

# Examining the Effect of Internal Auditor Independence and Integrity on Public Funds Management in the Busoga Sub-Region

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## Abstract

This article examines the effect of internal auditor independence and integrity on public funds management within the Busoga sub-region of Uganda. The study adopted a cross-sectional design in which data were obtained through both a close-ended questionnaire and an interview guide. The authors employ hierarchical models such as structural equation modeling (AMOS version 21) and NVivo version 9 to analyze qualitative data. The study revealed that internal auditor independence and integrity have a strong, positive, and significant association with public funds management. The study provides relevant insights for policymakers, regulatory bodies, and organizational stakeholders aiming to enhance transparency, accountability, and effective utilization of public resources within the sub-region. Furthermore, the findings underscore the importance of strengthening internal audit functions to foster good governance practices and mitigate risks associated with mismanagement of public funds. In this paper, the authors offer empirical evidence on the effect of internal auditor independence and integrity on the public funds management of local governments in the Busoga sub-region.

## Keywords

Internal Auditor Independence, Internal Auditor Integrity, Public Funds Management

## 1. Introduction

Effective management of public funds is fundamental to ensuring transparency, accountability, and service delivery within government institutions (ICPAU, 2025). Internal auditors play a pivotal role in safeguarding public resources by

providing independent assessments of financial operations and internal controls. However, the effectiveness of public funds management largely depends on the independence and integrity of internal auditors. Auditor independence and integrity are fundamental principles emphasized by international standards and professional regulatory bodies, including those established by national accounting and auditing organizations such as the International Federation of Accountants (IFAC) and its member bodies, including the International Auditing and Assurance Standards Board (IAASB). Auditor independence and integrity, in line with international standards of auditing (such as ISA 200 and ISA 220), can be defined as follows: The ethical quality that ensures an auditor maintains objectivity and impartiality in performing audit procedures, free from influence, conflicts of interest, or personal bias, thereby upholding the integrity and credibility of the audit process.

In the Busoga Sub-Region of Uganda, concerns over public funds management have been heightened by reports of misappropriation and inefficient resource utilization (Auditor General, 2020). While Uganda's legal frameworks provide a foundation for effective public funds management, the persistence of challenges related to auditor independence and integrity, especially in the Busoga Sub-Region, hampers the realization of transparent and accountable governance. Addressing these issues requires concerted efforts to reinforce legal protections, institutional independence, and ethical standards. Strengthening these facets will enhance the effectiveness of audits, ultimately improving public funds management and fostering sustainable development in Uganda. Therefore, this study aimed to examine the effect of internal auditor independence and integrity on public funds management within the Busoga Sub-Region, providing insights into how strengthening these attributes can improve governance outcomes.

## 2. Literature Review

### *Auditor independence and integrity in PFM*

Globally, Public Funds Management (PFM) faces widespread challenges, as evidenced by numerous instances of fund misuse and irregularities across Europe, including Greece, Malta, Croatia, Jordan, and Bulgaria, where local authorities and ministries have engaged in unauthorized expenses and procurement irregularities totaling millions of euros, while in Africa, countries like South Sudan and Tanzania have experienced scandals involving unspent funds, inflated contracts, and weaknesses in financial controls (World Bank, 2023), highlighting that PFM issues extend beyond central government to all levels of government and the broader public sector, with PFM increasingly recognized as an encompassing framework comprising systems, procedures, and data essential for fiscal policy formulation and implementation, yet vulnerable to risks such as unsustainable spending, incomplete financial data, and improper procedures that threaten government finances and underscore the importance of evolving PFM techniques to address these pervasive vulnerabilities. Jordan has experienced a series of adverse

external shocks, including the global financial crisis, conflict in the region compelling waves of refugees to enter Jordan, and the disruption of oil and gas supplies from Iraq and Egypt, all of which affected Jordan's economy (Eichengreen & Hausmann, 2019). These caused a slowdown in economic activities and increased poverty and unemployment rates. With a subsequent expansion in budget and current account deficits, the debt-to-gross domestic product (GDP) ratio increased dramatically, from 54.2% in 2009 to 114.1% in 2023 (Central Bank of Jordan, 2024). Jordan suffered a 12% loss in income per capita between 2010 and 2017 (Eichengreen & Hausmann, 2019), followed by a significant recovery with a 30.1% increase in income per capita from 2017 to 2023 (World Bank Group, 2023)

Public Funds Management (PFM) refers to the framework of laws, regulations, systems, and procedures that governments employ to raise revenue, distribute public funds, execute public expenditures, track financial activities, and conduct audits. It covers areas such as policy development, budgeting, revenue collection, expenditure control, accounting, reporting, auditing, and oversight to promote transparency, accountability, and efficiency in managing public resources. Strong PFM practices are vital for the effective delivery of government programs and public services, and for maintaining economic stability and growth. In Uganda, efforts to strengthen PFM practices have primarily targeted improving the budget formulation process, enhancing financial controls, and increasing transparency and accountability in the management of public funds. The Public Financial Management Act of 2015 (as amended) establishes the legal framework for the country's financial management practices, outlining guidelines for budget formulation, expenditure oversight, accounting and reporting procedures, and auditing, among other areas. Central to its provisions is the promotion of principles underpinning transparency, accountability, and fiscal discipline. Another salient feature of the Act is its emphasis on ensuring the independence and integrity of auditors, recognizing their vital role in safeguarding public resources and fostering stakeholder confidence.

Auditor independence and integrity are fundamental principles emphasized by international standards and professional regulatory bodies, including those established by national accounting and auditing organizations such as the International Federation of Accountants (IFAC) and its member bodies, including the International Auditing and Assurance Standards Board (IAASB). This means that internal auditors must not be influenced by any external factors, such as the interests of a company or its management. As such, they must remain independent when conducting their audits. Integrity and independence are essential for an internal auditor to be able to perform their duties effectively and accurately (Zaynuri & Kuntadi, 2025). They ensure that the audit results are reliable and accurate, as well as provide assurance to stakeholders that the audit was conducted in accordance with professional standards. In order to maintain integrity and independence, internal auditors should always refer to relevant professional standards such as those set out by the Institute of Internal Auditors (IIA). Such standards provide guid-

ance on how an auditor should conduct their work in an ethical manner while ensuring they remain independent from any external influences. Moreover, scholars like Turetken *et al.* (2020) revealed that internal auditors are responsible for ensuring that the company complies with applicable laws, regulations, policies, procedures, contracts, and agreements (Turetken, Jethefer, & Ozkan, 2020). They must be independent from the activities they audit in order to provide unbiased opinions on the company's performance. Furthermore, other scholars suggest that independence and integrity ensure auditors perform their duties objectively and ethically, free from influences that could compromise their professional judgment or honesty.

Independence refers to the auditor's ability to remain unbiased and free from conflicts of interest (De Angelo, 1981), while integrity pertains to adherence to moral and ethical principles, fostering trustworthiness and truthful reporting (Lennox, 2011). According to ISA 200 and ISA 220, auditor independence and integrity, in line with international standards of auditing (such as ISA 200 and ISA 220), are fundamental ethical qualities that ensure auditors maintain objectivity and impartiality in performing audit procedures, free from influence, conflicts of interest, or personal bias, thereby safeguarding the credibility and reliability of the audit process. These standards emphasize the importance of ethical conduct free from conflicts of interest or undue influence (Manoel & Quel, 2017).

Auditor independence can be defined as the willingness and capability of the auditor to work with integrity, objectivity, and with the required degree of autonomy (Guenin-Paracini *et al.*, 2015). Independence is fundamentally characterized as the state or quality of being free from influence, control, or determination by external or internal entities (Institute of Internal Auditors (IIA), 2017). Within the realm of internal auditing, this conceptualization underscores the imperative that internal auditors operate autonomously from management to preserve objectivity and impartiality in their evaluations. Specifically, internal auditors must maintain independence from the management team to ensure that their assessments of financial statements and operational processes are conducted without bias or undue influence. Such independence is widely recognized as a cornerstone of effective internal auditing, fostering the integrity and credibility of audit outcomes. Besides, Gómez (2018) emphasize that independence is essential for enabling auditors to deliver unbiased evaluations, thereby enhancing the reliability and trustworthiness of audit findings. This independence not only safeguards the auditors' impartiality but also reinforces stakeholders' confidence in the audit process. In the context of public sector organizations, where accountability and transparency are paramount, independence becomes even more critical. As Kolk *et al.* (2017) articulates, maintaining independence within public institutions is vital for the detection and deterrence of financial irregularities, ultimately contributing to good governance and the responsible stewardship of resources.

According to Clatworthy, García Lara, Lee, & Boulton (2025), auditor independence refers to the independence of the external auditor. It is characterised by

integrity and requires the auditor to carry out his or her work freely and in an objective manner (ICAEW, 2025). Integrity, in this context, is fundamentally linked to adherence to moral and ethical principles, which serve as the foundation for trustworthy and unbiased auditing practices (Diza, Prabowo, & Suhartini, 2021). The integrity of internal auditors is particularly critical, as it enhances their propensity to report findings accurately and resist attempts to manipulate or conceal information, thereby fostering transparency and accountability, especially in the management of public funds (Lynne, 1987). Such ethical steadfastness is indispensable for upholding confidence in the auditing process and the broader financial reporting environment.

While internal auditor independence is fundamental to ensuring objectivity and unbiased assessments, it is inherently intertwined with the concept of integrity. Independence provides the structural framework that allows auditors to operate without external or internal influences, but without the moral compass of integrity, this independence may be compromised or superficial. As Carcello *et al.* (2011) suggest, “the effectiveness of internal audit independence is contingent upon the integrity of the auditors, as independence without integrity may lead to superficial compliance rather than genuine objectivity” (Carcello, Hermanson, & Zhongxia, 2011). Moreover, the Institute of Internal Auditors (IIA) emphasizes that integrity is a core value underpinning the internal audit profession, facilitating independence by fostering trustworthiness and ethical behavior (IIA, 2017). Internal auditor independence, therefore, cannot be fully realized without a foundation of integrity, which guides auditors to act ethically and uphold the profession’s standards.

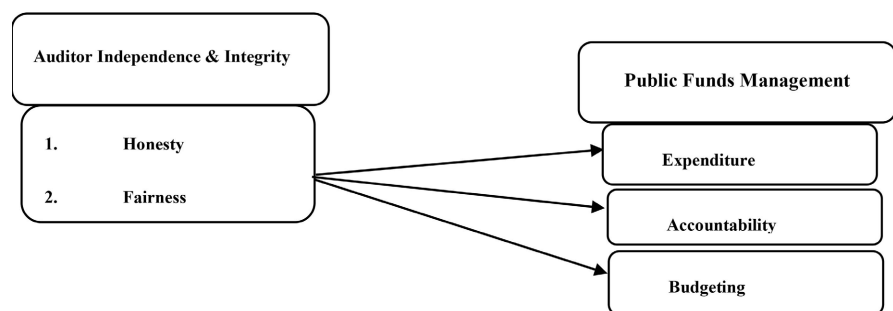
While it holds great potential for quality and trust, the concept of internal auditor independence is still elusive without components of integrity. Internal auditor independence largely borrows from the arena of integrity (Power, 1997), where independence is defined as not having any financial stake in the customer (Jeppesen, 1998) or any personal incentives to act dishonestly (Page & Spira, 2005). This is idealized as a state where auditors can perform their duties objectively and without undue influence, ensuring that their judgments are based solely on evidence and professional standards rather than external pressures or personal interests. Therefore, ensuring internal auditor independence requires a strong foundation of integrity, ethical standards, and organizational support to mitigate potential conflicts of interest and uphold the objectivity essential for effective auditing.

The Government of Uganda (GoU) has established various institutions such as the Auditor General’s Office, Inspectorate of Government, Accountant General, Parliamentary Accounts Committee, and a comprehensive legal framework—including the Local Government Act, Public Finance Management Act, 2015, and related regulations and manuals—to enhance public financial management (PFM) in local governments (LGs) (Friday, Komunda, & Ndyamuhaki, 2022; Akankwasa, Akakikunda, Ntirandekura, Masiko, & Friday, 2022; MFPED, 2023), complemented by measures like flexible grant guidelines, capacity-building initiatives, and automation through the Integrated Financial Management System (IFMS).

Despite these efforts, reports from government inspectorates and the Auditor General reveal widespread mismanagement, corruption, lack of transparency, and poor revenue and expenditure management—particularly in Uganda’s Busoga sub-region—highlighted by unaccounted-for funds amounting to UGX 179 billion during FY 2019/2020 and revenue performance below 58%, far below the targeted 95%, indicating persistent PFM challenges that remain insufficiently explained due to a limited focus on internal audit independence and integrity in existing literature, which tends to link PFM primarily to internal audit functions and control systems without considering the ethical dimensions that could influence these relationships (Auditor General, 2020; Auditor General, 2018 and Nakanjako & Zikusooka, 2024). This is an indication that despite established legal frameworks, institutional arrangements, and technological tools, challenges related to internal audit independence and integrity continue to undermine effective Public Funds Management (PFM) in Uganda.

Conclusively, internal auditor independence largely borrows from the arena of integrity because independence without integrity would lack moral authority and credibility, ultimately undermining the very trust it seeks to establish. Therefore, to ensure effective public funds management, it is essential to foster an environment where internal auditors operate with both independence and integrity. This can be achieved through establishing robust governance frameworks, implementing strict ethical standards, providing ongoing training, and ensuring that auditors are free from undue influence or conflicts of interest. Promoting a culture of transparency and accountability further reinforces the moral authority of internal auditors, thereby strengthening public confidence in financial oversight and resource stewardship.

*Figure 1 below shows the hypothesized model depicting the relationship between the independent variable (Auditor independence and integrity) and the dependent variable (Public Funds management).*



**Figure 1.** Hypothesized model for IAI and PFM. Theories: Agency theory—Jensen & Meckling, 1973, Institutional theory (DiMaggio & Powell, 1983). Empirical Literature: Crow et al. (2003); Tonder et al. (1989).

### 3. Methodology

#### 3.1. Research Design, Population, and Sample Size

The study adopted an explanatory-sequential research design, a design that em-

phasizes first collecting quantitative data, which is followed by the collection of qualitative data (Creswell, 2011). The study was also triangulated in nature, integrating the two phases at the level of presentation of the results, their discussion, and conclusion. Results from the qualitative phase were used to explain and provide a more comprehensive contextualization of findings and interpretations drawn from the quantitative phase. This approach enabled us to gain deeper insights into the phenomenon of public funds management from various perspectives. The units of analysis and inquiry were public servants and political leaders, respectively based on the foundation that they had adequate information. The study used Yamane (1967: p. 886) simplified formula to calculate sample sizes. This formula will be used to calculate the sample size of this study, as it shows a 95% confidence level and  $P = 0.05$  (Yamane, 1967).

$$n = \frac{N}{1 + N(e)^2}$$

where “ $n$ ” is the sample size, “ $N$ ” is the population size, and “ $e$ ” is the level of precision. The sample size was 381 out of the target population of 478, as determined by Yamane (1967: p. 886) simplified formula to calculate sample sizes. This was composed of Local Governments of Busoga region including: Accounts staff, Internal Audit Staff, Heads of department, Chief Administrative Officers, Head Teachers, members of the Local Government Public Accounts Committee (LGPAC), District Executive Committee (DEC) members headed by District chairpersons, as indicated in Table 1 below.

**Table 1.** Showing the study population.

Category	Target population	Sample size	Sampling Technique	Method of data collection
Accounts staff	184	126	Simple random	Questionnaire
Internal audit staff	30	28	Simple random	Questionnaire
Heads of department	84	69	Simple random	Questionnaire
Chief Administrative Officers	10	10	Purposive	Interview
Secondary Head Teachers	70	60	Simple random	Questionnaire
Members of the LGPAC	50	44	Simple random	Questionnaire
District Executive Committee (DEC) members	50	44	Simple random	Questionnaire
<b>Total</b>	<b>478</b>	<b>381</b>		

Source: Revised local government structure by ministry of public service 2020; Field data (2023).

From the 109 LGs, 381 questionnaires were distributed, but only 338 questionnaires were retrieved, constituting 88.7%, which is above the suggested minimum of 50% (Hair et al., 2014). This implies that 338 questionnaires were used for further analysis in this study. Further, Mellahi and Harris (2016) contend that a response rate of 50% and above is judged sufficient to represent the population.

Generally, the response rate of 72.6% for the LGs (unit of analysis) and 88.7% for respondents (unit of inquiry) meets the criteria of Mellahi and Harris (2016). Qualitative data were obtained using an interview guide from 25 respondents selected using purposive sampling. The point of saturation was reached by the 10<sup>th</sup> interviewee. Demographic characteristics for quantitative analysis and qualitative analysis are summarized in Table 2 and Table 3 indicated below;

**Table 2.** Quantitative demographic characteristics.

Demographic Variable	No.	Percent (%)
Gender	338	100%
Male	210	62.1%
Female	128	37.9%
Working Experience	338	100%
Less than 10 yrs.	67	19.8%
10 - 19 Yrs.	136	40.2%
20 - 29 Yrs.	85	25.1%
30 - 39	32	9.5%
40 and above	18	5.3%
Marital status	338	100%
Single	54	16 %
Married	284	84%
Educational Level	338	100%
Certificate	31	9.2%
Diploma	49	14.5%
Degree	129	38.2%
Postgraduate.	64	18.9%
Masters	45	13.3%
PhD	20	5.9 %
Age	338	100%
Less than 20 yrs.	10	3%
20 - 29.	44	13%
30 - 39	92	27.2%
40 - 49	127	37.6%
50 - 59	64	18.9%
60 and above	01	1%
Staff category	338	100%
Accounts staff	70	20.7%
Internal Audit staff	40	11.8%
Heads of Dept.	96	28.4%

## Continued

Cao	12	3.6%
Head teacher.	27	8.0%
PAC Members	31	9.2%
Executive members	62	18.3%
LG Type	338	100%
District	267	79%
City	10	03%
Municipality	13	3.8%
Town council	17	05%
Division council	02	0.6%
Sub county council.	29	8.6 %
Years of Existence	338	100%
1 - 10	56	16.6%
11 - 20	95	28.1%
21 - 30	53	15.7%
31 and above	134	39.6%

Source: Primary Data, 2023.

**Table 3.** Qualitative demographic characteristics.

Cases	Age	Gender	Marital status	Education Level	Yrs. in LG	Frequency
1	20 - 29	Male	Married	Post Graduate	11	02
2	30 - 39	Male	Married	Post Graduate	9	03
3	40 - 49	Female	Married	Bachelor's Degree	15	02
4	50 - 59	Male	Married	Masters	13	04
5	60 and above	Male	Married	Masters	15	02
<b>Total</b>						<b>13</b>

Source: Primary qualitative data (2023).

### 3.2. Operationalization and Measurement of Variables

For quantitative data, researchers administered a questionnaire anchored on a five-point Likert scale. The response categories ranged from “1 – strongly disagree” to “5 – strongly agree” for Internal control system and public funds management. The researcher measured internal audit independence and integrity as a two-dimensional construct involving honesty and fairness (Dellai & Slimene, 2021). It had items such as “*the internal auditor of this local government shares internal audit findings with the auditees before the final report.*”

“Public funds management was measured according to the Chartered Institute of Public Finance and Accountancy (CIPFA, 2010). It was operationalized in terms of the systematic process of utilizing, installing, executing, upgrading, dis-

posing of, and managing an organization's assets efficiently and effectively to deliver quality services. It had items such as “*Budget interventions of the LG are according to the district development plan*”.

### 3.3. Descriptive Statistics

Based on the works of Field (2006a), small standard deviations relative to the mean values indicate that the data points are close to the means, which is a manifestation that the mean represents the data observed. Results for the descriptive statistics of internal auditor independence and integrity and public funds management are reflected in Table 4.

**Table 4.** Descriptive statistics for IAI and PFM.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Internal Auditor Independence and Integrity (IAII)	338	1.92	5.00	4.02	0.506
Public Funds Management	338	1.80	5.00	4.01	0.515

Source: Primary data, 2023.

From Table 4 above, Internal Auditor Independence and integrity has a mean score of 4.02, indicating a generally positive perception, though some variability is noted (standard deviation of 0.506), with scores ranging from 1.92 to 5.00. Public Funds Management received a mean score of 4.01, also reflecting strong confidence among respondents, but also shows slightly more variability (standard deviation of 0.515), with scores between 1.80 and 5.00.

### 3.4. Common Methods Bias (CMB), Normality, Reliability, Correlations, and Multicollinearity

In order to minimize possible CMB, the researchers applied procedural remedies to the study design (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). These included assuring respondents that the information provided would be kept unidentified and private. Furthermore, all the scale items in the questionnaire were randomly displayed. The questionnaire was designed in such a way that it included some negatively worded items that served as cognitive speed bumps in order to encourage objective rather than mechanical responses from respondents (i.e., psychological separation). Based on the works of Kline (1998), there was a fair level of normal distribution of data realized because the skewness and kurtosis statistics do not exceed values of 3 and 10, respectively (Table 5). The reliability of the measures of all these variables was found to be >0.7 in terms of a level (9) (Nunnally, 1978).

**Table 5.** Skewness and Kurtosis.

Construct	Skewness			Kurtosis		
	S- statistic	SE	z-score	K-statistic	SE	z-score
Public Funds Management	-0.013	0.133	-0.098	-0.332	0.265	-1.253
Internal auditor independence and integrity	0.006	0.133	0.045	-0.351	0.265	-1.321

Source: Field Data, 2023.

### 3.5. Kolmogorov-Smirnov and Shapiro-Wilk Test

We used the Kolmogorov-Smirnov and Shapiro-Wilk tests to determine if the distribution overall differed from normal in our data. As a general rule, if the test is non-significant ( $p > 0.05$ ), it indicates that the sample distribution is most likely normal because it does not differ significantly from the normal distribution. On the other hand, if the test is significant ( $p < 0.05$ ), it means that the distribution under consideration differs significantly from a normal distribution, making it non-normal. The non-significant values ( $p > 0.05$ ) for all the study variables as indicated in **Table 6** below show that the distribution of the sample was not significantly different from a normal distribution. Thus, it can be concluded that the distribution is fairly normal, implying that subsequent statistical tests can be done since the normality assumption was met.

**Table 6.** Kolmogorov-Smirnov and Shapiro-Wilk Tests.

Variable	Kolmogorov-Smirnov			Shapiro-Wilk		
	statistic	Df	Sig	Statistic	Df	Sig
Public Funds Management	0.027	338	0.200	0.995	338	0.299
Internal auditor independence and integrity	0.041	338	0.201	0.994	338	0.208

Source: Field Data, 2023.

The results in **Table 6** above of the Kolmogorov-Smirnov and Shapiro-Wilk tests for the variables “Public Funds Management” and “Internal Auditor Independence & Integrity” indicate that for both variables, the test statistics are close to 0.027 and 0.041 for Kolmogorov-Smirnov and 0.995 and 0.994 for Shapiro-Wilk respectively, with p-values (Sig) well above the conventional significance level of 0.05 ( $p = 0.200$  and  $0.201$  for Kolmogorov-Smirnov,  $p = 0.299$  and  $0.208$  for Shapiro-Wilk), suggesting that both variables are approximately normally distributed in the sample of 338 observations.

### 3.6. Testing for the Assumption of Homogeneity of Variances

We tested the assumption of homogeneity of variances using our data. According to this supposition, the variances should be constant or the same across the board in the data. Levene’s test was used with descriptive statistics in SPSS to determine

whether the data set was homogeneous. Levene's test was used to determine whether the variances in the groups are equal and the difference between variances is zero (Field & Golubitsky, 2009). As a general rule, we can conclude that the variances are considerably different and that the assumption of homogeneity of variances has been violated if Levene's test is significant at  $p \leq 0.05$ . On the other hand, the assumption is plausible or reasonable if Levene's test results show that the variances are almost equal ( $p > 0.05$ ). According to **Table 7** below, the values of Levene's test are greater than 0.05, suggesting that the data are homogeneous and eligible for further statistical analysis.

**Table 7.** Homogeneity of variances.

Variable	Levine's statistic	df1	df2	Sig
Public Funds Management	2.463	2	25	0.084
Internal auditor independence and integrity	1.313	2	25	0.093

Source: Primary data (2023).

The Levene's statistics in **Table 7** above indicate that for Public Funds Management, the value is 2.463 with 2 and 25 degrees of freedom, and a significance level of 0.084, suggesting a marginally non-significant difference among groups, whereas for Internal Auditor Independence & Integrity, the Levene's statistic is 1.313 with the same degrees of freedom and a significance level of 0.093, also indicating a marginal non-significance, collectively implying that there may be some variation across groups in these variables, but the differences are not statistically significant at the conventional alpha level of 0.05.

### 3.7. Multi-Collinearity

The purpose of the multi-collinearity test was to determine the degree of correlation between two or more independent variables. Multi-collinearity exists when two independent variables are highly correlated to the extent that it is overly difficult to determine which one causes more variation in the dependent variable. The Variance Inflation Factor (VIF) and the Tolerance statistic are two measures used to determine multi-collinearity. As a general rule, multi-collinearity is not a threat when tolerance levels are greater than 0.2 ( $TL > 0.2$ ), and Variance Inflation Values (VIF) are less than 5 ( $VIF < 5$ ) (Hair *et al.*, 2010). It is recommended that one of the offending variables be eliminated as soon as it is found to address multi-collinearity issues. Regression results from the SPSS were analyzed to screen for multi-collinearity, and the VIF and tolerance levels or statistics matched both assumptions, as shown in **Table 8** below.

The multi-collinearity statistics in **Table 8** indicate that the variance inflation factor (VIF) for Public Funds Management is 2.34 with a tolerance of 0.62, and for Internal Auditor Independence & Integrity, the VIF is 1.45 with a tolerance of 0.56, suggesting that both variables exhibit low to moderate levels of multicollin-

earity, which are within acceptable limits and unlikely to adversely affect the stability and interpretability of the regression analysis.

**Table 8.** Multi-Collinearity statistics.

Variable	Variance Inflation Factor (VIF)	Tolerance Statistics
Public Funds Management	2.34	0.62
Internal auditor independence & integrity	1.45	0.56

Source: Primary data (2023).

### 3.8. Reliability and Validity of Quantitative Data

**Table 9.** Showing reliability results.

Variable	Cronbach's alpha	Composite reliability	No. items
Public Funds Management	0.823	0.826	19
Internal auditor independence and integrity	0.886	0.887	10

Source: Primary data, 2023.

**Table 9** above shows that all of our variables have composite reliability values greater than 0.6 and Cronbach's Alpha coefficients of 0.7 and above. This proves that the instrument is reliable.

### 3.9. Reliability and Validity of Qualitative Data

This study ensured credibility, rigour, completeness, consistency, and coherence of ideas from the interviews (Sarantakos, 1998). The study ensured that data were captured in a credible manner through conducting interviews, recording experiences described, and verifying the research findings with the older persons (Polit & Beck, 2013). Additionally, the study ensured that the methods used to obtain data were rigorous, that is, sound, valid, and reliable. This involved using appropriate sampling techniques, collecting data using well-crafted questions, and documenting all aspects of the research process (Creswell, 2014). To warrant completeness, the study ensured that the data collected were comprehensive and included all relevant information about the phenomenon being studied. The study strived for information saturation, whereby interviews were carried out until the saturation point was attained (Onwuegbuzie *et al.*, 2009), whereby no new information was being obtained, and the data collected were consistent. Consistency was guaranteed by having different interpreters of the data, and data were analysed independently and compared to ensure consistency and reduce bias. To ensure coherence, the study ensured that the data collected were logical, clear, and easy to understand. The study organized the data in a meaningful way and ensured that the interpretation of the findings made sense based on the data collected.

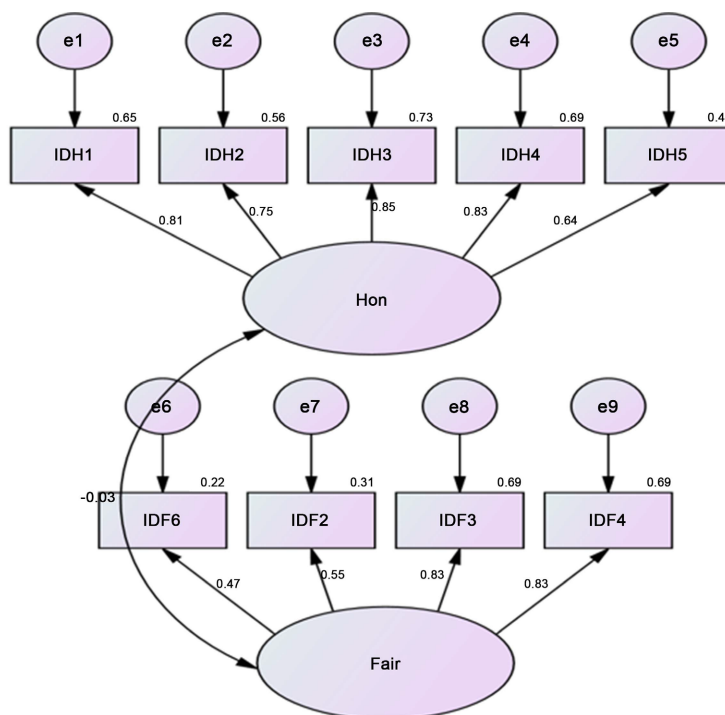
### 3.10. Measurement Model and Data Analysis

#### 3.10.1. Exploratory Factor Analysis (EFA)

The authors employed both SPSS (version 22) and AMOS version 21 to analyse data. The two variables were subjected to Exploratory Factor Analysis (EFA) to help uncover the underlying structure of a large set of items Invalid source specified and also to reduce data to manageable levels. Results showed that the KMO was 0.942 (well above the required 0.7). Results from our data specified that 10 items loaded well on the construct of internal auditor independence and integrity with a total component of two factors, namely fairness and honesty. The principal component analysis (PCA) using Varimax with Kaiser Normalization was conducted on the data to test the components of internal auditor independence and integrity, and this extracted two factors with Eigen values greater than 1. These factors of fairness (39.43%) and honesty (11.25%) were extracted, thus accounting for 50.68% of the total variance in internal auditor independence and integrity. The KMO (0.836) and Bartlett (0.00) tests respectively display satisfactory results. This indicated that the constructs' items were well correlated, and the sample data was sufficient. Further, to compute the loadings on each of the internal auditor independence and integrity factors, only items with absolute values greater than 0.50 were included. Moreover, the result indicated that 10 items of fairness loaded well on factor 1 with significant loadings between 0.408 and 0.821, which explained 39.43% of the variance. For honesty, 2 other items loaded well on factor 2 with significant loadings between 0.856 and 0.862, which accounted for 11.25% of the variance. Consequently, it can be concluded that all the 12 items were valid and could be used to measure the envisioned components in this study. Thus, the items that loaded above 0.5 adequately explained the global variable internal auditor independence & integrity. For PFM, the results that emerged from our data revealed that 19 items loaded well on the construct of public funds management with a total component of two factors extracted. Analysis based on the PCA using Varimax with Kaiser Normalization was also done on the data to examine the components of public funds management, which yielded two factors with Eigen values greater than 1. These factors of financial accountability (40.03%) and public expenditure (10.22%) were generated, thus accounting for 50.25% of the total variance in public funds management. The KMO and Bartlett test values were all sufficient at 0.919 and 0.000 significant respectively. This shows that the sample data was adequate and items of the constructs were well correlated. Also, only items with absolute values above 0.50 were considered to determine the loadings on each of the factors of public funds management. Moreover, the result indicated that 11 items of the financial accountability dimension loaded well on factor 1 with significant loadings between 0.402 and 0.837, which explained 40.03% of the variance, while 8 other items of public expenditure loaded well on factor 2 with significant loadings of 0.392 to 0.802, which accounted for 10.22% of the variance. Consequently, the items that loaded above 0.5 adequately explained the global variable public funds management.

### 3.10.2. Confirmatory Factor Analysis

Consistent with Anderson and Gerbing (1988), the authors constructed several nested models. First, they constructed models for Internal Audit Independence and integrity, and then for PFM. Tabachnick and Fidell (2019) argue that part of the goal of modeling is the development of a parsimonious, good-fitting model with only significant parameters retained. Out of 12 question items, 9 were retained. The items that were retained are five for IDH and four for IDF factors. While some authors suggest that two items are adequate in unique circumstances where there is a large sample size (Bollen, 1989), CF, Kline (2015) argues that at least three items are needed to measure one factor, as is the case in this thesis and Figure 2 below shows the measurement model for Internal auditor independence and Integrity and subsequently Table 10 shows its path summary.



#### Goodness of Fit Indices

$\chi^2 = 2.245$ ; p-value = 0.505, d/f = 26, RMSEA (0.000); TLI (1.001); IFI (0.998); CFI (1.000); NFI (0.980); GFI (0.983) and AGFI (0.971) Key Hon - Honesty; Fair-Fairness.

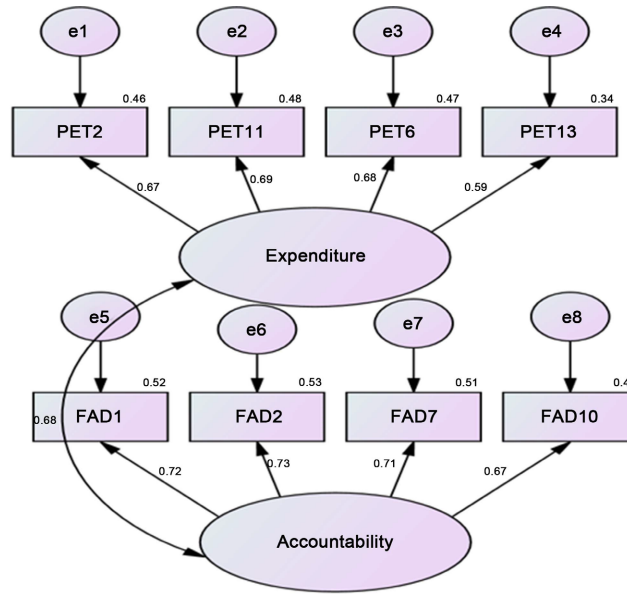
Figure 2. CFA model for the IAI.

Table 10. Path summary for the auditor independence and integrity latent construct.

	Paths	B	S.E.	C.R.	P	$\beta$
IDH1	<--- F1	1.000				0.807
IDH2	<--- F1	0.941	0.063	14.840	***	0.748
IDH3	<--- F1	1.090	0.063	17.184	***	0.854
IDH4	<--- F1	1.071	0.065	16.575	***	0.829

Continued

IDH5	<---	F1	0.755	0.062	12.141	***	0.639
IDF6	<---	F2	1.000				0.469
IDF2	<---	F2	1.402	0.202	6.951	***	0.552
IDF3	<---	F2	1.995	0.249	8.029	***	0.831
IDF4	<---	F2	2.079	0.259	8.031	***	0.828



*Goodness of Fit Indices*  
 $\chi^2 = 1.311$ ; p-value = 0.703, d/f = 19; RMSEA (0.000); TLI (1.000); IFI (1.000); CFI (0.999); NFI (0.981); GFI (0.989) and AGFI (0.978) Key Expenditure-Public Expenditure  
 Accountability-Public Accountability.

Figure 3. CFA model for the PFM.

The Auditor Independence and Integrity Measurement Model in Figure 2 above shows an NFI of 0.980, which is an indication of strong convergent validity. The  $\chi^2$  statistic of 2.245 was not significant at the 0.05 level: its p-value was 0.505 and degrees of freedom/df (26), suggesting that the model adequately fitted the data. This was further validated by other fit indices: RMSEA (0.000), TLI (1.000), CFI (0.999), GFI (0.983), and AGFI (0.971). Fornell and Larcker (1981) suggest that the average variance explained (AVE), as a measure for discriminant validity, should be 0.5 and above. In this present study, the AVE was 0.73. An examination of the observed factor loadings in comparison with their standard errors provides evidence of a relationship between auditor independence and integrity and its respective constructs (honesty and fairness) and item factors (Hair et al., 2012). Multiple regression analysis was used to evaluate the reliability of the items (R2). For all the nine (9) items retained for auditor independence and integrity, each

had a regression weight (R2) value greater than 0.5, which demonstrated satisfactory reliability for each item (Kline, 2005). As a result, every item served as a reliable factor for auditor independence and integrity.

The Public Funds Management (PFM) Measurement Model in Figure 3 above shows an NFI of 0.981, which is an indication of strong convergent validity. The  $\chi^2$  statistic of 1.311 was not significant at the 0.05 level: its p-value was 0.703 and degrees of freedom/df (19), suggesting that the model adequately fitted the data. This was further validated by other fit indices: RMSEA (0.000), TLI (0.998), CFI (0.999), GFI (0.989), and AGFI (0.978). Fornell and Larcker (1981) state that the average variance explained (AVE) as a measure for discriminant validity should be 0.5 and above. In this current study, the AVE was 0.68. As a result, every item served as a reliable component for PFM.

Now, the authors present the results in Section Four below.

## 4. Results

### 4.1. Results of Correlation Analysis

The study sought to establish the relationship between the internal auditor and integrity.

and public funds management. Correlation analysis was conducted to ascertain the strength of the relationship.

Zero-order correlation analysis was conducted to address the study's objectives and evaluate the hypotheses. The objective was to determine whether the criterion (outcome) variable (public funds management), the mediator variable (Auditor independence and integrity), and the predictor variables (internal audit function and internal control system) exhibited linear relationships or correlations. As the data in this study met and satisfied the parametric assumptions, it was suitable to perform subsequent tests such as correlation and regression analysis (Field, 2006a). Accordingly, the strength of the association between the research variables was determined by bivariate correlation and the generation of Pearson correlation coefficients (Field, 2006b).

**Table 11.** Showing Mean, standard deviations, and correlations between IAI and PFM.

Variables	M	SD	1	2	3	4	5	6
(1) Year of Existence	2.78	1.13	1					
(2) Staff Category	3.67	2.15	0.14**	1				
(3) Marital Status	1.84	0.36	0.03	0.05	1			
(4) Education Level	3.37	1.41	0.16**	0.24**	0.01	1		
(5) Public Funds Mg't	4.01	0.51	0.24**	0.54	0.02	0.05	1	
(6) Internal Auditor Independence & Integrity	4.02	0.56	0.27**	0.14**	0.01	0.01	0.722**	1

Notes: n = 338. \*p < 0.05; \*\*p < 0.01; Correlation is significant at the 0.01 level (2-tailed); \*Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data, 2023.

**Table 11** above presents correlation coefficients among six variables—Year of Existence, Staff Category, Marital Status, Education Level, Public Funds Management, and Internal Auditor Independence & Integrity—based on a sample of 338 respondents, revealing that while Year of Existence exhibits a modest mean ( $M = 2.78$ ,  $SD = 1.13$ ), its correlations with other variables are generally weak and non-significant; notably, Staff Category shows significant positive correlations with Year of Existence ( $r = 0.14$ ,  $p < 0.01$ ), Education Level ( $r = 0.24$ ,  $p < 0.01$ ), Public Funds Management ( $r = 0.54$ ,  $p < 0.01$ ), and Internal Auditor Independence & Integrity ( $r = 0.14$ ,  $p < 0.01$ ), indicating that higher staff categorization is associated with greater education, better management of public funds, and enhanced auditor independence and integrity; Education Level itself correlates significantly with Public Funds Management ( $r = 0.05$ ) and Internal Auditor Independence & Integrity ( $r = 0.01$ ), though these relationships are weak, while Marital Status demonstrates negligible and non-significant correlations with all variables, suggesting limited influence; ultimately, the strongest and most significant association emerges between Public Funds Management and Internal Auditor Independence & Integrity ( $r = 0.72$ ,  $p < 0.01$ ), emphasizing a substantial link between effective funds management and auditor independence within the context examined.

#### Study hypothesis

**Table 12.** Summary of the study hypothesis.

Hypotheses	Statements	Hypothesized Path	Accept/Reject
H <sub>1</sub> :	Internal auditor independence has a positive and significant impact on public fund management.	IAII → PFM	Accept

Source: Primary data (2023).

**Table 12** above shows that the hypothesis H<sub>1</sub>, which posits that internal auditor independence has a positive and significant impact on public funds management, is supported by the evidence indicating a positive hypothesized path between internal auditor independence (IAII) and public funds management (PFM), leading to the acceptance of this hypothesis.

## 4.2. Testing Direct Relationships

**Table 13.** Regression results on the direct paths.

H <sub>1</sub> : Internal audit independence & integrity public funds management.	0.323	0.028	6.706	0.307	***	YES
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$p < 0.0001$ ,  $p < 0.01$ ,  $p < 0.05$ ; Source: Primary data (2023).

The regression results in **Table 13** indicate a significant positive relationship between internal audit independence and integrity and the management of public

funds, with a standardized coefficient of 0.307, suggesting that higher levels of audit independence and integrity are strongly associated with better public funds management, thereby supporting Hypothesis 1 (H1) and highlighting the critical role of independent and ethical internal audits in ensuring effective financial oversight in the public sector. This further suggests that changes in internal audit independence and integrity bring about matching changes in public funds management in local governments.

This finding is corroborated by the qualitative results, where a participant narrated that: -

*“...with the adequate staffing of this local government audit structure with competent staff, staff in the audit section now operate with efficiency, fairness, and honesty, which has enhanced the quality of audit reports...”* (Participant 10, 2023).

This qualitative finding corroborates the quantitative results by illustrating that enhanced internal audit independence and integrity, fostered through competent personnel, directly contribute to improved management of public funds, thereby underscoring the critical role of ethical and independent internal audits in promoting effective financial oversight in the public sector.

The authors further discuss the results in Section 5 below.

## 5. Discussion of Results

Results indicated that internal auditor independence & integrity and public funds management have a positive and significant association ( $r = 0.722$ ,  $p < 0.01$ ). This suggests that an independent internal audit that exhibits features of honesty and adherence to strong moral principles improves the management of public funds in local governments. This is true since the independence of internal audit and its integrity play an essential role in influencing the internal audit capacity levels in public sector enterprises such as local governments. Furthermore, existence of an independent internal audit that exhibits features of honesty and fairness mitigates fraud occurrence, which might improve PFM in organizations. Therefore, when LG leadership endeavors to attach importance to PFM practices, they can create ways of planning, monitoring, and controlling usage of public funds. This, in turn, improves public funds management prevalence.

This finding is consistent with previous studies that support the internal auditor independence and integrity–PFM link. For instance, a study carried out by [Rifai and Meiliana \(2020\)](#) on fraud prevention found that auditor independence and integrity significantly influence PFM. In particular, they established that organizations that paid attention to the development of independent or autonomous auditors with ethical values actually engaged in practices aimed at improving PFM. In a related case, [Maury et al. \(2000\)](#) and [Lokman & Bakri \(2020\)](#) noted that auditor independence and integrity significantly influence PFM in public sector organizations. Similar findings were obtained by [Djalil et al. \(2016\)](#), [Bouhawia et al. \(2015\)](#), and [Chung et al. \(2018\)](#). These studies support the fact that engaging in

managerial practices such as planning, monitoring, and controlling PFM is driven by how LG managers evaluate and execute activities related to the institution of robust internal auditor independence and the development of moral principles among LG internal auditors.

The study findings thus suggest that a strong internal audit function that is independent of management and exhibits honesty and fairness (integrity) might lead to more effective financial management and accountability (PFM). It is therefore crucial for LGs to ensure that their internal audit committees are independent, have sufficient resources, and are transparent in their audit findings in order to improve PFM. The study findings further provide valuable insights into the importance of internal auditor independence and integrity in ensuring effective PFM in LGs. By promoting independence, transparency, honesty, and fairness within the internal audit function, LGs can better manage their public funds and ensure accountability to their stakeholders.

This highlights the need for LGs to prioritize internal auditor independence and integrity in order to enhance their financial management practices (PFM). This research contributes to the existing literature on internal audit in public sector organizations, specifically LGs, and highlights the importance of maintaining high levels of independence and integrity within the internal audit function. Also, although the internal auditor independence and integrity-PFM link has been widely studied in other fields, extant literature suggests that improved levels of independence and integrity boost PFM in LGs, yet few empirical studies exist in this setting.

This study, therefore, provides support for the theoretical arguments underscored by institutional theory (Meyer & Scott, 1983), which emphasize the processes through which structures, rules, norms, and routines become established as authoritative guidelines for social behaviour (PFM). Along this line, we argue that LGs, in the process of seeking legitimacy in the domain of PFM, conform to rules and beliefs of the prevailing institutional (LG) environment, which could encompass changing structures, routines, and norms (auditor independence and integrity) (DiMaggio & Powell, 1983). LG internal auditors must thus have a code of conduct as a moral principle or a form of behavioral regulation that governs the relationship between auditors, auditees, and communities to ensure appropriate PFM. Hence, independence and integrity represent codes of ethics whereby auditors must possess honesty, bravery, wisdom, and responsibility to effect reasonable changes in PFM in organizations. The observed lack of independence and integrity within the Busoga sub-region signifies a clear deviation from the authoritative guidelines and normative expectations outlined by agency theory. Agency theory emphasizes the importance of establishing independent oversight and ethical conduct to ensure that agents (public officials) act in the best interests of the principals (the public and government at large). When independence is compromised—such as through undue influence, favoritism, or collusion—it undermines the mechanisms designed to promote accountability and transparent decision-making. Furthermore, breaches of integrity—manifested through corruption, mis-

appropriation, or dishonest practices—violate the normative standards that prescribe ethical behavior as fundamental to effective governance. These failures erode trust in public institutions, diminish oversight effectiveness, and distort the proper channels for managing public funds. Consequently, these shortcomings impair the agency's capacity to properly monitor, control, and utilize public resources. Instead of safeguarding funds to achieve developmental objectives, compromised independence and integrity facilitate misallocation, embezzlement, and inefficient use of public funds. This not only contravenes the core principles of agency theory but also hampers sustainable development and erodes public confidence in government institutions.

### 5.1. Implications

As will be explained, this study has theoretical, practical, managerial, and policy implications. The aim of this study was to investigate the relationship between internal auditor independence and integrity and public funds management. The theoretical (academic), managerial (practical), and policy implications of this study are discussed as follows.

First, by offering empirical evidence in favor of the theories relevant to the explanation of PFM, this study adds to the body of literature on PFM. A single theoretical approach has been employed in previous studies to explain PFM (DiMaggio & Powell, 1983). The study, as indicated in the conceptual framework (Figure 1), uses a multi-theoretic approach to explore the antecedents of internal auditor independence and integrity. Consequently, we provide and validate or confirm specific customized models in this research to assess internal auditor independence and integrity. This study has accounted for internal audit independence and integrity features in Uganda's LGs using the internal audit function and internal control system and showed that internal audit independence and integrity leadership have a significant effect on PFM.

Additionally, it is prudent that the LG-approved audit structure is commensurate with the size of LG, is underpinned by functional and operational internal audit committees, and that the unit maintains an independent, valued voice with the growing focus on corporate governance issues such as independence and integrity in the management of public funds (PFM). This study thus finds that lack of independence and integrity among audit staff are the evils affecting PFM in Uganda's LGs.

#### *Practical implication*

The practical implications of this study emphasize the critical need for local governments (LGs) to strengthen the independence and integrity of their internal audit functions to improve public funds management (PFM). LG leadership should prioritize establishing independent internal audit committees with adequate resources and transparent reporting mechanisms. Such measures ensure that auditors can operate without undue influence, thereby fostering honesty, fairness, and accountability. To enhance audit committee independence effectively,

policymakers could mandate the inclusion of a majority of external, non-management members with relevant financial expertise, supported by clear regulations requiring their appointment through independent nomination processes. Additionally, establishing direct reporting lines from the audit committee to a legislative oversight body or a dedicated board committee can provide a more robust check on management, ensuring greater accountability and reducing potential conflicts of interest. These mechanisms, grounded in empirical research, can significantly improve oversight quality and reinforce the integrity of financial reporting.

By doing so, LGs can mitigate fraud risks, enhance financial oversight, and promote the responsible use of public funds, ultimately leading to more effective and trustworthy PFM practices. Additionally, embedding ethical principles and behavioral codes aligned with integrity within the internal audit process can reinforce a culture of honesty, which is essential for sustaining sound financial management and public confidence.

From a policy and managerial perspective, the findings advocate for the development and enforcement of regulatory frameworks that mandate independence and uphold ethical standards within internal audit functions in LGs. Policymakers should design guidelines that clearly define the autonomy of internal auditors, ensure their access to relevant information, and support ongoing training on ethical conduct. For managers, this entails fostering an environment that values transparency and accountability, with internal auditors actively participating in planning, monitoring, and controlling public fund activities. Implementing these measures can lead to more robust internal control systems, reduce corruption and fraud, and ultimately enhance the overall effectiveness and credibility of public financial management in local governments.

#### ***Policy implication***

The study emphasizes that local governments should adopt policies that reinforce the independence and integrity of internal auditors as a key mechanism for improving public funds management (PFM). Policymakers need to establish clear frameworks that ensure internal audit functions are autonomous from management influences, equipped with sufficient resources, and guided by ethical standards emphasizing honesty and fairness. Such measures will help mitigate fraud, enhance accountability, and promote transparency in the utilization of public resources, aligning internal audit practices with governance norms and institutional expectations.

Practically, local governments should focus on strengthening internal audit structures by developing codes of conduct that promote ethical behavior and moral principles among auditors. Managers are encouraged to ensure that internal audit functions are adequately resourced and operate independently of political or managerial pressures, thus fostering a culture of transparency and responsible financial oversight. By institutionalizing these practices, LGs can create an environment where internal auditors serve as credible guardians of public funds,

ultimately leading to better financial performance, increased stakeholder trust, and compliance with governance standards.

### ***Theoretical implication***

The theoretical implications of this study underscore the critical role of internal auditor independence and integrity in enhancing public funds management (PFM), particularly within local government (LG) contexts. The findings support institutional theory (Meyer & Scott, 1983), which posits that organizational structures, rules, and norms—such as auditor independence and ethical conduct—are established as authoritative guidelines that shape social behavior and institutional legitimacy. By emphasizing the importance of moral principles, honesty, and fairness within the internal audit function, the study reinforces the idea that adherence to ethical standards and independence not only mitigates fraud but also contributes to the development of routine practices aligned with institutional norms. This multi-theoretic approach advances existing literature by validating that internal audit features serve as crucial mechanisms through which LGs conform to normative expectations and establish credible routines for effective PFM, thus expanding the understanding of how institutional environments influence organizational behavior in public sector financial management.

Furthermore, the study's empirical evidence highlights the importance of organizational structures that promote internal audit independence and integrity as foundational to effective PFM. This reinforces the theoretical notion that institutions seeking legitimacy in public financial management must institutionalize routines, rules, and behavioral codes that uphold ethical conduct and independence of auditors. The findings suggest that these internal features are not merely procedural but are embedded within the organizational culture and governance frameworks, influencing decision-making processes, monitoring, and accountability practices. Consequently, this underscores the need for LGs to develop and enforce policies that bolster internal audit independence and ethical standards, aligning with institutional theory's emphasis on conformity and normative pressures. This theoretical contribution thus provides a nuanced understanding of how internal audit functions, grounded in ethical and structural features, serve as key institutional agents in promoting transparency, accountability, and effective management of public funds.

### ***Academic implication***

This study's findings have important academic implications by enriching the understanding of the relationship between internal auditor independence and integrity and public funds management (PFM) within local governments. It empirically validates the notion that robust internal audit functions, characterized by independence, honesty, and fairness, are pivotal in mitigating fraud and enhancing accountability in public sector financial practices. By employing a multi-theoretic approach, the research advances existing literature beyond single-theory explanations, linking institutional norms, organizational routines, and ethical principles to effective PFM. This theoretical contribution underscores the im-

portance of internal audit structures and moral standards as key drivers of sound financial governance, thereby providing a more comprehensive framework for future scholarly exploration of governance mechanisms in local governments.

Practically, the study emphasizes that strengthening internal auditor independence and integrity is essential for improving PFM outcomes. It highlights that organizational arrangements such as independent audit committees, adequate resources, and transparent reporting are critical in fostering effective oversight of public funds. The evidence suggests that local government leaders and policymakers should prioritize establishing and maintaining independent internal audit functions rooted in ethical conduct, as these are instrumental in detecting fraud, promoting transparency, and ensuring the responsible management of public resources. These insights inform policy reforms focused on enhancing internal audit independence and ethical standards, ultimately contributing to better governance, reduced corruption, and improved service delivery within the public sector.

## 5.2. Conclusion

In conclusion, the study underscores that internal auditor independence and integrity are critical factors positively influencing public funds management (PFM) in local governments. Evidence from the findings and supporting literature demonstrates that robust internal audit functions characterized by honesty, fairness, and independence foster transparency, accountability, and effective financial control, thereby mitigating fraud and improving PFM practices. The study highlights the importance of local government leadership to establish independent, well-resourced internal audit committees guided by ethical principles to enhance governance and legitimacy in PFM. Thus, promoting internal auditor independence and integrity is vital for strengthening financial management, aligning with institutional norms, and ensuring responsible stewardship of public resources in local governments. Overall, the findings advocate strengthening internal audit independence and integrity to enhance public funds management.

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## Appendices

### Appendix 1. Internal auditor independence and integrity.

<b>In dealing with HONESTNESS</b>		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
<b>IDH1</b>	The internal audit function of this local government does not make any expression without proper evidence.	1	2	3	4	5
<b>IDH2</b>	The internal auditor reports on material facts and figures, uninfluenced by any favor or frown in this organization.	1	2	3	4	5
<b>IDH3</b>	This organization has an internal audit committee independent of management.	1	2	3	4	5
<b>IDH4</b>	The internal audit committee of this local government appraises the work of the internal audit function.	1	2	3	4	5
<b>IDH5</b>	None of the internal audit staff have ever been convicted on issues of fraud in this local government.	1	2	3	4	5
<b>IDH6</b>	The internal audit department in this local government controls its own funds.	1	2	3	4	5
<b>In dealing with FAIRNESS</b>						
<b>IDF1</b>	Professional competency and assessment of facts is seen as a prerequisite for the internal audit activity.	1	2	3	4	5
<b>IDF2</b>	The internal auditor of this organization refrains from making reckless statements.	1	2	3	4	5
<b>IDF3</b>	The internal audit function safeguards all information received, as it may be of a confidential nature.	1	2	3	4	5
<b>IDF4</b>	The internal auditor does not disclose possessed information unless there is a statutory, legal, or professional requirement to do so.	1	2	3	4	5
<b>IDF5</b>	The internal auditor of this local government shares internal audit findings with the auditees before the final report.	1	2	3	4	5
<b>IDF6</b>	The internal auditor of this local government takes into consideration responses by auditees.	1	2	3	4	5

**Appendix 2.** Questionnaire for Public Funds management.

CODE	In dealing with Public Expenditure
PET1	This LG adheres to the budget process as set in The PFMA 2015
PET2	Budget interventions of the LG are according to the district development plan
PET3	Revenue is realised as projected in the budget
PET4	Expenditure is implemented as planned in the Budget
PET5	Finance committee meetings are held to discuss quarterly allocations
PET6	All expenditure is authorised by council
PET7	There is equitable distribution of resources
PET8	All stake holders are consulted during the budgeting process
PET9	Ready access to fiscal and budget documentation
PET10	The budget desk is in place to ensure that funds are equally distributed to all departments.
PET11	The internal audit ensures that expenditure is made according to the budget in this local government.
PET12	This LG has a Revenue risk management framework
PET13	Revenue audit and investigation conducted regularly
PET14	Revenue arrears monitored and recovered in the local government
PET15	Expenditure arrears are all known & payment plan is clear in this local government.
PET16	This local government has a payroll integrated with personnel records
PET17	Management of payroll change is adequate
PET18	Expenditure commitment controls in this organizations are effective
PET19	This local government ensures compliance with payment rules & Procedures
CODE	Financial Accountability
FAR1	This local government declares all government revenue & expenditure.
FAR2	All resources are received by service delivery units in this local government
FAR3	This LG has a proper debt management policy in place
FAR4	Public Assets are all indicated in the asset register of this local government
FAR5	This organisation has an operations and maintenance asset plan
FAR6	There is not accumulation of domestic arrears
FAR7	Bank reconciliation done on monthly basis in this organisation
FAR8	Advance accounts highly monitored & retired when due in this organisation
FAR9	Coverage and comparability of reports
FAR10	This organisation prepares complete annual financial reports
FAR11	This organization adheres to accounting standards
FAR12	Internal audit ensures that no advance is given to any of the officers before accountability is processed for the first advance if any.

**Continued**

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- FAR13 Internal audit also ensures that value for money is received for all the funds released.
  - FAD14 LGPAC scrutinises audit reports
  - FAD15 The internal audit function ensures that the funds released from the ministry & donors serve their purpose & that there is no diversion
  - FAD16 Internal audit verifies accountability of previous advance before another advance
  - FAD17 Internal audit recommendations on public funds management are considered by the external audit committee
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