for money.

Loozekoot and Dijkstra (2017) indicate that financial accountability in public finance has attracted a lot of attention because it is through accountability that central and local governments are able to provide information pertaining public expenditure and income to ensure that their rights are met. Such rights include knowing, the right to be informed and the right to be heard and listened to and these can only be achievable through promoting accountability. This is in line with Mohamed and Ali (2014) who indicate that unless the public knows how public financial resources are spent, they cannot demand for accountability. Through the legislative committee and audit committee, citizens are able to oversee how financial resources are spent. On the other hand, government ensures that budgeting and accounting system are in place to ensure accurate and timely capture of economic transactions (Hladchenko, 2016). Financial accountability has been conceptualized in terms of transparency & disclosure and financial reporting (Bananuka *et al.*, 2018; Sari *et al.*, 2017).

9.3.1 Transparency and disclosure

Transparency means that information is freely available and directly accessible to those who will be affected by decisions and that enough information is provided in easily understandable forms and media. In addition, the behavioral aspects including the clearly established conflict-of-interest rules for elected and appointed officials, freedom of information requirements, a transparent regulatory framework, open public procurement and employment practices, a code of conduct for tax officials, and published performance audits (Hough *et al.*, 2016).

Transparency in public institutions has several aspects and dimensions. First, at the aggregate level, transparency requires the provision of reliable information to those who need it for optimal decision-making (Cheng *et al.*, 2014). Secondly, it requires that public institutions provide comprehensive budget to determine what is ought to be spent and the time within in which it needs to be spent. In addition, the behavioral aspects including the clearly established conflict-of-interest rules for elected and appointed officials, freedom-of- information requirements, a transparent regulatory framework, open public procurement and employment practices, a code of conduct for tax officials, and published performance audits must be in place for proper transparency to take its course. Sari *et al.*, (2017) asserts that the function of transparency is important in accountability and it refers to openness. With regard to the public services, it means that holders of public office should be as open as possible about all the decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest demands it. Thus, it is an essential aspect for ensuring accountability, minimizing

unethical behavior and has gained prominence in ensuring value for money in public expenditure.

Disclosure on the other hand is the act of releasing all relevant information pertaining to expenditure or budget *allocation* to different stakeholders for better decision-making purposes (Mohamed & Ali, 2014). Disclosure of information requires that financial statements provided by different public institutions provide information that clearly indicates the “value for money” principles. All public institutions are supposed to serve as stewards of the citizenry to ensure that they receive the services they want. Therefore, such disclosure should give a fair presentation of how taxpayer’s money is spent (Kewo, 2017). Public institutions should disclose any sort of information that they have relating to expenditure as this can limit conflict of interest issues. In particular, policy makers should disclose approved budget estimates for different activities, expenditure for funds disbursed to them, strategic plans and projects that require funding with public funds, risks involved in implementing specific activities, annual financial review reports, work in progress reports, accountability for funds spent, specific project performance updates, among others. Hladchenko (2016) postulates that disclosure of information increases the management’s commitment to transparency and accountability. Public Finance Management Act (2015) of Uganda mandates the accountant general to maintain proper books of accounts and proper records and as well as provide semi-annual and annual financial statements to the Minister, Secretary to the Treasury and the Auditor General by the 15th of February and the 31st of August, respectively to ensure transparency in all public finance and management.

9.3.3 Financial Reporting

Financial reporting is one of the widely discussed concepts in finance and accounting literature (Lehtinen, 2013). It is concerned with ensuring the financial statements presented by an entity satisfy the qualitative characteristics of financial statements which include accuracy, objectivity, believability, timeliness, completeness consistence among others (Tasios & Bekiaris, 2012). Van Beest, Braam and Boelens (2009) reveal that financial reports are fundamental since they serve as the conduit through which the entity reports its state of affair to the different stakeholders as a way of providing accountability and availing information necessary for making decisions. Indeed, the International Financial Reporting Standards (IFRS) provides the clarity regarding financial reporting. It states, *“The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.-- Consequently, they are the primary users to whom general purpose financial reports are directed.-- However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors require.”* (Conceptual framework for financial reporting of IASB, 2010).

2.4 Internal audit effectiveness and financial accountability

The association between internal audit effectiveness and financial accountability has attracted a lot of attention recently. Thumbi (2016) postulated that internal audit effectiveness is important in boosting financial accountability. According to the study, effective internal audits provide well established structures that enhances healthier financial statements. Likewise, Abbott et al., (2016) posits that effective internal audits enable organizations develop effective internal audit facilities which helps them detect

issues that are likely to affect financial reporting as well as reducing cost overheads leading to an improvement in the quality of financial reporting. In addition, Laković et al., (2016) reported that internal audit effectiveness and financial accountability are significantly related. The study asserts that effective internal audit facilities provide in-house assessment structures that lead to improved financial reporting in terms of assurances about the quality of financial reports. Furthermore, Ege (2014) highlighted that ineffective internal audit is most likely to affect financial accountability. In this study, it is indicated that availability of effective internal audit mechanisms minimizes financial scandals and ill-informed financial statement which improves on the quality of financial reporting. Similar statements were reported by Thumbi (2016) who postulate that internal audit effectiveness reduces struggles and doubts in organizations financial reports leading to increased accountability.

Furthermore, Laković *et al.*, (2016) observed that internal audit effectiveness is an important tool through which reliability of organizational financial information is safeguarded. According to the study, internal audit effectiveness minimizes issues to do with earnings management which improves on the quality of financial reporting. Congruently, Ondieki (2013) revealed that effective internal audit function is so much connected to the quality of financial reporting because it acts as a watchdog that saves institutions from unnecessary financial malpractices and irregularities which enables organizations ensure high levels of financial accountability. Similar statements were revealed by Muchiri and Jagongo (2017) that indeed internal audit effectiveness is highly associated with high levels of transparency and quality of financial reporting. Moreover, Al-Matari, Al-Swidi and Fadzil (2014) stressed that internal audit effectiveness is a major

area of concern in financial accountability because it provides authentic, consistent and honest financial information based on to make appropriate financial decisions. Likewise, Ozuomba Chidinma, Nwadiakor Eugene and Ifureze (2016) opine that effective internal audits are effective control systems that protect organizations resources against fraudulent actions hence increasing reliability of financial data. Similar sentiments were expressed by Laković *et al.*, (2016) that indeed internal audit effectiveness minimizes tendencies of earnings management and fraud which are key determinants of financial accountability.

A recent study by Muchiri and Jagongo (2017) concluded that internal audit effectiveness and financial accountability are closely and regularly correlated. According to the study, these systems ensure compliance of accounting rules, standards and regulations with limited misappropriations which enhances transparency, disclosure and quality of financial reports. Also, Laković *et al.*, (2016) postulated that effective internal audit encourages in-depth discussions, disclosure and exchange of financial data which enables timely identification of irregularities. Accordingly, Ondieki (2013) emphasized that effective internal audits are important in identifying financial adversities in financial documents. Moreover, Abbott *et al.*, (2016) posits that internal audit effectiveness is indispensable financial management tools in boosting financial disclosure, transparency and reporting. The study emphasized that such systems provide predetermined means through which financial information is managed more effectively and efficiently with increased stakeholder value.

Consistently, Al-Matari *et al.*, (2014) noted that internal audit effectiveness is an accounting system that enables organizations to maintain a clear path-way of all financial

activities leading to increased accountability. In the same vein, Ondieki (2013) opines that internal audit effectiveness enables organizations execute financial proceedings in a more disciplined and organized approach with increased helpfulness of risk management and control processes. In support of the above, Ejoh and Ejom (2014) complements by indicating that there is a significant relationship between internal audit effectiveness and financial accountability. According to the study, internal audit effectiveness provides an effective mechanism in both private and public institutions that monitors, directs and restrains unscrupulous activities that may affect accountability.

Additionally, Abbott *et al.*, (2016) revealed that internal audit effectiveness in organizations is important because they create grounds onto which financial deficiencies can be corrected and controlled before being exposed to the external auditors. The above is consistent with the most recent findings of Muchiri and Jagongo (2017) who notified that internal audit effectiveness is vital in fostering financial accountability because they create an assurance that all financial proceedings meet the permitted standards. Moreover, Chiggai (2016) indicated that availability of effective internal audit encourages organizations to undertake informed financial decisions with minimal errors with increased financial disclosure, transparency as well as reporting. Likewise, Ozuomba Chidinma *et al.*, (2016) emphasized that internal audit effectiveness is an inseparable piece in determining financial accountability. The study ascertained that internal audit encourages reliability and accuracy of financial data which also calls for management's responsiveness in situations of deficiencies. With the same view, a study by Munishi (2013) ascertained that internal audit effectiveness is a constant source of information for managers and therefore enables them make clear assessments as well as

enabling management provide possible solutions whenever there are financial errors so as to boost the financial accountability.

2.5 Ethical environment and financial accountability

The relationship between ethical environment and financial performance has received a lot of attention (Aminu & Oladipo, 2015; Meymandi et al., 2015). Melé et al., (2017) revealed that an ethical environment is paramount in financial accountability. The study asserts that an ethical environment directs and guides accounting personnel while performing their responsibilities hence increasing on the quality of financial reporting. Consistently, Onyebuchi (2011) emphasized that an ethical environment is an important concept in accounting simply because it encourages auditors to operate more honestly and always straight-forward while presenting financial data. With the same view, Meymandi *et al.*, (2015) emphasized that an ethical environment and financial accountability are closely and regularly connected. The study asserts an ethical environment enables an auditor to take full responsibility of their duties while avoiding conflict of interests hence boosting financial accountability. Furthermore, Avram and Tøgoe (2012) emphasized professionalism as an important component of ethical environment simply because it enables auditors take genuine financial decisions and dealings leading to the provision of quality financial statements. Consistently, Melé *et al.*, (2017) reported that knowledge on ethical environment encourages accounting officers and auditors to make better-off choices with minimal ethical dilemmas. With the same view, Onyebuchi (2011) reported that an ethical environment provides auditors with the necessary ethical knowledge and skills which are key boosters of financial accountability.

An empirical study by Enofe, Nakpodia and Moruku (2014) revealed that an ethical environment enables organizations generate instant solutions for the arising ethical issues which smoothen the financial decision-making process. In another study, Ardelean (2013) stressed that ethics play an integral role in determining the level of financial accountability. According to the study, ethics enable auditors to represent uniform interests with stakeholders and investors which pushes them to take professional judgements without being influenced by external pressure or inducements from top management. Congruently, Aminu and Oladipo (2015) stressed that the significance of ethical environment in influencing financial reporting, disclosure and transparency cannot be overemphasized since it boosts confidence and professionalism. Moreover, an empirical study by Mahdavihou and Khotanlou (2012) that sampled auditors from different companies in Tehran concluded that statistically ethical environment determines the quality of financial reporting in organizations. Additionally, Pandey (2017) postulates that designing an effective ethical environment is the surest way institutions bring a series of financial reporting scandals to the forefront. The study asserts that the tricky ethical environment enables auditors to bring back authenticity in financial reporting. According to Enofe *et al.*, (2014), an ethical environment provides clear guidelines that ensure orderliness, consistence and uniformity in the financial data provided hence leading to an improvement in accountability.

Furthermore, Melé *et al.*, (2017) indicated that there is a clear-cut relationship between ethical environment and financial accountability. In this study, it is indicated that an ethical environment enhances professionalism which refrains auditors from getting involved in practices that would limit them from performing their work ethically hence

increasing on financial accountability. Also, Ardelean (2013) emphasized that honesty is an important construct of ethical environments because it pushes auditors to perform their tasks more objectively with limited conflict of interests that may prejudice his judgements. According to MahdaviKhoo and Khotanlou (2012) postulates that ethical environment boosts professional competence which is the light of any auditor because highly ethical auditors always comply with audit standards something that boosts financial accountability. Additionally, Melé *et al.*, (2017) revealed that auditors and accountants need to uphold ethical standards because they guide them while performing financial responsibilities. In the same vein, Enofe *et al.*, (2014) highlighted that observance of ethical conduct standards undeniably makes it easier to achieve an objective of financial accountability. Similar statements were expressed by Ardelean (2013) who suggested that ethics clearly communicate the essential principles that need to be respected by auditors and accountants which later increases confidentiality and due care while presenting financial data. Avram and Togoe (2012) complemented that maintaining an ethical environment and financial accountability are intertwined. The study suggests that ethics push auditors to act in the best way possible with high levels of transparency, disclosure and financial reporting.

2.6 Internal audit effectiveness and Ethical environment

From literature, it is increasingly becoming important to create a working environment that enhances intellectual involvement and confidentiality. As a result of this, various practitioners have come up with varying systems in order to create an effective ethical environment with increased integrity, professionalism as well as compliance to ethical standards. Amongst all, instituting an effective internal audit has widely attracted genuine

backing by numerous studies and scholars. Notably, Asaolu, Adedokun and Monday (2016) revealed that effective internal audits play an integral role in developing an ethical environment. The study asserts that internal audit effectiveness provides an assurance for effective risk assessment and monitoring which encourages auditors to perform their activities with more honesty and professionalism which are elements of an ethical environment. Consistently, Messier Jr, Reynolds, Simon and Wood (2011) postulates that effective internal audits have greatly been implemented in various institutions because they influence top leadership to assess, implement and conceptualize organizational processes in accordance to the desired code of conduct. Similar statements were expressed by Mutave (2014) who posits that internal audit effectiveness and ethical environment are significantly correlated because such systems enhance effective governance and control of various organizational practices which reduces on conflict of interests thus promoting professionalism and objectivity amongst auditors.

Additionally, Asaolu *et al.*, (2016) opine that internal audit effectiveness acts as a mirror for every top management because it clearly enables institutions to identify the tension that exists in the ethical environment and absolutely provide remedies so as to effectively improve the auditor's ethical performance. Congruently, Appel and Plant (2015) confirmed that there exists a positive relationship between internal audit effectiveness and development of an effective ethical environment. The study concluded that internal audit effectiveness plays an integral role in identifying and bridging gaps that exist in the organization's ethical frame work. Likewise, Dumitrescu and Bobițan (2016) reported that internal audit effectiveness enhances effective governance because it is through

internal audit reports that organization advocate for more intellectualism, confidentiality and professionalism so as to effectively increase effectiveness and efficiency.

In a study by Mutave (2014) observed that internal audit effectiveness and ethical environments are closely intertwined. According to the study, effective internal audits provide a more systematic and disciplined approach that encourages auditors to perform their duties with high levels of integrity, objectivity and confidentiality. According to Hertati (2015), internal audit effectiveness is the strongest assurance that enhances effective monitoring of ethics with reasonable focus directed towards increasing professionalism, intellectualism and objectivity. Furthermore, Appel and Plant (2015) concluded that the presence of effective internal audits is relevant in influencing accountants to provide unbiased financial decisions hence fostering a conducive ethical climate. Likewise, Messier Jr *et al.*, (2011) emphasized that internal audit effectiveness leads to an unbiased mental attitude which encourages internal auditors to execute their financial duties with a more honest belief without unnecessary compromises.

Consistent with Soh and Martinov-Bennie (2011), internal audit effectiveness increase knowledge sharing and coordination among auditors which minimizes duplication of financial information leading to increased integrity, professionalism and code of ethics. This is consistent with the findings of Asaolu *et al.*, (2016) who indicated that internal audits effectiveness enables managers, stake holders and auditors share collective objectives which encourages them to deliver better services while complying with the company's code of ethics.

Moreover, Al Hosban (2014) observed that internal audit effectiveness is an important part in fostering an ethical environment because it enhances auditor's independence and objectivity leading to increased realization of professionalism, integrity and desired code of ethics. With a similar view, Appel and Plant (2015) revealed that internal audit effectiveness is an important measure of ethical performance because it enhances independent judgement of auditors in relation to the daily organizational operations. More so, Soh and Martinov-Bennie (2011) highlighted that internal audit effectiveness offers consulting services which is an extended role which provides a foundation for promoting effective governance with respect to the desired code of conduct. Furthermore, Rae, Subramaniam and Sands (2008) suggested that there is positive and significant relationship between internal audit effectiveness and ethical environment. The study found out that effective internal auditors coordinate with external auditors in investigating fraud proceedings which prompts management to redirect activities in a more intellectual and professional manner.

Equally, Appel and Plant (2015) reported that internal audit effectiveness leads to creation of internal audit committees that specifically monitor financial flows in the organizations with clear prospects of promoting proper ethical conduct. Also, Mutave (2014) reported that internal audit effectiveness is a conduit through which ethical standards are well interpreted and communicated to accountants. Additionally, Messier Jr *et al.*, (2011) posits that internal audit effectiveness and ethical environment are correlated because it is the surest way organizations analyze effectiveness of control systems as well as strengthening company's code of conduct. According to Petraşcu and Tieanu (2014) all organizations require to institute effective internal audits for effective

communication and adherence to the organization's code of conduct. Similar statements were expressed by Appel and Plant (2015) who indicated that internal audit effectiveness are important management tools that assist managers to undertake various actions so as to direct and build an organizational culture that enhances compliance of desired ethical standards.

2.7 Internal audit effectiveness, Ethical environment and financial accountability

Previous literature supports the notion that financial accountability in organizations is derived from the joint effectiveness of both internal audits and ethical environment (Mohamud, 2013; George & Konstantinos, 2015). An ethical environment deals with directly monitoring and managing code of conduct so as to create a sound ethical climate that uplifts good governance and financial accountability (Appel & Plant, 2015; Mutave, 2014). Based on the predictive potential of both internal audit effectiveness and ethical environment in fostering financial accountability, numerous scholars and academia have come up with varying studies notifying that indeed the more these two variables are instituted in any organization, the better in the context of financial accountability. For instance, Abbott *et al.*, (2016) posits that internal audit effectiveness enable organizations develop internal control facilities which helps auditors to detect issues with reasonable professionalism, integrity and appropriate conduct thus minimizing overhead costs leading to improved financial reporting quality.

A related study by Thumbi (2016) postulated that internal audit effectiveness provides well established structures that enhance healthier ethical climate which subsequently increases transparency, disclosure and quality of financial reports. In addition, Laković *et al.*, (2016) reported that internal audit effectiveness and ethical environment jointly

boosts financial accountability. According to the study, internal audit facilities provide in-house assessment structures on ethical performance of accountants with an ideal for improvement thereby leading to increased assurances over the quality of financial data presented. An empirical study by Ege (2014) emphasized that an effective internal audit is more likely to minimize auditors misconduct resulting into reduced financial scandals and ill-informed financial decisions thus promoting financial accountability. Similar statements were reported by Thumbi (2016) who supposed that effective internal audit function creates a conducive ethical environment with reduced financial struggles and doubts thus fostering accountability.

Congruently, Laković *et al.*, (2016) expressed that effective internal audit increases on the prevalence of appropriate ethical conduct amongst book keepers hence reducing on cases of earnings management resulting into an improvement in the quality of financial reporting. Correspondingly, Ondieki (2013) revealed that effective internal audit function acts as a watchdog that refrains misconduct among accountants resulting into considerable levels of professionalism, intellectualism and honesty with reduced cases of unnecessary financial malpractices and irregularities leading to increased levels of financial accountability. Similar statements were revealed by Muchiri and Jagongo (2017) that indeed effective internal audit system is associated with high levels of professionalism, confidentiality and objectivity which are cornerstones in strengthening quality of financial data. Additionally, Soh and Martinov-Bennie (2011) highlighted that internal audit effectiveness offers consulting services which educates book keepers about the desired code of conduct which is a baseline for fostering financial accountability.

An empirical study by Al-Matari *et al.*, (2014) stressed that internal audit effectiveness is a major area of concern in determining the ethical performance of accountants which results into disclosure of high-quality financial data. The study asserts that internal audit effectiveness encourages auditors to conduct themselves in a more professional manner by sharing genuine, authentic and direct financial information that enhances transparency. Likewise, Ozuomba *et al.*, (2016) opine that effective internal audits are operative control systems through which desired behavior and procedures are communicated which refrains finance officers from engaging in fraudulent actions leading to provision of reliable financial data.

Congruently, Laković *et al.*, (2016) confirmed that effective internal audit functions enable organizations to clearly identify and fix irregularities in ethical performance levels thereby leading to provision of more reliable financial information. According to Al Hosban (2014), internal audit effectiveness and ethical environment jointly determine the level of financial accountability in organizations. The study revealed that internal audit effectiveness enhances auditor's independent judgement, professionalism and objectivity which are key facets in bolstering transparency and disclosure. With a similar view, Appel and Plant (2015) revealed that internal audit effectiveness is an important measure of ethical performance because it enhances provision of self-governing judgements by auditors in relation to the daily organizational operations.

2.8 Summary of Literature

Overall, financial accountability has become a major concept among researchers, policy makers and managers. Both private and public sector are consistently expressing the need to have financial reports which are transparent and reports which provide full disclosure

in order to ensure value for money. The concentration of many researchers has therefore been to explore the different ascendants of financial accountability. Some of the factors which have received a lot of attention include internal audit effectiveness and ethical environment. Most explanations from scholars indicate that internal audit effectiveness serves as a watchdog identifying all weaknesses and strength prevailing within the risk management, regulatory compliance and internal control review. Other scholars indicate that ethical environment is fundamental since it shapes behaviour and action exhibited by employees as they conduct financial accountability process. Whilst, we observe some inconsistencies pertaining the same where some scholars reveal no relationship at all between either variable towards financial accountability. That said, the dominant literature regarding financial accountability appears to focus mainly on private sector and studies which have been conducted elsewhere other than Uganda. There is urgency to understand how these variables relate with financial accountability in Uganda, more especially the public sector.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter provides an explanation of the methodology which was applied in pursuant to the objectives of the study. It constitutes the research design, study population, sample size and sampling procedure, data source, data collection instrument, validity and reliability as well as data presentation, analysis and interpretation. This chapter further provides the measurement of variables and ethical consideration.

3.1 Research Design

The study applied a cross-sectional research design with a quantitative research approach. The cross-sectional research design was applied herein to fit the short time horizon which was available for conducting this study. In addition, this research design allows a wide sample coverage since data is obtained just once or in a snapshot from each participant (Field, 2009). On the other hand, the quantitative research design was selected because of its simplicity and clarity in indicating the relationship between variables (Williams, 2007).

3.2 Study Population

The population comprised 102 government entities in Uganda (Committee on Commissions, Statutory Authorities and State Enterprises (COSASE, 2016). The same were also referred to as the unit of analysis for the study.

3.3 Sample size and Selection technique

The study selected a sample of 80 government entities, which was determined based on the Krejcie and Morgan (1970) table for selecting samples from a given population. The

study applied simple random sampling to obtain the sample. All government entities were put together to form a sampling frame before picking one element at a time without replacing until the targeted sample was acquired. This technique was applied since it accords each element of the population an equal chance of being selected (Creswell, 2005).

From the selected entities, the researcher was interested in the accounting officer, internal audit officer and assistant head of internal audit to actively participate in providing responses. These categories from each entity were considered as the unit of inquiry.

3.4 Data sources

This study used only primary data source to interpret results. Primary data constitutes the first-hand data obtained by the researcher during the data collection exercise. This form of data was obtained from the unit of inquiry for the study which comprised the accounting officer, internal audit officer and assistant head of internal audit. Focus was directed towards this form of data to facilitate an interpretation based on recent information regarding the studies variables (Creswell, 2005).

3.5 Data Collection Instruments

The study used a structured questionnaire to obtain the primary data used herein. This instrument constituted closed ended questions which were anchored on a 5-Likert scale with extremes of 1 (Strongly disagree) and 5 (Strongly agree). This scale was used because it gives respondents a range of options from which they choose from. Overall, the questionnaire was used to facilitate because of the large and dispersed sample (Field, 2009).

3.6 Validity and Reliability

3.6.1 Validity

This study conducted a pilot study of 25 questionnaires to assess the validity and understandability of the questionnaire. Based on the suggestions and comments received from the pilot study, the questionnaire was amended. In addition, Content Validity Index will be used as a mechanism for ensuring that the items measures are good enough to measure what they are intended to measure. The computed CVI was tested against the threshold of 0.7+ for qualifying the measures valid (Field, 2009). The obtained CVI results are presented in Table 3.1.

3.6.2 Reliability

Cronbach Alpha Coefficient was obtained from the field results to check for internal consistence and reliability of data. The results were tested to ensure that every coefficient was over and above the acceptable 0.7 for each construct and variable (Nunnally, 1978). The results for Cronbach Alpha coefficient are presented under Table 3.1.

Table 3.1: Validity and Reliability Results

Variable/Construct	Cronbach's Alpha	CVI	N of Items
Internal Audit	0.907	0.794	17
Risk Management	0.788	0.833	6
Regulatory compliance	0.741	0.833	6
Internal control review	0.841	0.700	5
Ethical Environment	0.898	0.842	19
Egoism	0.810	0.875	8
Benevolence	0.840	0.833	6
Principled	0.746	0.800	5
Financial Accountability	0.916	0.765	17
Transparency & disclosure	0.884	0.727	11
Financial Reporting	0.830	0.833	6

Source: Primary Data

Results in relation to CVI (Table 3.1) indicate that each construct and variable was above the minimum index of 0.7. This means that the instrument which was used to collect data about the variables of the study was valid. Furthermore, the Cronbach Alpha Coefficient obtained for every studied variable along with their respective constructs were over and above the minimum of 0.7. The implication is that the results were reliable and hence fit to be relied upon to make conclusions and recommendations.

3.7 Data Presentation, Analysis and Interpretation

From the field, the data was edited, sorted and cleaned. The data was entered in Statistical Package for Social Scientists (SPSS. v.25) for analysis. The study obtained descriptive and inferential statistics to interpret results. The descriptive statistics used were frequency tables which were used to present results in relation to the demographic characteristics and subsequently interpreted based on the percentage values. Inferential statistics constituted correlation and regression analyses which facilitated addressing the research objectives along with the corresponding questions. Correlation analysis was used to examine nature of the relationship between studied variables (positive, negative) and reveal whether such relationship is significant or not. Regression analysis was used to examine the degree of predictability of the independent variables on the dependent variable, ascertaining whether the both variables were significant and the better predictor of the dependent variable.

3.8 Measurement of variables

This study comprised three variables, that is; internal audit effectiveness, ethical environment and financial accountability. The measures used for the variables hinged on earlier empirical studies.

Internal audit effectiveness was conceptualized using constructs of risk management, regulatory compliance and internal control reviews (Bananuka *et al.*, 2018; Johl *et al.*, 2013; Kabuye *et al.*, 2017). This study further obtained measures from Bananuka *et al.*, (2018) which were modified accordingly to fit the context of the study, and later subjected to a 5-Point Likert scale.

Ethical environment was measured using constructs of egoism, benevolence and principled ethical environments (Victor & Cullen, 1987; Kang *et al.*, 2011; Shafer, 2009; Shafer *et al.*, 2013; Okpara & Wynn, 2008). The study further adopted the Ethical Climate Questionnaire (ECQ) which was developed by Victor and Cullen (1987). These items were modified to fit the context of the study and later subjected to the 5-Point Likert scale.

Financial accountability was conceptualized using facets of transparency & disclosure and financial reporting (Bananuka *et al.*, 2018; Sari *et al.*, 2017). The study adopted items from previous work of Bananuka *et al.*, (2018) which were modified to fit the context of the study before they were subjected to the 5-Point Likert scale.

3.9 Ethical considerations

This study followed specific ethical issues while it was being executed. The researcher did not engage into data collection not until the research proposal was accepted and an official letter from the university was obtained. The researcher officially wrote to the government entities seeking authority to carryout data collection and waited for the response before engaging employees in these entities. The researcher also explained to potential respondents about the study to facilitate informed consent. In this study, only

participants who voluntarily accepted to participate in this study were provided with a questionnaire to fill. As a means of increasing confidentiality, the researcher made sure that the questionnaire did not have space for name and telephone number.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter provides the presentation, analysis and interpretation of findings based on the objectives of the study which were to examine the relationship between; internal audit effectiveness and financial accountability; ethical commitment and financial accountability; internal audit and ethical commitment; and internal audit effectiveness, ethical commitment and financial accountability within government agencies in Uganda. In the same chapter, the response rate and demographic characteristics of the unit of inquiry and analysis are highlighted.

4.1 Response Rate

In our methodology, the study had anticipated to obtain a total of 240 responses from 80 government entities. However, the study was able to obtain data from 59 government entities which represents a coverage of 73.7% from the earlier projected. As a general rule, data is considered as fit for generalization if it is obtained from at least data 70% of the sample (Amin, 2005). Based on the response rate therefore, it is concluded that the data obtained was fit enough to be generalized.

4.2 Demographic Characteristics

The study obtained organizational and individual demographic characteristics and these were presented in frequency tables. Organizational characteristics included sector, employees, funding and years. Individual characteristics constituted gender, age,

education level, working experience and department. The results are presented in Table 4.1 and Table 4.2 correspondingly.

Table 4.2: Organizational Characteristics Results

Demographic Characteristic	Frequency (n=59)	Percent
Sector		
Energy	7	11.5
Health	7	12.6
Educ	5	7.7
ICT	9	14.8
Tourism	2	3.3
Land	8	13.7
Gender	3	5.5
Agric	7	11.5
Accountability	1	0.5
Transport	3	4.9
JSC	3	4.4
Water	6	9.8
Employees		
Less than 30 yrs	1	1.1
30-39 yrs	9	15.8
40-49 yrs	5	8.7
50 and above	44	74.3
Funding		
100m-1bn	1	1.1
1.1bn-2bn	4	7.1
2.1bn-3bn	4	6.0
3.1bn and above	51	85.8
Years		
Less than 5yrs	6	10.9
Between 5-10yrs	1	1.6
Between 11-15yrs	6	10.4
16yrs and above	45	77.0

Source: Primary Data

Table 4.1 indicates that the study covered government entities across all sectors. While this is the case, the major sectors which participated in the study comprised government entities in charge of ICT (14.8%), land (13.7%), health (12.6%), energy and Agric. which comprised 11.5% each. Furthermore, the results obtained reveal that most government entities comprise 50 employees and above (74.3%). This result implies that most government entities are large entities and therefore require a large employee base to increase efficiency. However, such large employee base is likely to effectively detect all

cases ineffective financial reporting and non-disclosure. Additionally, results in relation to funding reveal that most of the government entities receive at least 3.1bn (74.3%). This result signifies that most government entities have numerous cost centers and units which implies that the quest for enhancing financial reporting, transparency and disclosure is a complex one. The results further indicate that most government entities have been in existence for over 16 years (77%). The result implies that most government entities in Uganda are old and therefore understand how effective financial reporting, transparency and financial disclosure are supposed to be nurtured. This is because as entities operate longer, they are able to formalize and clear structures for increasing their efficiency.

Table 4.3: Individual Characteristics Results

Demographic Characteristic	Frequency (n=183)	Percent
Gender		
Male	141	77.0
Female	42	23.0
Age		
Less than 30	31	16.9
30-40 yrs	28	15.3
41-50 yrs	68	37.2
51-60 yrs	42	23.0
61 yrs above	14	7.7
Education Level		
Diploma	26	14.2
Bachelor's Degree	85	46.4
Post Graduate Diploma	54	29.5
Master	14	7.7
Others	4	2.2
Working Experience		
Less than 5 yrs	35	19.1
5-10 yrs	98	53.6
11-14 yrs	47	25.7
15 yrs above	3	1.6
Department		
Finance	64	35.0
Audit	119	65.0

Source: Primary Data

Results indicated in Table 4.2 indicate that the majority of respondents were male comprising 77% compared to 23% for female. This means that most government entities

in Uganda entrust male in fostering financial accountability. Additionally, the study reveals that most respondents had 41 or more years, and these constituted 67.9% of the total response rate. This result implies that most of the employees in charge of ensuring that financial accountability is realized among government entities are old. This could be due to their experience in accounting field. Similarly, the results reveal that most respondents at least hold bachelor's degree (46.4%). Perhaps, the results indicate that employees in the accounting departments and units within government entities have the required competences to account for every financial resource incurred. Further, results indicate that majority of the respondents had been in government entities for at least 5 years, and these constituted 80.9%. This result signifies high hands-on experience of employees in charge of financial matters within these entities. Likewise, the results indicate that majority of respondents were obtained from audit department compared (65%) compared to finance. The results signify that government entities are engaged in numerous activities which require effective financial auditing. As such, they employ a large audit team which can carry out oversight activities to increase financial reporting, transparency and disclosure.

4.3 Correlation Analysis

For purposes of examining the nature of the relationship (positive, negative) between variables, and exploring whether the relationship is significant or not significant, the study used correlation analysis. This study used Pearson correlation analysis because of the nominal scale which was used. The results are presented in Table 4.3.

Table 4.4: Pearson Correlation Results

Variable/Construct	1	2	3	4	5	6	7	8	9
Internal Audit Effectiveness (1)	1								
Risk Management (2)	.598**	1							
Regulatory compliance (3)	.721**	.422**	1						
Internal control review (4)	.776**	.414**	.263**	1					
Ethical Environment (5)	.651**	.598**	.482**	.457**	1				
Benevolence (6)	.435**	.482**	.397**	.234**	.785**	1			
Principled (7)	.549**	.369**	.402**	.399**	.696**	.394**	1		
Egoism (8)	.488**	.480**	.295**	.396**	.759**	.366**	.260**	1	
Financial Accountability (9)	.578**	.349**	.434**	.446**	.639**	.476**	.487**	.475**	1

Note: n=59, **. p<0.01 level (2-tailed).

Source: Primary Data

4.3.1 Internal Audit Effectiveness and Financial Accountability

Results in Table 4.3 indicate that there exists a significant and positive relationship between internal audit effectiveness and financial accountability ($r=.578$, $p<0.01$). The result implies that enhancing internal audit effectiveness is likely to stimulate financial accountability. Under the same objective, the study explores internal audit effectiveness subcomponents of risk management, regulatory compliance and internal control review relate with financial accountability. The results indicate a significant and positive relationship between risk management and financial accountability ($r=.349$, $p<0.01$). This means that enhancement in risk management is associated with a likely enhancement in financial accountability. Likewise, the results reveal a significant and positive relationship between regulatory compliance and financial accountability ($r=.434$, $p<0.01$). On that note, the result implies a likely enhancement in financial accountability as a result of improvement in regulatory compliance. More so, the results indicate a significant and positive relationship between internal control review and financial

accountability ($r=.446$, $p<0.01$). This means that improvement in internal control review is likely to translate in financial accountability.

4.3.2 Ethical Environment and Financial Accountability

Table 4.3 indicates a significant and positive relationship between ethical environment and financial accountability ($r=.639$, $p<0.01$). This implies that boosting ethical environment enhances financial accountability. Worth noting, the ethical environment had three subcomponents of benevolence, egoism and principled each of which was associated with financial accountability. From the results, a significant and positive relationship was obtained between benevolence and financial accountability ($r=.476$, $p<0.01$). This implies that improving benevolence stimulates financial accountability. Likewise, a significant positive relationship was obtained between a principled ethical environment and financial accountability ($r=.487$, $p<0.01$). The implication of this result is that improving principled form of ethical environment boosts financial accountability. In addition, a significant and positive relationship is evident between egoism and financial accountability ($r=.475$, $p<0.01$). Henceforth, the result implies that enhancing egoism enhances financial accountability.

4.3.3 Internal Audit Effectiveness and Ethical Environment

From the correlation results indicated in Table 4.3, a significant and positive relationship was obtained between internal audit effectiveness and ethical environment ($r=.651$, $p<0.01$). This result shows that improvement in internal audit effectiveness boosts ethical environment. Furthermore, the study sought the association of each subcomponent of internal control, that is; risk management, regulatory compliance; and internal control review correlate with ethical environment. The results reveal a significant and positive

relationship between risk management and ethical environment ($r=.598$, $p<0.01$). Therefore, the result implies that enhancing risk management translates in ethical environment. More so, the results reveal a significant and positive relationship between regulatory compliance and ethical environment ($r=.482$, $p<0.01$). This means enhancing regulatory compliance improves ethical environment. In addition, the result reveals a significant and positive relationship between internal control review and ethical environment. Henceforth, the result shows that stimulating internal control reviews leads to improving ethical environment.

4.4 Regression Analysis

In this study, a multiple regression model was used to address objective four. First, the regression analysis was used to examine the combined effect of internal audit and ethical environment in explaining variances in financial accountability. Second, the model was used to evaluate whether each of the independent variables significantly predicts variances in the dependent variable. The results are presented in Table 4.4.

Table 4.5: Multiple Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	T	
1 (Constant)	0.348	0.246		1.415	0.016
Internal Audit Effectiveness	0.322	0.083	0.280	3.863	0.000
Ethical Environment	0.549	0.087	0.457	6.298	0.000
	R	R²	Adj. R²	F	Sig.
	.674 ^a	0.454	0.448	74.798	.000 ^b

Notes: n=59, Dep. Var=Financial Accountability, Durbin Watson=1.748, VIF<5, Tolerance>1

Source: Primary Data

4.4.1 Internal Audit Effectiveness, Ethical Environment and Financial Accountability

Table 4.4 indicates that overall, a combination of internal audit effectiveness and ethical environment significantly explains 44.8% of the variance in financial accountability among government entities (Adj. $R^2=0.448$). This result implies that positive changes in internal audit and ethical environment within results in positive variations in financial accountability among government entities to a tune of 44.8%. The results indicate that internal audit effectiveness is a significant predictor of financial accountability (Beta=0.280, $t=3.863$, $p<0.05$). The beta value means that a unit change in internal audit effectiveness causes a 0.28 significant positive change in financial accountability. Standardized coefficients of beta=0.457, $t=6.298$, $p<0.05$. The results imply that ethical environment is a significant predictor of financial accountability. The results show that a unit change in ethical environment causes 0.457 significant variations in financial accountability among government entities. Overall, the results signify that the better predictor of financial accountability between is ethical environment compared to internal audit effectiveness (beta=0.28 versus beta=0.457).

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents a discussion, conclusions, recommendations based on the findings in relation to the objectives of the study which were to examine the relationship; between internal audit and financial accountability; ethical environment and financial accountability; internal audit and ethical environment; and internal audit, ethical environment and financial accountability within government agencies in Uganda. The chapter also highlights specific methodological limitations of the study and areas for further research.

5.1 Discussion of Findings

5.1.1 Internal Audit Effectiveness and Financial Accountability

The findings obtained a positive relationship between internal audit effectiveness and financial accountability. In this essence, the findings revealed that improvement in internal audit would lead to improvement in financial accountability. In the same line, Abbott *et al.*, (2016) posits that internal audit effectiveness is able to detect fraudulent dealings within the organization which facilitates financial accountability. In the same context, the researcher argues that when internal audit effectiveness is in place, government entities are able to find out the effectiveness of the internal controls directed towards ensuring that financial accountability as effective as expected. It is worthy to note that internal audit effectiveness is primarily responsible for carrying out an oversight role and proposing clear strategies which if implemented can ensure that the various functions are working as expected. These findings are consistent with earlier studies such

as Laković *et al.*, (2016) who revealed that internal audit effectiveness and financial accountability are significantly related because it increases the monitoring and control of accounting activities within the organization.

This study therefore unveils the relevance of internal audit effectiveness within government entities as far as financial accountability is concerned. It suggests that government entities which are experienced with financial accountability mishaps need to draw attention towards improving internal audit. When entities do so, they will be able to enhance risk management, regulatory compliance and internal control reviews which would facilitate tendencies of transparency and disclosure and financial reporting. This concurs with Pizzini *et al.*, (2014) who highlighted that when internal audit is effective enough, it is able to monitor the accounting process and advise management on the appropriate internal controls which can stimulate financial accountability.

This study further finds that risk management as one of the constructs for internal audit is positively associated financial accountability. This finding informs us that internal audit effectiveness must excellently carryout risk management function if they are to facilitate financial accountability. As such, the study suggests that internal audit effectiveness must be able to indicate the strength and weaknesses of the current risk management system, develop a risk management strategy for approval and prepare a risk treatment plan as part of the fundamental activities in risk management in order to stimulate financial accountability. More so, the findings suggest that when internal auditors identify risks as they execute the risk management function, they would enable management formulate policies and procedures which would counteract practices which would comprise

financial accountability. The findings are consistent with Shamsuddin *et al.*, (2014) who highlighted that risk management increases the organization's potential to formulate proactive strategies for enhancing financial accountability

Furthermore, the findings indicate a positive relationship between regulatory compliance and financial accountability. This finding reveals that effective internal auditors within government entities need to carryout regulatory compliance function in the most competent manner in order if they are to facilitate financial accountability. The findings are consistent with Joksimović and Alseddig (2017) who revealed that internal audit effectiveness enables entities to check the extent to which the accounting framework complies with accounting rules and regulations for proactive strategies. In this regard, the study unleashes the need for internal audit effectiveness to check for ethical compliance, ensure that all assets are safeguarded from misuse and ensure investigate compliance with policies among government entities. These actions are expected to improve transparency and disclosure in addition to advancing the level of financial reporting which are fundamental in financial accountability.

Additionally, the findings postulate that internal control review is positively associated with financial accountability. We learn from this particular finding that internal control reviews are important, and that the internal audit team must effectively execute this function. Similarly, Chidinma *et al.*, (2016) opine that effective control systems prohibit employees from engaging in unethical accounting transactions which increases reliability of financial information. Therefore, the study teaches us that whenever internal auditors conducts internal control reviews, it becomes more likely to enhance financial

accountability. Furthermore, this study suggests that internal auditors must update staff on changes in laws and regulations in order to facilitate financial reporting where financial statements are fairly presented. Likewise, the study notifies that where internal audit always checks for authorization of all expenditures, it becomes more likely that the financial statements presented represent the true state of affairs.

The study further illustrates a possibility where transparency and disclosure are bound to be improved where the internal audit gives assurance on the effectiveness of policies, rules and procedures. This is in line with Kabuye *et al.*, (2017) who highlighted that review of internal control increases efficiency in financial accountability. Based on the aforementioned, it could be concluded that internal audit effectiveness is a vital aspect for enhancing financial accountability. Therefore, as policy makers, concern should be directed towards identifying enhancers of internal audit such that the functions of risk management, regulatory control and internal control review are effectively and efficiently executed to in order to increase the likelihood of financial accountability.

5.1.2 Ethical Environment and Financial Accountability

This study established a positive relationship between ethical environment and financial accountability. This reveals that improvement in ethical environment is likely to enhance financial accountability, specifically among government entities. This is because ethics guides actions and interpersonal relationships that employees exhibit as they are executing tasks and responsibilities. This study notifies managers and policy makers to ensure that government entities operate in an ethical manner to streamline financial reporting, transparency and disclosure as they provide financial accountability. The

findings are consistent with Melé *et al.*, (2017) who highlighted that ethical environment prompt employees to report the true state of affair regarding financial transactions.

In spite of the consistence exhibited, the association between attributes of benevolence, egoism and principled ethical environment are almost non-existent. The study found it imperative to explore this missing link in order to add to the already existing literature. It was established in this study that benevolence is positively associated with financial accountability. This finding unveils that enhancement in benevolence ethical environment is likely to enhance financial accountability. In this context, the study signifies that government entities need to embrace benevolence ethical environmental practices to stimulate financial accountability. In the same regard, Shafer *et al.*, (2013) highlighted that benevolence enhances esprit de corps and team interest to ensure they serve their tasks and responsibilities with high level accuracy. Therefore, it could be argued that benevolent ethical practices among employees engaged in financial reporting is bound to faithful acts and minimize engagement in transactions which do not commensurate with the organizational expectation.

This study also reveals that government entities with employees who are interested in doing what is right for the general public are more likely to welcome suggestions or complaints from the public to ensure that the financial reports are satisfactory. This is because such employees would find it necessary to provide proper accountability to different stakeholders to understand the actual position of the entity. However, this contradicts with Enofe *et al.*, (2014) revealed that ethical environment emphasized by any entity does not have the ability to shape actions and behavior of employees exhibited as

they execute tasks and responsibilities. Aside that, this study finds that egoism is necessary in enhancing financial accountability. In the same way, the researcher is of the view that as egoism ethical environment manifests, it would drive employees to consider entities' efficiency as the core objective, prompt employees to do anything it takes to fulfill interests of the entity which are important in stimulating financial accountability. This is in line with Okpara and Wynn (2008) who noted that egoistic ethical environment encourages employees to compromise their own ethical or moral principles and promote organizational interests. In this case, it could be argued that where employees find that financial accountability is the core focus of the organization, egoistic ethical practices are likely to drive employee attitude to focus on presenting financial reports which are reliable, neutral and objective enough. This study therefore contributes to literature by providing a recent explanation of how egoistic ethical environment is able to determine financial accountability.

Important to note, this study unearths that government entities which do not take action on every unethical personal moral are bound to prompt employees to become more transparent when carrying out financial reporting. Further, the study finds that employees who work in an environment where they are expected to work efficiently would be prompted to ensure that they present reliable and neutral financial reports which would boost financial accountability. This could be the reason Meymandi *et al.*, (2015) capitalized to indicate that egoistic ethical tendencies prompt employees to take full responsibility for their actions and behavior during financial reporting. In the same way, the findings are consistent with Ardelean (2013) who indicated that ethical environment

increases vigilance of employees and forces employees to stick to the best practices of financial reporting for quality financial accountability.

Similarly, the findings found out a positive relationship between principled ethical environment and financial accountability. This is due to the fact that principled ethical environment increases employees' compliance to laws and professional accounting standards which encourages financial accountability. The findings are consistent with Kang *et al.*, (2011) who noted that principled entities shape employees' actions to stick to the guiding rules and code of conduct as they participate in financial reporting. In addition, principled environment reduces conflict of interest and enhances professionalism in task execution which is necessary for boosting financial accountability (Aminu & Oladipo, 2015). From this study, it can be emphasized that government entities with principled ethical environments are less likely to report employees who bend rules and regulations for financial accountability. Due to this fact, government entities are bound stick to transparency and disclosure which enhances financial accountability. To sum up, this study highlights that ethical environment is necessary in stimulating financial accountability. Moreover, it further postulates that benevolence, egoism and principled ethical environment attributes are all necessary in facilitating financial accountability.

5.1.3 Internal Audit Effectiveness and Ethical Environment

This research found a positive relationship between internal audit effectiveness and ethical environment. This demonstrates that improvement in internal audit effectiveness improves the ethical environment that prevails within government entities. The findings are consistent with Asaolu *et al.*, (2016) who revealed that internal audit effectiveness

through risk management and internal control reviews enables firms to come up with clear strategies for enhancing ethical environment. In the same regard, Appel and Plant (2015) indicated that increased internal audit effectiveness is able to streamline organizational policies, rules and procedures necessary for enhancing ethical environment. In this way, the researcher argues that as internal auditors consistently carryout the watchdog responsibility within an entity, it is able to disclose all unethical tendencies for acceptable ones.

The study attests that managers and policy makers must put in place a strong internal audit systems in order to facilitate an ethical environment that which characterizes egoism, benevolence and an environment which is highly principled. Furthermore, the findings suggest the need for the effectiveness of internal audit in executing the functions of risk management, regulatory compliance and internal control reviews in order to ensure the prevalence of an ethical environment. This concurs with Joksimović and Alseddig (2017) who emphasize that internal audit effectiveness increases compliance with laws and regulations in addition to advising management on the best practices for enhancing ethical environment. In this case, we learn from this study that as internal audit effectiveness intensifies risk management, the possibility of an ethical environment within government entities would increase.

Risk management function would manifest when internal audit is effective enough to identity strength and weaknesses of risk management systems in place as well as when the exercise is able to facilitate the identification of risks encountered by the entity. Furthermore, the findings further notify the need for internal audit effectiveness to

consider risk management strategy development as one of the core risk management tasks if they are to guide entities towards attaining ethical environment. We further learn from this study that an internal audit which engages in developing risk treatment plans could potentially draw a clear plan for addressing unethical practices within entities. In the same regard, Shamsuddin *et al.*, (2014) emphasized that effective risk management enables internal audit to effectively identify operational mishaps within the organization and identify potential strategies for mitigating such risks. As a result, the organization is able to shape employee behavior and actions for an ethical environment.

On the other hand, this study postulates the need for internal audit effectiveness to carryout regulatory compliance so as to facilitate ethical environment. This study highlights that internal audit effectiveness ensures safety of tangible assets from misuse and promotes appropriate ethics within the entity are able to facilitate ethical environment among entities. This is because employees would be forced to handle all assets with care as well as ensure they are strictly used for the organizational rather than self-interest. The findings are consistent with Petraşcu and Tieanu (2014) who highlighted that internal audit effectiveness guides organizations on the best administrative practices for enhancing ethical environment. Similarly, this study highlights the need for internal control to consistently ensure a clear segregation of duties in order to stimulate ethical environment. The researcher anticipates that where there is a clear segregation of duties, employees would find it unethical to connive every time they are executing transactions. More so, segregation of duties is bound to enhance employees' cautiousness and accountability for their actions. The findings are in line with Hertati (2015) who revealed that internal control review enables internal audit to establish the strength and weaknesses

of prevailing policies and procedures which allows management to implement policies and procedures necessary for enhancing ethical environment.

Also, this study suggests that internal audit effectiveness authorizes all expenditures because this would promote ethical environment. In the same way, the findings reveal that ethical environment is more likely where the internal audit effectiveness gives assurance regarding the effectiveness of policies, rules and procedures. This concurs with Kabuye *et al.*, (2017) who noted that internal audit effectiveness stimulates ethical practice because it identifies and provides advice to management on which appropriate policies and guidelines should be implemented to ensure that employees comply act professionally and adhere to the guiding rules and regulations. To sum up, this study unveils that internal audit effectiveness facilitates ethical environment, and this necessitates the need for policy makers and managers to put a system where the internal audit effectiveness is able to execute its functions within the most efficient and effective manner.

5.1.4 Internal audit effectiveness, Ethical environment and financial accountability

The findings herein established that both internal audit effectiveness and ethical environment significantly predict financial accountability among government entities. This finding indicates that significant changes in internal audit and ethical environment results in significant positive variations in financial accountability among government entities in Uganda. This study unleashes important implications to management and policy. First, the study accredits that the more internal audit carries out its functions, the more financial accountability increases. Henceforth, it is important for government entities ensure that internal audit effectively executes tasks of risk management,

regulatory compliance and internal control reviews if transparency and disclosure is to manifest. More so, the findings affirm that quality of financial reporting is significantly attributed to the extent of internal audit. The findings are consistent with Abbott *et al.*, (2016) who emphasized that as internal audit effectiveness increases, organizations through internal audit team are able to ascertain the weaknesses that need to be improved to increased accountability. In the same way, the findings are found to concur with Joksimović and Alseddig (2017) who postulate that internal audit effectiveness increases compliance with laws and regulations which are critical in increasing accountability.

Secondly, this study unveils to managers and policy makers the need to ensure good ethical environment if they are to stimulate financial accountability. On that note, it is fundamental to adopt either egoistic, benevolent and principled ethical environments to guarantee financial reports which are neutral, reliable and financial reports which report true state of affairs. Thumbi (2016) postulated that internal audit effectiveness provides well established structures that enhance healthier ethical climate which subsequently increases transparency, disclosure and quality of financial reports. Similarly, Engelbrecht *et al.*, (2017) revealed that an ethical environment shapes employees' behavior and actions which facilitates integrity, trustworthiness, honesty and fairness among employees entrusted with preparing financial reports.

Furthermore, the study ascertained that whereas both internal audit effectiveness and ethical environment cause significant variations in financial accountability, ethical environment is a better predictor. This study unveils to management that as they focus on uplifting the status of financial accountability, their concentration should be directed first

on practices intended to cause significant variations in ethical environment before they draw attention towards ensuring effectiveness of internal audit. This study adds to existing literature, especially by highlighting which predictor between internal audit effectiveness and ethical environment is better off as far as financial accountability is concerned. These findings have been found to concur with earlier studies such as that of Okpozo *et al.*, (2017) who revealed that ethics shapes behavior which is critical in shaping actions. In this case, it can be argued that one of the actions which ethics is able to predict is financial accountability where employees feel obliged to do things right to report transactions that are objective. In the same way, the findings are consistent with Cheng *et al.*, (2014) who posit that ethical environment guide employees' willingness to exhibit normatively appropriate conduct and sensitivity as they execute tasks and responsibilities assigned by an entity.

Amidst the wide support for ethical environment, it goes without saying the more emphasis on ethical environment as opposed to internal audit is subject to inconsistency especially when compared with earlier studies. For instance, Pizzini *et al.*, (2014) emphasize that internal audit effectiveness is inevitable in every organization and considered a key component for effectively enhancing accounting systems. Similarly, Karagiorgos *et al.*, (2010, p. 16) describe internal audit effectiveness as the "organizational policeman and watchdog" capable of addressing weaknesses in accounting framework. While this is the case, this study informs that ethics is key since all actions and behavior exhibited by employees are enormous determined by how ethical employee are. In this essence, the researcher argues that the drive that prohibits an employee from engaging into unethical tendencies such as reporting of fraudulent

transactions, failure to disclose specific transactions as well as failure to present neutral reports is primarily due to low ethics. In the same context, the researcher argues that for internal control to effectively execute the tasks of risk management, regulatory compliance and internal control review, such employees entrusted with these tasks must be ethical. In the same context, Valentine *et al.*, (2011) explained that ethical environment is inevitable and it is regarded an effective tool through which organizations can improve performance, accountability and boost efficiency. This explains why this study emphasizes ethical environment as the better predictor as opposed to internal audit.

5.2 Conclusion

This study indicates that internal audit effectiveness and financial accountability relate with each other significantly. Policy makers should make sure that internal audit functions of risk management, regulatory compliance and internal control review are carried out effectively to facilitate financial accountability. More so, the study has evidenced a positive relationship between ethical environment facilitates financial accountability. This attests the need for management to put policies and practices to enhance egoistic, benevolent and principled ethical practices in order to stimulate financial accountability. Further, the study unveils that internal audit effectiveness is positively linked with ethical environment. We must therefore make sure that internal audit is functioning effectively if at all we are to facilitate an ethical environment. The important functions the internal audit must do include risk management, regulatory compliance and internal control review.

Importantly, our study affirms that both internal audit effectiveness and ethical environment are responsible for significant positive variations in financial accountability.

Policy makers and managers are reminded that if they have to stimulate financial accountability, they will have to set clear policies, procedures and practices which are capable of causing significant changes in internal audit and ethical environment. Further still, our study informs managers and policy makers that the better predictor between internal audit effectiveness and ethical environment as far as causing more significant positive variations in financial accountability is ethical environment. As such, this study emphasizes that when managers and policy makers work on the actions and behavior of employees, they will be guaranteed of financial reports which are neutral, reliable, timely and relevant among other characteristics for better accountability within government entities.

5.3 Recommendations

Based on the findings, this study recommends the following;

1. Government entities should sensitize employees about the code of ethics to understand the rules and guidelines which they must follow as they execute tasks and responsibilities. Every employee must sign on the code as a sign of consent while new entrants must be oriented about the same before, they officially start duties.
2. Internal audit effectiveness must continuously conduct regulatory compliance checks in order to identify strength and weakness for corrective action. Internal audit effectiveness must seek whether there is clear separation of duties and responsibilities, approval of all financial transactions and proper documentation of financial transactions to increase financial accountability.

3. Risk management should be continuous within government entities. Internal audit team must consistently identify potential financial risks, assess and advise management on the appropriate mitigation strategies to revamp financial accountability.

5.4 Limitations of the Study

As it is the case with any other study, this particular study has specific methodological limitations.

1. First, the study was a cross-sectional research design where all data used was collected just once. The limitation with of this design is that the study cannot capture the changes in respondent's views and opinions regarding the variables studied.
2. This study was able to collect data using a closed-ended questionnaire. This form of questionnaire blocks participants from giving specific qualitative data which can serve as a complement for better understanding the variables under investigation.

5.5 Areas for further study

This study proposes the following areas for further empirical study;

This study suggests that a similar subject entitled, "Internal Audit effectiveness, Ethical Environment and Financial Accountability" is conducted using a longitudinal research design to facilitate a comparative analysis.

A mixed research design should be carried out between internal audit effectiveness, ethical environment and financial accountability to allow data triangulation and better understanding of the variables.

This study reveals that internal audit effectiveness and ethical environment are significant in predicting financial accountability. Although, the predictors of each of these variables are unknown. Future researcher should therefore seek an investigation into the matter.

There is need to future scholarly studies to seek an understanding of whether ethical environment mediates the relationship between internal audit and financial accountability among government entities.

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Appendix I: Questionnaire Form

Dear Sir/ Madam,

I am a student of Makerere University conducting a Master's Degree of Business Administration. I am undertaking a study on entitled, "Internal Audit, Ethical Environment and Financial Accountability" The information obtained in this report will be used for purely academic purpose and your confidentiality will highly be ensured. The Questionnaire contains four sections (A-D). Section A contains specific organizational and demographic characteristics. Section B contains information in relation to Internal Audit and Section C, items in relation to Ethical Environment. Section D is in relation to Financial Accountability. There are no right or wrong responses. For each question, choose the response option on the scale that best corresponds to your opinion

Section A (I): Institutional Characteristics

1. Sector of agency

Energy	Health	Education	ICT	Tourism	Land	Gender	Agric	Accountability	Tpt	JSC	Water
1	2	3	4	5	6	7	8	9	10	11	12

2. Number of employees

1-50	51-100	101-150	200 and above
1	2	3	4

3. Government Funding (in Uganda shillings) annually

100m-1bn	1.1bn – 2bn	2.1bn – 3bn	3.1 bn and above
1	2	3	4

4. Years in existence

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

Section A (ii): Individual Characteristics

5. What is your gender?

Male	Female
1	2

6. Age bracket

<30 yrs	30-40 yrs	41-50 yrs	51-60 yrs	61 and above
1	2	3	4	5

7. Education level

Diploma	Degree	Post Graduate Diploma	Masters	Others (Specify)
1	2	3	4	5.....

8. Working Experience

<5 yrs	5-10 yrs	11-14 yrs	15 and above
1	2	3	4

9. Department

Finance	Audit
1	2

SECTION B: INTERNAL AUDIT EFFECTIVENESS

Instructions: Please choose only one answer to each question. You are provided with 5- options which are defined as follows. Key: 1-Strongly Disagree (SD), 2- Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

Risk Management						
RM1	Our assessment indicates the strengths and weaknesses of its risk management systems	1	2	3	4	5
RM2	Internal audit facilitates the identification of risks encountered by the entity.	1	2	3	4	5
RM3	Internal audit develops risk management strategy for approval.	1	2	3	4	5
RM4	Internal audit participates in the preparation of the risk treatment plan.	1	2	3	4	5
RM5	Internal audit commends that financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).	1	2	3	4	5
RM6	Internal audit indicates the response to risk in the report.	1	2	3	4	5
Regulatory Compliance						
RC1	Internal audit submits an advisory report on the execution of activities within the entity.	1	2	3	4	5
RC2	Internal audit promotes appropriate ethics within the entity.	1	2	3	4	5
RC3	Internal audit ensures that the assets for the authority are safeguarded from misuse.	1	2	3	4	5
RC4	Internal audit evaluates the systems established to ensure compliance with policies.	1	2	3	4	5
RC5	Internal audit safeguards tangible assets from misuse.	1	2	3	4	5
RC6	Internal audit issues statement requiring all agency units to follow the internal audit recommendations.	1	2	3	4	5
Internal Control Review						
IR1	Internal audit ensures that the economic transactions in this organization are supported by adequate documentation.	1	2	3	4	5
IR2	Internal audit ensures that internal controls promote proper	1	2	3	4	5

	segregation of duties.					
IR3	Internal audit updates staff on changes in laws and regulations.	1	2	3	4	5
IR4	Internal audit always checks the authorization of all expenditures.	1	2	3	4	5
IR5	Internal audit gives assurance on effectiveness of policies, rules and procedures.	1	2	3	4	5

SECTION C: ETHICAL ENVIRONMENT

Instructions: Please choose only one answer to each question. You are provided with 5- options which are defined as follows. Key: 1-Strongly Disagree (SD), 2- Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

	<i>Egoism</i>					
EC1	In this company, people are mostly out for themselves	1	2	3	4	5
EC2	The major responsibility for people in this company is to consider efficiency first.	1	2	3	4	5
EC3	People are expected to do anything to further the company's interests.	1	2	3	4	5
EC4	There is no room for one's own personal morals or ethics in this company	1	2	3	4	5
EC5	Work is considered sub-standard only when it hurts the company's interests.	1	2	3	4	5
EC6	In this company, people protect their own interest above other considerations	1	2	3	4	5
EC7	People are concerned with the company's interests.	1	2	3	4	5
EC8	In this company, each person is expected, above all, to work efficiently.	1	2	3	4	5
	<i>Benevolence</i>					
BE1	In this company, people look out for each other's good	1	2	3	4	5
BE2	Each person in this company decides for himself what is right and wrong	1	2	3	4	5
BE3	The most important concern is the good of all the people in the company.	1	2	3	4	5
BE4	In this company, our major concern is always what is best for the other person	1	2	3	4	5
BE5	Our major consideration is what is best for everyone in the company.	1	2	3	4	5
BE6	It is expected that you will always do what is right for the customer and public	1	2	3	4	5
	<i>Principled</i>					
PR1	In this company, people are expected to follow own personal and moral beliefs	1	2	3	4	5
PR2	The most important consideration in this company is each person's sense of right and wrong.	1	2	3	4	5

PR3	People are expected to comply with the law and professional standards over and above other considerations	1	2	3	4	5
PR4	Everyone is expected to stick by company rules and procedures.	1	2	3	4	5
PR5	In this company, people are expected to strictly follow legal or professional standards	1	2	3	4	5

SECTION D: FINANCIAL ACCOUNTABILITY

Instructions: Please choose only one answer to each question. You are provided with 5- options which are defined as follows. Key: 1-Strongly Disagree (SD), 2- Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

Transparency & Disclosure						
TR1	This agency provides explanation for transactions and operations to whoever request for them.	1	2	3	4	5
TR2	This agency has a system that welcomes suggestions or complaints from the public.	1	2	3	4	5
TR3	This entity provides information on acts and procedures	1	2	3	4	5
TR4	All financial reports presented by the responsible departments are reliable.	1	2	3	4	5
TR5	The final accounts are displayed to the general public.	1	2	3	4	5
TR6	Everyone works hand in hand with office of the auditor general during the audit process	1	2	3	4	5
TR7	This agency presents accounts timely.	1	2	3	4	5
TR8	The final accounts are prepared with accompanying notes.	1	2	3	4	5
TR9	The final reports of this agency are prepared in a manner that is understandable by users.	1	2	3	4	5
TR10	The amounts included within the final reports of this agency are proper.	1	2	3	4	5
TR11	Everyone in this agency has full access to the final accounts.	1	2	3	4	5
Financial Reporting						
FR1	The financial reports prepared by this agency contain reveal all material information.	1	2	3	4	5
FR2	The financial statements are fairly presented. They are free from free from material error and bias.	1	2	3	4	5
FR3	Our accounts always reflect all changes made to the accounting standards.	1	2	3	4	5
FR4	The accounts prepared are highly relied upon for making predictions on which future decisions are based.	1	2	3	4	5
FR5	The reports of this agency apply consistent accounting policies every accounting period.	1	2	3	4	5
FR6	The financial reports of this agency are neutral.	1	2	3	4	5