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BUDGETING PROCESS, INTERNAL CONTROL AND FINANCIAL PERFORMANCE OF SECONDARY SCHOOLS IN KUMI DISTRICT

BY

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REG. NUMBER: BU/GS22/MBA/12

A DISSERTATION SUBMITTED TO THE DIRECTORATE OF GRADUATE STUDIES, RESEARCH AND INNOVATIONS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF BUSITEMA UNIVERSITY

OCTOBER, 2024

DECLARATION

DECLARATION

I, the undersigned, declare that this dissertation is my original work and has never been submitted to this University or to any other institution for funding or any award.

Signature:.. Date...16/10/2024...

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APPROVAL

APPROVAL

This dissertation has been submitted for consideration, with our approval as the academic supervisors.

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DEDICATION

I dedicate this dissertation to my wife and children. You were such a strong support. I love you all and I continue to believe that this journey has yielded success because of your support in different forms.

ACKNOWLEDGEMENT

I would like to appreciate Prof. Kaziba Abdul Mpaata, Prof. Salawu Rafieu, Assoc. Prof. Musenze Ibrahim, and all lecturers for the insightful academic guidance which moulded me with passion for research, through course works, class presentations, tests and exam assessment & both physical and virtue engagements.

I also acknowledge the support of staff of Dr. Aporu Okol Memorial Secondary School for their support in this academic journey.

May the Almighty God reward all abundantly and thank Him for the gift of life and financial provision as well as His continued protection and provision of good health. All the Glory belongs to Him!

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LIST OF ABBREVIATIONS

COSO:	Committee of Sponsoring Organizations
CVI:	Content Validity Index
SACCO:	Savings and Credit Cooperative Organizations
SME:	Small and Medium-sized Enterprises
SPSS:	Statistical Package for Social Sciences
UNESCO:	United Nations Educational, Scientific and Cultural Organization

ABSTRACT

The study explored the mediating effect of internal controls on the relationship between budgeting processes and financial performance of secondary schools in Kumi District. The study was guided by the following specific objectives; to establish the effect of budgeting process on the financial performance of secondary schools in Kumi District; to analyze the effect of internal controls on the financial performance of secondary schools in Kumi District; to find out the relationship between internal controls and the budgeting process of secondary schools in Kumi District; and to examine the mediating role of internal controls in the relationship between the budgeting process and financial performance of secondary schools in Kumi District. The study considered a descriptive research design. The study population of 165 comprised the staff establishment of four (4) secondary schools in Kumi District. The schools included Dr. Aporu Okolo Memorial Secondary School, Kumi Seed Secondary School, Atutur Seed Secondary School, and Wiggin Secondary School. The sample used was 165 respondents obtained by census method out of whom 134 returned completed and usable questionnaires. Descriptive statistics of frequencies and percentages was used to obtain specific findings, while Pearson Product Moment Correlation and regression analyses were used to obtain major findings. Regression results revealed that a) there is a significant effect of budgeting process on the financial performance of secondary schools in Kumi District [$\beta = .879$, $t = 2.417$, $p<0.0001$]; b) there is a significant effect of internal controls on the financial performance of secondary schools in Kumi District [$\beta = .371$, $t = 1.993$, $p<0.0001$]; c) there is significant relationship between the budgeting process and internal control practices of secondary schools in Kumi District [$r = .354^{**}$, $p < 0.01$]; and d) internal control partially mediates the relationship between budgeting process and financial performance of secondary schools in Kumi District. The study concluded that although the budgeting process itself is a critical factor in determining financial success, its impact is only fully realized when complemented by strong internal controls. These controls act as a safeguard, ensuring that the budget is effectively implemented and financial resources are managed efficiently. The study recommends that schools should adopt a participatory budgeting approach that involves input from key stakeholders, including teachers, parents, and community members. They should formally integrate internal controls into every stage of the budgeting process. Additionally, schools should also establish a system for regularly evaluating both their internal controls and budgeting processes to ensure they are functioning effectively and contributing to desired financial outcomes.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covers information on background of the study, statement of the problem, objectives of the study, hypotheses, scope, significance, and conceptual framework.

1.1 Background to the Study

Financial performance is a critical measure of an organization's ability to utilize its resources effectively and achieve its financial goals (Fatihudin, Jusni, & Mochklas, 2018). In the context of educational institutions, strong financial performance ensures that schools can maintain operations, improve infrastructure, and provide quality education (Ofem, Akeke, & Ameh, 2021). Effective budgeting processes are fundamental in this regard, as they have the latent to enable education institutions to plan, allocate, and control their financial resources systematically (Lasisi, 2021).

The budgeting process is a foundational aspect of financial management, crucial for planning, allocating, and controlling resources within any organization (Shawe, 2023). In education institutions especially secondary schools, a well-structured budgeting process is vital for addressing both immediate needs and long-term goals, from infrastructure development to academic programs and staff salaries (Yizengaw, Agegnehu, & Ehmke, 2021). In other words, effective budgeting ensures that resources are aligned with organizational goals and objectives, facilitating efficient operations and strategic growth (Fadumo, Hassan, & Kadir, 2023).

Globally, the education sector faces the challenge of managing limited financial resources efficiently to ensure the delivery of quality education (UNESCO, 2017). Nevertheless, the relationship between budgeting processes and financial performance is complex and can be influenced by various factors, including the presence of robust internal control systems (Gachoka, Aduda, Kaijage, & Okiro, 2018). Internal controls are mechanisms put in place to ensure the accuracy and reliability of financial information, safeguard assets, and ensure compliance with policies and regulations (Otoo, Kaur, & Rather, 2023).

In Europe, secondary schools in countries like Germany, France, and England exemplify diverse approaches to budgeting and financial management because they have well-established education systems with rigorous internal control mechanisms designed to ensure efficient use of resources and financial accountability (Glover & Levacic, 2020). The effectiveness of internal controls in these countries significantly influences the relationship between budgeting processes and financial performance. In Germany, the budgeting process in secondary schools is characterized by meticulous planning and stringent financial controls as the decentralized nature of the German education system allows for greater autonomy at the school level, with robust internal controls ensuring transparency and accountability which structure facilitates efficient resource allocation and enhances financial performance (Ullmann, Figueroa, & Rawkins, 2020). On the other hand, France, with its highly centralized education system, employs standardized budgeting procedures across secondary schools which has rendered internal controls integral to maintaining financial integrity and ensuring compliance with national regulations (Charbonnier, et al., 2020). Therefore, centralized oversight, combined with internal controls, mediates the relationship between budgeting and financial performance by providing consistent financial management practices across schools.

In Africa, secondary schools in countries like Nigeria, South Africa, and Kenya face diverse financial management challenges. The effectiveness of internal controls in mediating the relationship between budgeting processes and financial performance varies significantly due to differences in educational policies, administrative structures, and economic conditions. For example, according to Amnesty International (2020), South Africa, with its relatively well-resourced education system, has more structured internal control mechanisms. However, disparities between schools in affluent and disadvantaged areas result in uneven implementation of these controls. In well-funded schools, robust internal controls effectively mediate the budgeting process, ensuring efficient use of resources and better financial performance. Conversely, schools in poorer areas lack the capacity to enforce stringent internal controls, leading to suboptimal financial outcomes. In Nigeria, Edinoh, Saidu, and Okpunukpang (2024) reported that secondary schools often struggle with limited funding and weak financial oversight. Internal controls are frequently undermined by systemic issues such as corruption and inadequate training for financial managers. As a result, the mediating effect of internal controls on budgeting processes is often weak, leading to inefficient resource allocation and poor financial performance. According to the World Bank (2019), Kenya's secondary schools face challenges similar to those in Nigeria, including limited funding and inconsistent financial oversight. However, there have been efforts to strengthen internal controls through reforms and training programs.

In Uganda, the financial performance of education institutions often falls short due to systemic challenges ranging from inadequate funding, inefficient financial practices, and limited financial oversight (Muhangi, 2019). Poor financial performance can lead to resource mismanagement, affecting the quality of education and the ability of schools to meet their operational needs (Yizengaw, Agegnehu, & Ehmke, 2021). This issue is particularly pressing in rural areas, where financial constraints are more pronounced, and schools have less access to financial expertise and resources (Tomusange, Muweesi, & Kyagaba, 2021). According to the Auditor General (2022) Kumi District exemplifies the financial challenges faced by secondary schools in rural settings as the district's schools often lack the robust financial management systems needed to ensure proper utilization of resources. Financial performance in these schools is hampered by issues such as inadequate budgeting processes, poor internal controls, and financial mismanagement, which collectively undermine their ability to provide quality education.

From a theoretical perspective, the Agency theory formulated by Jensen and Meckling (1976), addresses the relationship between principals (e.g., school administrators and policymakers) and agents (e.g., financial managers and staff) and provides a foundational framework for understanding the role of internal controls. According to agency theory, there is often a conflict of interest between principals and agents, leading to potential issues of moral hazard and adverse selection. Internal controls serve as mechanisms to align the interests of agents with those of principals by monitoring and guiding the agents' actions, thereby ensuring that the budgeting process is followed accurately and resources are allocated efficiently. This alignment enhances financial performance by reducing the risk of mismanagement and fraud. Much of the existing empirical literature on budgeting processes and financial performance in education institutions is concentrated on foreign countries (Kinyanzii & Ombuki, 2019). Studies in countries like Sri Lanka and Zambia have explored the impact of robust internal controls and budgeting processes on financial performance in the different industries (Madhushani & Jayasiri, 2021; Halwiindi & Mwanza, 2022). However, there is a significant gap in research focusing on rural secondary schools in developing countries like Uganda. Similarly, the mediating effect of internal controls in the relationship between budgeting process and financial performance has not been studied comprehensively in education setting. This study aimed to fill this gap by examining secondary schools in Kumi District, Uganda.

The study therefore sought to investigate the mediating effect of internal control in the relationship between budgeting process and financial performance of Secondary Schools in Kumi District.

1.2 Statement of the Problem

Ideally, the financial performance of secondary schools is a critical factor in ensuring that educational institutions can provide quality education and maintain operational efficiency (World Bank, 2019). In Kumi District, Uganda, secondary schools face significant challenges in managing their financial resources effectively (Ekabot, 2023). Poor financial performance in these schools has far-reaching implications for educational quality, student outcomes, and the overall development of the region (Ugiriwabo, Tuyishime, Nizeyimana & Ntahobavukira, 2023).

The financial performance of secondary schools in Kumi District is notably poor, creating significant challenges for the provision of quality education. According to the report of the Auditor General (2022) secondary schools in Kumi district exemplify the financial challenges faced by secondary schools in rural settings as the district's schools often lack the robust financial management systems needed to ensure proper utilization of resources. Financial performance in these schools is hampered by issues such as inadequate budgeting processes, poor internal controls, and financial mismanagement, which collectively undermine their ability to provide quality education. NBS Television (2022) also reported that some seed secondary schools in Kumi district are struggling to operate after being commissioned by government as the school administration grapples with failure to put in place essential utilities such as water. These problems are exacerbated by frequent delays in government funding and a general lack of financial expertise among school administrators, further hindering effective financial management. The consequences are dire: educational quality declines due to the scarcity of essential resources like textbooks and laboratory equipment; infrastructure deteriorates, creating unsafe and inadequate learning environments. Addressing these financial management challenges is critical for improving the educational landscape in Kumi District. This study therefore aimed at exploring the mediating effect of internal controls on the relationship between budgeting processes and financial performance.

1.3 Objectives of the Study

1.3.1 General Objective

To explore the mediating effect of internal controls on the relationship between budgeting processes and financial performance of secondary schools in Kumi District.

1.3.2 Specific Objectives

1. To establish the effect of budgeting process on the financial performance of secondary schools in Kumi District.

2. To analyze the effect of internal controls on the financial performance of secondary schools in Kumi District.

3. To find out the relationship between internal controls and the budgeting process of secondary schools in Kumi District.

4. To examine the mediating role of internal controls in the relationship between the budgeting process and financial performance of secondary schools in Kumi District.

1.4 Hypotheses

1. There is no significant effect of budgeting process on the financial performance of secondary schools in Kumi District.
2. There is no significant effect of internal controls on the financial performance of secondary schools in Kumi District.
3. There is no significant relationship between internal controls and the budgeting process of secondary schools in Kumi District.
4. There is no mediating effect of internal controls in the relationship between the budgeting process and financial performance of secondary schools in Kumi District.

1.5 Scope of the Study

1.5.1 Geographical Scope

The study was confined to staff employed at the selected secondary schools in Kumi District i.e., Wiggins Secondary School, Dr. Aporu Okol Memorial Secondary School, Kumi Seed Secondary School, and Atutur Seed Secondary School. This is because they represented a diverse range of educational environments within the district. By selecting these schools, the research aimed to capture different perspectives and experiences among staff, ensuring a comprehensive understanding of the issues being studied. Additionally, limiting the scope to four schools allows for a more in-depth analysis while remaining manageable in terms of resources and time.

1.5.2 Content Scope

The study was limited to studying the mediating effect of internal controls on the relationship between budgeting processes and financial performance of selected secondary schools in Kumi District.

1.6 Significance of the Study

The findings of this research yield relevant information that is critical to policy and practical actions.

To Policymakers

The study provides empirical data on the relationship between budgeting processes and financial performance, enabling policy makers to formulate evidence-based policies that improve financial management in secondary schools. By identifying the key factors that influence financial performance, policy makers can design targeted interventions that address specific issues, such as funding allocation, resource management, and financial oversight.

To Management of Secondary Schools

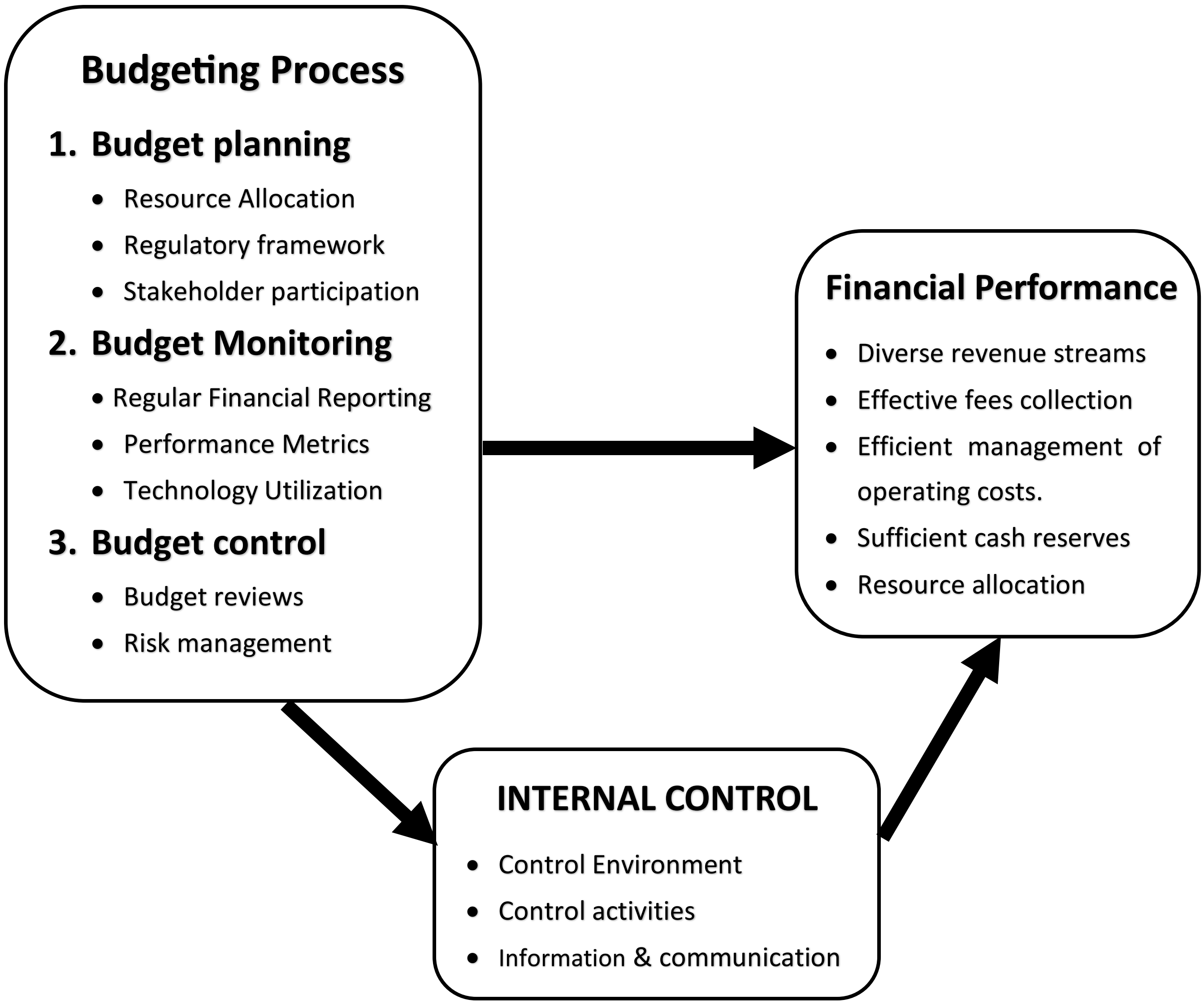
The findings help management in making more informed decisions regarding the allocation of resources and ensuring that funds are directed towards areas that would yield the highest educational and operational benefits. Insights from the study lead to the development of more effective budgeting practices, allowing schools to prepare budgets that are realistic, comprehensive, and aligned with their strategic goals.

To Academia and Research

The results of the study are also pivotal to future researchers as source material for future research work as reference material. The results are also anticipated to enhance the available academic knowledge on the subject matter.

1.7 Conceptual Framework

Figure 1. Conceptual Framework



Source: Adapted from Shawe (2023), Otoo, Kaur, & Rather (2023)

The conceptual framework in figure 1 illustrates the relationship between budgeting process, internal control and financial performance of secondary schools in Kumi District. In coming up with the conceptual framework, the researcher assumed that financial performance depends on the school's ability to plan, monitor, and control the budget (Shawe, 2023). In doing so, the researcher considers internal control as the mediating variable (Otoo, Kaur, & Rather (2023).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides an overview of the literature pertinent to the study. The reviewed literature is presented in line with the study objectives.

2.1 Conceptual Literature

2.1.1 Budgeting Process

According to Nguyen (2024), the budgeting process is a structured approach to managing financial resources, enabling organizations to plan, monitor, and control their financial activities in alignment with strategic goals. This process typically spans a fiscal year and includes key stages such as budget planning, monitoring, and control, all of which are essential to ensure resource efficiency and financial discipline (Shields & Shelleman, 2019). In both public and private sectors, budgeting helps allocate resources to priority areas, ensuring that organizational objectives are met while maintaining fiscal sustainability (Lienert, 2019).

Kizza, Ssendagire, and Ekyagonza (2022), noted that budget planning is the cornerstone of the budgeting process, involving the forecasting of future revenues and expenditures which ensures that resources are allocated to critical areas while staying within financial constraints. Wildavsky and Caiden (2004) argue that a well-formulated budget serves as a “strategic financial map,” guiding organizational decision-making and enabling efficient resource allocation. Further, Shields and Shelleman (2019) emphasize that a comprehensive budget plan should anticipate uncertainties, allowing organizations to remain flexible in times of financial instability. Proper planning fosters greater financial control and minimizes the risk of misallocating resources.

According to DeMarco (2019), ongoing budget monitoring allows for early detection of discrepancies and provides the opportunity for mid-course corrections, thus avoiding significant financial risks. Moreover, Curristine, Lonti, and Joumard (2020) highlight the importance of real-time monitoring, stating that it enhances transparency and accountability, especially in public sector budgeting, where governments need to justify their financial decisions to stakeholders.

Ross and Williams (2020) assert that effective budget control mechanisms are crucial in both preventing overspending and addressing under-utilization of funds. By holding departments accountable for adhering to their budgets, organizations can promote more responsible financial behavior. Furthermore, as noted by Barbera, Jones, and Steccolini (2019), robust budget control fosters greater adaptability, allowing organizations to respond dynamically to changing financial environments without compromising their fiscal stability.

2.1.2 Internal Control

Internal control is a fundamental component of organizational governance, designed to ensure the integrity of financial and operational activities (Ilyas, et al., 2021). Internal control systems encompass policies, procedures, and practices that organizations implement to safeguard assets, ensure the accuracy of financial reporting, and promote operational efficiency (Saudi, 2018). According to The Committee of Sponsoring Organizations (COSO) framework, internal control serves five key purposes: risk assessment, control environment, control activities, information and communication, and monitoring (Bonsón & Flores, 2019).

The control environment is the foundation of internal control, establishing the ethical tone and culture within an organization. COSO defines the control environment as a set of standards, processes, and structures that provide the basis for implementing internal control throughout the organization (Ilyas, et al., 2021).

Control activities are the specific procedures and mechanisms established to address identified risks (Otoo, Kaur, & Nissar, 2023). These activities include approvals, authorizations, verifications, and reconciliations that are designed to prevent and detect errors or irregularities in an organization's operations (Ilyas, et al., 2021). Louwers, et al. (2020) emphasize that control activities must be embedded in every level of the organization to effectively mitigate risk. Whether it is through automated controls, such as system checks, or manual reviews, control activities serve as safeguards that maintain the reliability and accuracy of financial reporting.

Another key aspect of internal control is information and communication, which ensures that relevant information flows effectively within the organization which includes disseminating policies, providing training, and ensuring that all staff understand their roles in maintaining the internal control system (Otoo, Kaur, & Nissar, 2023). As elaborated by Nocco and Stulz (2019), transparent communication about controls and procedures is essential for promoting awareness and compliance across the organization. Moreover, effective internal communication strengthens the monitoring process, ensuring that potential issues are promptly addressed and corrective actions are taken.

2.1.3 Financial Performance

Financial performance is a key metric used to evaluate how well an organization utilizes its assets to generate revenue and fulfil its financial obligations (Fatihudin, Jusin, & Mochklas, 2018). Scholars often define financial performance as the ability of an organization to meet both short-term and long-term obligations while ensuring sustainability (Rahi, Akter, & Johansson, 2022).

One of the primary dimensions of financial performance is an organization's ability to meet its financial obligations, both short-term and long-term (Li, et al., 2020). This ability is crucial because it directly impacts the organization’s credibility and its relationships with creditors, investors, and suppliers. Studies have suggested that liquidity ratios, such as the current ratio and quick ratio, are essential for determining an organization’s capacity to meet its immediate liabilities (Mahapatra & Raveendran, 2020).

Organizations are expected to maintain sufficient financial reserves to ensure stability and mitigate risks associated with economic downturns (Alwadeai, et al., 2024). According to Kipesha and Xun (2020), prudent financial management entails striking a balance between investing in business activities and keeping enough reserves to cushion against financial shocks. A strong reserve policy is often an indicator of sound financial performance.

Revenue generation is central to an organization’s financial performance, as it provides the resources necessary for fulfilling financial obligations and sustaining operations (Perger & Hecker, 2023). Profitability ratios, including net profit margin, return on assets (ROA), and return on equity (ROE), are key indicators of an organization’s efficiency in generating income from its assets (Wahab & Rahman, 2021).

2.2 Theoretical Framework

This study considered the Agency Theory and the Resource Dependency Theory.

2.2.1 Agency Theory

The Agency theory formulated by economists Michael Jensen and William Meckling in 1976. This theory explains the relationship between owners as principals and management as agents in corporate organizations. Agency theory has been used in various disciplines to analyze principal-agent problems or organizational governance mechanisms (Bendickson, et al., 2016). In the context of secondary schools, the school management acts as the agent, while stakeholders such as government bodies, parents, and the community function as the principals (Kivistö & Zalyevska, 2015). This theory is pertinent to understanding how the budgeting process, as a management tool, impacts financial performance when mediated by internal controls (Namazi, 2013). The principal-agent relationship can lead to issues such as moral hazard and adverse selection, where agents may not act in the best interest of principals. Effective internal controls mitigate these issues by establishing checks and balances that ensure transparency, accountability, and alignment of the management's actions with the school's financial goals (Zejnullahu, 2021). By enforcing robust internal controls, schools can enhance their budgeting processes, leading to improved financial performance. Thus, the application of agency theory in this study highlights the crucial role of internal controls in resolving principal-agent conflicts, ensuring effective budget utilization, and ultimately enhancing the financial health of secondary schools.

2.2.2 Resource Dependency Theory

The Resource Dependency Theory was developed by Pfeffer and Salancik in 1978. The theory posits that organizations must secure and manage external resources to survive and thrive, emphasizing the dependency on these external resources for achieving organizational goals. In the context of secondary schools, resource dependency theory highlights the critical role that external financial resources (such as government funding, donations, and grants) play in the budgeting process (Fowles, 2014). Internal controls are essential mechanisms that ensure these resources are effectively and efficiently utilized (Otoo, Kaur, & Rather, 2023). According to this theory, the dependency on external resources necessitates stringent internal controls to manage and optimize the use of these funds, thereby mitigating risks associated with resource dependency, such as misallocation and financial mismanagement (Coşkun & Öztürk, 2023). By implementing robust internal controls, schools can enhance the reliability and accuracy of their budgeting processes, ensuring that financial resources are aligned with educational objectives and regulatory requirements. This, in turn, positively impacts financial performance by promoting transparency, accountability, and prudent financial management. Thus, resource dependency theory provides a framework for understanding how internal controls mediate the relationship between budgeting processes and financial performance, emphasizing the strategic management of external resources to achieve financial stability and educational success.

2.3 Empirical Review

2.3.1 Effect of Budgeting Process on the Financial Performance

Uthayakumar and Yapa (2023) examined how budgetary processes affect the financial performance of Sri Lankan companies listed on the Colombo Stock Exchange. The study collected data from a sample of 100 companies spanning multiple sectors. The researchers used a five-point Likert scale to evaluate the extent of budgetary processes, with responses provided by 100 managers, each representing their respective company. The findings indicated a weak but positive relationship between budgetary processes and financial performance. Furthermore, all budgetary process variables, except for budgetary control, were found to have a significant impact on financial performance across different industries.

Irumba and Alinaitwe (2019) examined the impact of budgetary processes on the financial performance of select Savings and Credit Cooperative Societies (SACCOs) in Uganda's Hoima District. The study focused on seven prominent SACCOs chosen from the district's registered list. Using a quantitative approach, data was gathered through self-administered questionnaires. The research employed a descriptive correlational and cross-sectional survey design, with a sample of 136 respondents selected through proportionate stratified and simple random sampling techniques. The regression analysis indicated that financial performance in these SACCOs is influenced by budgetary planning and budgetary control processes.

Mligo and Maseko (2022) also investigated the effect of budgetary process on the Financial Performance of Commercial Banks in Tanzania. The descriptive survey was used whereas randomly sampling was used to secure 95 respondents. Survey, interview and documentary review were used to collect data meanwhile descriptive and multiple regressions were used in data analysis. The results showed that budgetary process had positive and significant effect of financial performance of Commercial Banks. The researchers thereafter made their recommendations that that budgetary process should be enhanced through an increased participation with robust internal controls.

The study by Wamungu and Twesige (2023) explored the effect of effect of budgeting practices on financial performance of hospitality sectors of Rwanda. The researchers used questionnaires to collect data from a sample of 60 respondents. Both primary and secondary data were used to get all information needed in this study. The quantitative data was analyzed using descriptive and inferential statistics after running the data collected through the Statistical Package for Social

Sciences (SPSS). Results revealed that that participatory budgeting has a positive and significant effect on financial performance in the hospitality sector. The researchers thereafter recommended that there is need for the hospitality sectors to leverage the aspect of budget control in their polices for these were found to significantly influence their financial performance.

2.3.2 Effect of Internal Controls on Financial Performance

In the study conducted by Asiligwa and Rennox (2017) investigated the effect of internal controls on financial performance of commercial banks in Kenya. Internal Controls were measured using the five elements of internal control as stipulated by the Committee of Sponsoring organizations of Treadway Commission framework of internal controls. A descriptive research design was adopted due to its ability to describe the relationship between elements of Internal Controls and Financial Performance. The study used the 43 commercial banks in Kenya. Primary data was collected using a structured questionnaire. Descriptive statistics obtained from data analysis were presented using frequency tables, while inferential data findings were presented using correlation and regression tables. The study findings revealed that the banking sector enjoys a strong financial performance partly because of implementing and maintaining effective internal controls.

Musah, Padi, and Okyere, et al. (2022) studied the effect of the major component of an internal control system according to the COSO framework on the financial performance of SMEs registered with the Association of Ghana Industries (AGI) in Ghana. The study further examined the moderating role of corporate governance practice on the relationship between the components of the internal control system and the financial performance of SMEs registered with AGI. The study surveyed 300 SMEs registered with AGI in Ghana using a questionnaire as the main instrument of data collection. The data were analysed using Pearson correlation analysis and hierarchical regression analysis to achieve the objectives. he results of the study showed that all the five major components of the internal control system (control environment, control activities, risk assessment, information, and communication and monitoring) have a positive and significant relationship with the financial performance of SMEs registered with AGI. The study further revealed that effective corporate governance practice moderates the relationship between all five components of the internal control system and the financial performance of SMEs registered with AGI in Ghana.

Kabuye, Kato, and Akugizibwe, et al. (2019) did a study on the contribution made by the internal control systems and working capital management on financial performance of supermarkets. This study was cross-sectional and correlational, and it used firm-level data that were collected by means of a questionnaire survey from a sample of 110 supermarkets in Uganda. Contrary to previous thinking internal control systems do not significantly predict financial performance. This study focuses on supermarkets in Uganda, and it is possible that these results are only applicable to the supermarkets. More research is therefore needed to further understand the contribution of the internal control systems on financial performance in other sectors.

2.4 Summary of Literature Review with Identified Gap

The existing literature on financial management extensively explores the relationships between internal controls and financial performance, as well as between budgeting processes and financial performance. Studies have demonstrated that effective internal controls are crucial for ensuring accurate financial reporting, preventing fraud, and enhancing overall financial stability (COSO, 2013; Bhat, 2023; Hamed, 2023). Similarly, research indicates that comprehensive and strategic budgeting processes significantly contribute to improved financial performance by aligning resource allocation with organizational goals and ensuring financial discipline (Masakala, Omol, Wauyo, & Okumu, 2017).

However, despite the abundant research on these individual relationships, there is a notable gap in the literature concerning the mediating role of internal controls in the relationship between budgeting processes and financial performance. This gap is particularly pronounced in the context of rural secondary schools in Uganda. Rural schools often face unique challenges such as limited financial resources, inadequate financial management training, and weaker oversight mechanisms (Yizengaw, Agegnehu, & Ehmke, 2021). These challenges underscore the importance of examining how internal controls can enhance the effectiveness of budgeting processes in improving financial performance in these settings.

Addressing this gap is crucial as it provides a more nuanced understanding of how internal controls can optimize budgeting processes to achieve better financial outcomes, especially in resource-constrained and oversight-limited environments. By focusing on the mediating effect of internal controls, this study aims to contribute to the body of knowledge by providing insights that can inform policy and practice, ultimately improving the financial management and sustainability of rural secondary schools in Uganda.

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CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter deals with methods and procedures that were employed in obtaining information in line with the study. It covers research design, study population, sample size and selection, sampling technique, data collection tools, data analysis, validity and reliability as well as ethical issues consideration.

3.1 Research Design

Saunders, Lewis, and Thornhill (2009) describe a research design as the organization of conditions for data collection and analysis, aiming to balance relevance to the research objectives with efficiency in execution. This study used a descriptive correlational research design, which Kothari (2003) identifies as an effective tool for quantitative analysis. This design was chosen because to allow the researcher to describe the research area and analyze the collected data to explore differences and similarities within a set timeframe. Additionally, this method facilitated data collection from respondents in natural settings, resulting in the presentation of data in various formats, such as text, images, charts, or tables. This design gave the researcher a comprehensive picture of the variables under investigation. In the study, the design was used to answer questions pertaining the mediating effect of internal controls on the relationship between the budgeting process and financial performance of selected secondary schools in Kumi District, Uganda.

3.2 Study Population

The study population comprised of 165 elements. The head teachers, deputy head teachers, heads of departments, bursars, and subject teachers. The population also included the support staff because they were as well stakeholders in the budgeting process. The study population is indicated in table 3.1 below.

Table 3.1: Study Population

SCHOOL	H/Teacher	D/H/Teacher	DoS	HOD	Subject Teachers	Support Staff	TOTAL
Dr. Aporu Okol Mem. Sec. Sch.	1	1	1	12	18	5	38
Kumi Seed Secondary School	1	1	1	14	15	7	39
Atutur Seed Secondary School	1	2	2	5	17	9	36
Wiggin Secondary School	1	2	3	14	24	8	52
TOTAL	**4**	**6**	**7**	**45**	**74**	**29**	**165**

Source: District Education Officer (2024)

3.3 Sample Size and Selection

The study was based on a sample size of 165 that was obtained using census method as indicated in table 3.2 below.

Table 3.2: Population, Sample Size and Sampling Techniques

Category	Target Population	Sample Size	Sampling Technique
Headteacher	4	4	Census method
Deputy Headteacher	6	6	Census method
Director of Studies	7	7	Census method
Heads of Departments	45	45	Census method
Subject teachers	74	74	Census method
Support Staff	29	29	Census method
Total	**165**	**165**	

Source: District Education Officer (2024)

3.4 Sampling Technique

Kothari (2004) explains that sampling techniques are procedures the researcher adopted in selecting items for the sample. The researcher used census method in this research.

According to Mugenda and Mugenda (1999) noted that census sampling focused on particular characteristics of a population that are of interest, which best enable the researcher to answer the research questions.

3.5 Data Collection Tools

To achieve the objective of the study the researcher used only questionnaire in order to obtain information from respondents.

3.5.1 Questionnaire

For an easy understanding and reading, the questionnaires was designed in English language. The questionnaire was given to all respondents selected to participate in the study. It consisted of four sections name; (1) Demographic Information, (2) Budgeting Process, (3) Internal Control; and (4) Financial Performance.

The instrument was based on a 5-point Likert scale with alternatives ranging from strongly Agree=SA, Agree=A, Neutral =N, Disagree=D, and Strongly Disagree=SD. As advised by Saunders, et al. (2012), by using this tool, confidentiality of respondents was guaranteed.

3.6 Reliability and Validity

3.6.1 Reliability

Reliability refers to the dependability of the research findings that they can be repeated either by the researcher or by other researchers using similar research methods or procedures (Cooper &

Schindler (2014). Similarly, Creswell (2003) described the reliability of the instruments as the degree of consistency that the instruments or procedure establishes. Reliability test is conducted to know whether the data of the research is free of random, bias, and error data. The researcher pre-tested the research instrument before it was administered to the sampled respondents in the main study. The importance of the pilot study was to determine probable weaknesses (errors) in the research instrument so that measures of minimizing the identified errors could be affected. This was achieved by testing the reliability of the instrument using pilot testing in the study area. Moreover, the reliability of a standardized test was usually expressed as a correlation coefficient, which measured the strength of association between variables. Typically, a Cronbach's alpha value of above 0.7 was considered to offer reasonable reliability for research purposes.

3.6.2 Validity

Validity refers to the degree of success for an instrument in measuring what it is set out to measure so that differences in individual scores can be taken as representing true references in the characteristics under study (Creswell, 2003). Whereas, Cooper and Schindler (2014) defined validity as the extent to which a test measures what we actually wish to measure. A pilot study was conducted to refine the methodology and test instrument i.e., questionnaire before administering the final phase. Questionnaires was tested on potential respondents to make the data collecting instrument's objective, relevant, suitable to the problem and reliable. Issues that were raised by respondents were corrected and the questionnaires was refined.

3.7 Data Collection Procedures

The researcher asked for an introduction letter from the Dean Faculty of Management Sciences, which introduced him to the relevant authorities at selected secondary schools in Kumi District for permission. Informed consent was sought from the respondents and the purpose of the information was clearly explained before administering the questionnaires. Data from questionnaire was sorted and arranged for presentation.

3.8 Data Presentation and Analysis

Data obtained from the field was edited, classified, tabulated and coded before it was captured for analysis. The researcher cleaned data by exploring mean and standard deviations until the data was fit for analysis. Data was then analyzed using Statistical Package for Social Sciences (SPSS version 20) from which descriptive and inferential statistics were obtained. Descriptive statistics constituted frequency tables to interpret the demographic characteristics. Inferential statistics comprised correlation and regression analyses. Correlation determined the nature of the relationship between variables (positive or negative). Regression was used to explore the degree of variability of the studied variables towards explaining variances in the dependent variable..

3.9 Ethical Considerations

In conducting this study, ethical issues were primarily considered. Before conducting the data collection all the necessary information about the study was provided to the sample respondents, i.e., who is conducting the study, for what purpose, and the like. This helped them to decide whether or not to participate in this study. They were also notified that their participation in the study was in a voluntary; they were not harmed as a result of their participation or non-participation in the study. They were aware that anonymity and confidentiality of their response was guaranteed.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the analysis of data collected from respondents and discusses the findings of the study. The first section presents the response rate which is followed by the biographical information of the respondents. Thereafter, the results of hypotheses testing and the mediation results of the study are presented.

4.1 Response Rate

From Table 4.1 below, study findings indicate that 165 (one hundred sixty-five) questionnaires were administered to the study participants of which 134 (one hundred thirty-four) questionnaires were filled and returned to the researcher implying a response rate of 81% which is beyond the 50% threshold as proposed by Saunders and Lewis (2009) that a response rate above 50% is acceptable with the fact that it adequately represents the study sample and yield valid results.

Table 4.1: Response Rate

Entrustment	Frequency	Percentage Rate (%)
Questionnaires Administered	165	
Questionnaires filled and returned	134	81%
Questionnaires not returned	31	19%

Source: Primary data (2024).

4.2 Presentation of Findings, Analysis and Interpretation

4.2.1 Demographic Composition of Study Respondents

Under this subsection, the researcher analyzed demographic characteristics of the study respondents comprising of gender, age group, education, and level of experience as indicated in table 4.2.

Table 4.2: Demographic Composition of Respondents

	Frequency (n = 134)	**Percentage (%)**
Gender of Respondents		
Male	91	67.9
Female	43	32.1
Age of Respondents		
21 – 30yrs	39	29.1
31 – 40yrs	51	38.1
41 – 50yrs	33	24.6
51 – 60yrs	11	8.2
Above 60yrs	00	0.00
Education Level of Respondents		
Master’s Degree	08	6.1
Bachelor’s Degree	69	52.3
Diploma	55	41.7

Source: Primary data 2024

Table 4.2 shows that 91 (67.9%) of the respondents were male while 43 (32.1%) were female. This implies that all the genders were equally represented in the study. In addition, table 4.2 also demonstrates that majority of the respondents 51 (38.1%) fall within the age group 31 – 40yrs while 39 (29.1%) were within the age group 21 - 30years, and 33 (26.4%) were within the age group 41 – 50years. Also, 11 (8.2%) of the respondents were within the range of 51 - 60yrs and none was above 61 years. It was generally observed that majority of the respondents were between 31 – 40yrs and above although all the age groups were given equal opportunities to participate in the study which implied that all targeted respondents were vital for the study.

Table 4.2 also shows that, 69 (52.3%) of the respondents had completed bachelor's degree, whereas 55 (41.7%) had completed diploma and 8 (6.1%) had completed master's degree. The study therefore revealed that all respondents accomplished a significant level of education which also implies that answers obtained by questionnaire were independent and reasonable. This means that secondary schools in Kumi District Local Government employ qualified staff with enough knowledge to deliver quality instruction to students.

4.2.2 Descriptive Statistics

The study conducted the descriptive statistics of budgeting process, internal control and financial performance to establish if the data was drawn from a normally distributed population using mean values and standard deviation. The results are indicated in table 4.3

Table 4.3: Descriptive Statistics

Variable	N	Min.	Max.	Mean	Std. Deviation
Budgeting Process	134	1	5	3.97	0.880
Internal Control	134	1	5	3.36	1.128
Financial Performance	134	1	5	4.28	0.812

Source: primary data (2024)

From Table 4.3 above, study findings revealed that majority of the study participants seem to have agreed with the statements raised concerning the study variables as evidenced with the appropriate mean and standard deviation values that is to say budgeting process had a mean value of (3.97) and standard deviation value of (0.880); Internal Control had a mean value of (3.36) and standard deviation value of (1.128) whereas financial performance had a mean value of (3.28) and standard deviation value of (0.812).

4.2.3 Correlation Analysis

Correlation analysis was done to determine the extent and direction of the relationship between study variables (Bhandari, 2020). In this regard, Pearson's Correlation coefficient was used to ascertain the likely presence of linear relationship between budgeting process (independent variable), internal control (mediating variable) and financial performance (dependent variable) as showed in Table 4.4 below;

Table 4.4: Correlation Analysis

		Budgeting	Internal Control	Financial Performance
Budgeting	Pearson Correlation	1		.319**
	Sig. (2-tailed)			.000
	N	134		134
Internal Control	Pearson Correlation	.354**	1	.334**
	Sig. (2-tailed)	.000		.000
	N	134	134	134
Financial Performance	Pearson Correlation	.319**	.334**	1
	Sig. (2-tailed)	.000	.000	
	N	134	134	134

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

Findings in table 4.4 indicates that there exists a significant relationship between the budgeting process and financial performance of secondary schools in Kumi District because the Pearson's correlation coefficient r = .319** significant at 0.01 (99% confidence level) as the value of 0.000 is less than 0.05.

The findings also indicate there is a significant relationship between internal control and financial performance of secondary schools in Kumi District because the Pearson's correlation coefficient is r = 0.334**significant at 0.01 (99% confidence level) as the value of 0.01 is less than 0.05.

Results in table 4.4 also show that there is significant relationship between the budgeting process and internal control practices of secondary schools in Kumi District where the Pearson's correlation coefficient r = 0.354**significant at 0.01 (99% confidence level) as the value of 0.01 is less than 0.05.

4.2.4 Regression Analysis

4.2.4.1 Effect of Budgeting Process on Financial Performance

Hypothesis one stated that the budgeting process has no significant effect on the financial performance of secondary schools in Kumi District.

In order to determine the effect of budgeting process on the financial performance of secondary schools in Kumi, a regression analysis was performed and the results are indicated in table 4.5.

Table 4.5: Effect of Budgeting Process on Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.146	1.095		5.613	.000
	Budgeting	.879	.364	.264	2.417	.000

a. Dependent Variable: Financial Performance

As indicated in table 4.5, the regression results support the alternative hypothesis that there is a significant effect of budgeting process on the financial performance of secondary schools in Kumi District ($\beta = .879$, $t = 2.417$, $p<0.0001$). This was measured by the extent to which the schools involve staff in the initial stages of budget planning, include input from all relevant departments, and that the process aligns with the educational priorities of the school along with effective systems in place for tracking budget expenditures. The implication here is that the budgeting process is strong predictor in the financial performance of secondary schools in Kumi District. In this respect therefore, the study rejected the null hypothesis and accepted the alternative hypothesis.

4.2.4.2 Effect of Internal Controls on Financial Performance

Hypothesis two stated that there is no significant effect of internal controls on the financial performance of secondary schools in Kumi District.

In order to determine the effect of internal controls on the financial performance of secondary schools in Kumi, a regression analysis was performed and the results are indicated in table 4.5.

Table 4.6: Effect of Internal Controls on Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.342	1.123		2.959	.000
	Internal Controls	.371	.374	.112	1.993	.000

a. Dependent Variable: Financial Performance

As indicated in table 4.6, the regression results support the alternative hypothesis that there is a significant effect of internal controls on the financial performance of secondary schools in Kumi District (β = .371, t = 1.993, $p<0.0001$). This was measured by the extent to which the schools have clear organizational structures with defined roles and responsibilities, have procedures in place to ensure that transactions are authorized and properly recorded, regularly reconcile their financial records with bank statements and that internal audits are conducted periodically to evaluate compliance with internal controls. The implication here is that the internal controls are a strong predictor in the financial performance of secondary schools in Kumi District. In this respect therefore, the study rejected the null hypothesis and accepted the alternative hypothesis.

4.2.4.3 Testing for the Mediating Effect of Internal Controls on the Relationship between the Budgeting Process and Financial Performance of Secondary Schools in Kumi District

The study tested the mediating effect of internal controls on the relationship between the budgeting process and financial performance of secondary schools in Kumi District. According to Baron and Kenny (1986) testing for mediation involves fulfilling four (4) major conditions. These conditions include; the independent variable must significantly predict the dependent variable, the independent variable must have a significant relationship with the mediating variable, the mediating variable must have a significant correlation with the dependent variable and lastly the effect of the independent variable on the dependent variable must be less upon introduction of the mediator variable in the third regression model.

Following four steps of Baron and Kenny (1986), regression analysis was tested to conclude the mediating effect of internal controls on the relationship between the budgeting process and financial performance.

In table 4.5 the regression analysis result indicates that the budgeting process significantly predicts financial performance with ($\beta = .879$, $t = 2.417$, $p<0.0001$). Therefore, the first step of Baron and Kenny (1986) mediation analysis is tested and passed.

Regarding second step, regression results in table 4.6 indicates that the budgeting process significantly correlates with the mediator variable internal controls with ($r = 0.354^{**}$, $p=0.000$). So, the second step of Baron and Kenny (1986) was met.

The third regression result in table 4.6 and table 4.7 indicates that the mediator variable internal controls has a significant effect on the financial performance of secondary schools in Kumi both in the presence and absence of independent variable (budgeting process) with (β= .176, p=0.003) and (β=.371, p=0.000) Therefore, this is statistically significant and the 3rd step of Baron and Kenny (1986) was met.

Table 4.7: Regression Testing for the Mediating Effect of Internal Controls

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.481	1.332		3.363	.001
	Budgeting Process	.804	.382	.242	2.103	.000
	Internal Controls	.176	.183	.353	1.071	.003

a. Dependent Variable: Financial Performance

The fourth condition states that after the mediator is entered in the regression model, the relationship between the independent and dependent variables should either disappear (full mediation) or significantly diminish (partial mediation) Baron and Kenny (1986). In this research the regression coefficient shows a change and reduction by (β = .75) but not zero. Therefore, partial mediation is observed and the fourth condition of Baron and Kenny (1986) was met and supported the 4th hypothesis which says that the mediating effect of internal controls on the relationship between the budgeting process and financial performance of secondary schools is Kumi district is significant.

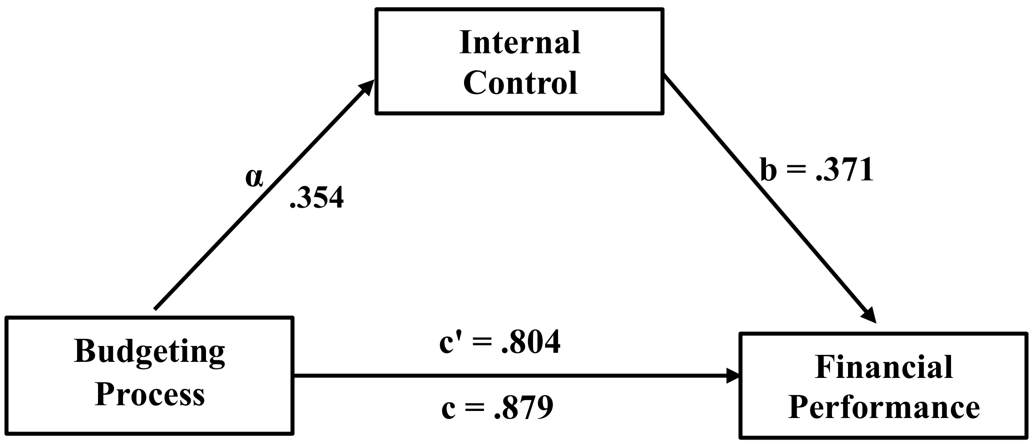
In fact, the model summary in table 4.8 also concludes the findings that the budgeting process and internal controls have a significant effect on the financial performance of secondary schools in Kumi District with an Adjusted R^2 = .608.

Table 4.8. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.789[a]	.623	.608	.78941

a. Predictors: (Constant), Budgeting, Internal Control

Figure 2: Med-Graph testing mediating effect of internal control in the relationship between budgeting process and financial performance



4.3 Summary of Hypothesis Testing

The study was premised on four hypotheses which were statistically tested to establish whether the study findings supported or rejected the hypotheses as indicated in table 4.9.

Table 4.9: Hypotheses Tested

Hypothesis Code	Tested Hypothesis	Result
H_{01}:	There is no significant effect of budgeting process on the financial performance of secondary schools in Kumi District.	Rejected
H_{02}:	There is no significant effect of internal controls on the financial performance of secondary schools in Kumi District.	Rejected
H_{03}:	There is no significant relationship between internal controls and the budgeting process of secondary schools in Kumi District.	Rejected
H_{04}:	There is no mediating effect of internal controls in the relationship between the budgeting process and financial performance of secondary schools in Kumi District.	Rejected

CHAPTER FIVE

DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion, conclusion, and recommendations based on the findings of the study as highlighted in the previous chapter. The chapter is arranged into five subsections: a) Discussions related to the research objectives; b) conclusion, c) recommendations; d) the limitations of the study, and e) areas for further study.

5.1 Discussion of Findings

Under this section, the findings of the study are discussed based on research objectives as observed below;

5.1.1 Effect of Budgeting Process on Financial Performance

The study's results indicate that the budgeting process significantly influences the financial performance of secondary schools in Kumi District, as evidenced by a strong beta coefficient ($\beta = .879$) and a statistically significant t-value ($t = 2.417$, $p < 0.0001$). This suggests that the more effectively a school manages its budgeting process, the better its financial outcomes are likely to be. The findings align with existing literature, which emphasizes that a well-structured budgeting process is critical for ensuring financial stability and resource optimization in educational institutions (Owusu-Mensah, 2021). The strong relationship highlights the importance of meticulous planning and the need for schools to invest in robust budgeting practices to enhance financial performance.

Involving staff in the initial stages of budget planning was identified as a key component of the budgeting process. This practice fosters a sense of ownership and accountability among staff, which can lead to more prudent financial management and better alignment of budgetary allocations with the school's needs. Research by Nsubuga (2021) supports this, noting that when teachers and administrative staff contribute to budget planning, they are more likely to adhere to the budget and monitor expenditures closely. This involvement ensures that the budget reflects the on-the-ground realities of the school, making it more effective and realistic in addressing the school's financial needs.

Another critical aspect of the budgeting process is the inclusion of input from all relevant departments, which ensures that the budget is comprehensive and considers all areas of the school's operations. By incorporating insights from various departments, schools can create a more balanced budget that addresses both academic and non-academic needs. This approach reduces the likelihood of budgetary oversights and promotes equitable resource distribution, which is crucial for maintaining the overall financial health of the school. According to Okello (2022), comprehensive departmental input is essential for creating budgets that are both realistic and flexible, allowing schools to adapt to unforeseen financial challenges.

Aligning the budgeting process with the educational priorities of the school is another significant factor contributing to improved financial performance. Schools that ensure their budgets reflect their core educational goals are more likely to allocate resources effectively, enhancing their ability to achieve desired educational outcomes. This alignment ensures that financial resources are directed toward areas that will directly impact student learning and school performance, thereby optimizing the use of funds. As noted by Tumusiime (2021), a budget that is closely aligned with educational priorities is more likely to yield positive financial and academic results, as it ensures that spending is targeted and strategic.

Finally, effective systems for tracking budget expenditures play a crucial role in ensuring that the budgeting process positively impacts financial performance. These systems enable schools to monitor spending in real-time, identify variances, and make necessary adjustments promptly. The ability to track expenditures closely helps prevent budget overruns and ensures that funds are used as intended, which is critical for maintaining financial discipline. A study by Mukisa (2023) found that schools with robust expenditure tracking systems were better able to manage their finances, reduce waste, and improve their overall financial outcomes. This finding underscores the importance of investing in financial management systems that support the budgeting process and enhance financial performance.

5.1.2 Effect of Internal Controls on Financial Performance

The study demonstrates that internal controls have a significant impact on the financial performance of secondary schools in Kumi District, as indicated by the beta coefficient ($\beta = .371$) and a statistically significant t-value ($t = 1.993$, $p < 0.0001$). This finding underscores the crucial role that robust internal control systems play in ensuring financial efficiency and integrity within educational institutions. The positive relationship between internal controls and financial performance suggests that schools with stronger internal control mechanisms are better equipped to manage their financial resources effectively, thereby improving their overall financial health (Kato & Mulungi, 2021).

One key aspect of internal controls is the establishment of clear policies and procedures that guide financial operations within schools. When schools have well-documented procedures for managing finances, they reduce the risk of errors and fraud, ensuring that financial transactions are carried out in a consistent and transparent manner. According to Nambassa (2022), schools that implement comprehensive financial policies are more likely to achieve better financial outcomes, as these policies provide a framework for accountability and oversight. This finding highlights the importance of having clear internal controls that guide financial practices and support the achievement of financial goals.

Another critical element of internal controls is the segregation of duties, which helps to prevent fraud and errors by ensuring that no single individual has control over all aspects of a financial transaction. In the context of secondary schools, segregating responsibilities for tasks such as authorization, record-keeping, and reconciliation can significantly reduce the risk of financial mismanagement. Research by Ainebyoona (2021) supports this view, noting that schools with well-defined segregation of duties experience fewer instances of financial irregularities and are more likely to maintain financial stability. This approach not only enhances financial performance but also strengthens the overall governance of the school.

The study also highlights the importance of regular financial audits as a component of internal controls. Audits provide an independent assessment of a school’s financial practices, identifying areas of weakness and recommending improvements. Schools that conduct regular audits are better positioned to detect and correct issues before they escalate, thereby safeguarding their financial resources. A study by Okot (2023) found that secondary schools that prioritized regular financial audits experienced fewer financial discrepancies and improved financial performance. This finding reinforces the need for schools to invest in regular audits as a means of maintaining strong internal controls and enhancing financial outcomes.

Lastly, the monitoring and review of internal controls are essential for ensuring their effectiveness over time. Schools must regularly assess their internal control systems to ensure they remain relevant and effective in the face of changing circumstances. Continuous monitoring allows schools to identify emerging risks and adjust their controls accordingly, which is critical for sustaining financial performance. According to Tumwesigye (2022), schools that actively monitor and update their internal control systems are more resilient to financial challenges and better able to achieve their financial objectives. This finding emphasizes the dynamic nature of internal controls and the need for ongoing vigilance to maintain their effectiveness.

5.1.3 Budgeting Process and Internal Controls

The study's results indicate a significant relationship between the budgeting process and internal controls in secondary schools in Kumi District, as demonstrated by a correlation coefficient ($r = .354^{**}$, $p < 0.0001$). This strong correlation suggests that the effectiveness of the budgeting process is closely linked to the strength of internal controls within these schools. Schools that implement robust budgeting processes are likely to have stronger internal controls, which in turn enhances their overall financial management and governance. The findings align with existing research, which underscores the importance of integrating budgeting and internal controls to achieve sound financial management in educational institutions (Nsubuga & Kato, 2022).

A well-structured budgeting process contributes to the development and maintenance of effective internal controls by ensuring that all financial activities are planned, monitored, and evaluated systematically. When a school's budget is developed with input from various departments and stakeholders, it creates a framework for accountability and transparency, which are essential components of internal controls. According to Tumwesigye (2021), schools that engage in participatory budgeting are more likely to implement strong internal controls because the inclusive process fosters a culture of accountability and oversight.

The significant relationship between budgeting and internal controls also reflects the role of budgeting in risk management. A detailed and carefully monitored budget helps schools identify potential financial risks early and implement controls to mitigate these risks. For instance, budget variances can signal areas where controls may be weak or where financial practices may need to be adjusted. Nambassa (2022) notes that schools with comprehensive budgeting processes are better equipped to detect and address financial anomalies, thereby strengthening their internal controls and reducing the risk of fraud or mismanagement.

Furthermore, the correlation between the budgeting process and internal controls suggests that schools with rigorous budget tracking and evaluation mechanisms tend to have more effective internal controls. Continuous monitoring of budget performance allows schools to adjust their internal controls as needed to ensure they remain effective. For example, if a school identifies that certain expenditures are consistently over budget, it can review and strengthen the related internal controls to prevent future overspending. Okot (2023) emphasizes the importance of ongoing budget evaluation in maintaining effective internal controls, as it ensures that financial practices are aligned with the school's financial objectives.

Finally, the study's findings highlight the reciprocal nature of the relationship between budgeting and internal controls. While a robust budgeting process can enhance internal controls, strong internal controls, in turn, support the successful implementation of the budget. Effective internal controls ensure that the budget is followed, expenditures are properly authorized, and resources are used efficiently, all of which contribute to achieving the school's financial goals. This interconnectedness underscores the need for schools to view budgeting and internal controls as complementary processes that together ensure financial stability and integrity (Ainebyoona & Kato, 2021).

5.1.4 Budgeting Process, Internal Controls and Financial Performance

The findings indicate that internal controls partially mediate the relationship between the budgeting process and the financial performance of secondary schools in Kumi District. This is evidenced by the regression coefficient showing a reduction from its initial value to $\beta = .75$, but not reaching zero. This suggests that while internal controls have a significant influence, they do not completely account for the relationship between the budgeting process and financial performance. The persistence of a substantial β value indicates that the budgeting process itself still plays a direct role in shaping financial performance outcomes.

These findings align with recent research conducted by Yeboah and Agyei-Mensah (2021), who explored the role of internal controls in the financial management of educational institutions. Their study also found that internal controls serve as a critical factor in ensuring effective financial performance, particularly in environments where the budgeting process is closely monitored and regulated. However, similar to the present study, they concluded that while internal controls enhance financial outcomes, they do not entirely eliminate the direct impact of the budgeting process.

Further supporting this, Adekunle and Olatunji (2022) investigated the mediating role of internal controls in Nigerian secondary schools and found that internal controls improved the transparency and accountability of the budgeting process, leading to better financial performance. However, like the current study in Kumi District, they noted that the budgeting process still had a direct and significant impact on financial outcomes, independent of internal controls. Their research underscores the importance of having a robust budgeting process alongside strong internal controls.

Additionally, a study by Kamau and Njeru (2023) on Kenyan schools revealed a similar pattern. They found that while internal controls played a crucial role in mitigating financial mismanagement and promoting better financial performance, the budgeting process itself remained a primary determinant of financial success. The partial mediation effect noted in their study is consistent with the reduction in the regression coefficient observed in the current research, reinforcing the notion that both internal controls and the budgeting process are vital but distinct contributors to financial performance.

The findings from Kumi District are consistent with a broader body of recent research that highlights the partial mediating role of internal controls in the relationship between budgeting processes and financial performance in educational institutions. This suggests that while internal controls are essential for enhancing financial outcomes, the budgeting process itself retains a significant direct influence on financial performance. Therefore, schools should not only focus on strengthening internal controls but also on refining their budgeting processes to achieve optimal financial results.

5.2 Conclusion

5.2.1 Effect of Budgeting Process on Financial Performance

The budgeting process plays a critical role in shaping the financial performance of secondary schools in Kumi District. Effective budgeting ensures that resources are allocated efficiently, allowing schools to meet their financial obligations, improve infrastructure, and enhance the overall quality of education. Schools that adopt a participatory and transparent budgeting approach are better positioned to optimize their financial resources, leading to improved academic outcomes and sustainability. Conversely, poor budgeting practices, characterized by inadequate planning, lack of stakeholder involvement, and insufficient financial controls, can lead to resource mismanagement, financial shortfalls, and a decline in educational standards. Therefore, it is imperative for secondary school administrators in Kumi District to prioritize sound budgeting practices as a fundamental aspect of their financial management to ensure the long-term viability and success of their institutions.

5.2.2 Effect of Internal Controls on Financial Performance

Internal controls are crucial in determining the financial performance of secondary schools in Kumi District. Robust internal controls, including proper authorization of expenditures, accurate financial record-keeping, regular audits, and clear separation of duties, ensure that school resources are managed efficiently and safeguarded against misuse. Schools that implement strong internal controls are better able to maintain financial stability, prevent fraud, and allocate resources effectively toward educational needs, leading to improved financial outcomes and overall institutional performance. Conversely, weak or absent internal controls can result in financial mismanagement, loss of funds, and diminished educational quality. Therefore, strengthening internal controls should be a priority for school administrators to enhance the financial health and sustainability of secondary schools in Kumi District.

5.2.3 Budgeting Process and Internal Controls

The study reveals a significant relationship between the budgeting process and internal controls in secondary schools in Kumi District. Effective budgeting processes are closely linked to the strength of internal controls, as well-structured budgets provide a framework for financial accountability and resource allocation. Schools with robust internal controls are better equipped to implement and adhere to their budgets, ensuring that funds are used efficiently and in alignment with educational goals. Conversely, weak internal controls can undermine the budgeting process, leading to financial discrepancies and mismanagement. Therefore, it is essential for secondary schools in Kumi District to integrate strong internal controls with their budgeting practices to achieve optimal financial performance and enhance educational outcomes.

5.2.4 Budgeting Process, Internal Controls and Financial Performance

The study highlights the significant role of internal controls in bridging the gap between the budgeting process and the financial performance of secondary schools in Kumi District. Although the budgeting process itself is a critical factor in determining financial success, its impact is only fully realized when complemented by strong internal controls. These controls act as a safeguard, ensuring that the budget is effectively implemented and financial resources are managed efficiently. As a result, schools that prioritize both a rigorous budgeting process and the implementation of robust internal controls are better positioned to achieve superior financial performance. This finding emphasizes the need for educational institutions to adopt an integrated approach to financial management, where internal controls and budgeting are not viewed in isolation but as interconnected elements that together drive financial stability and success.

5.3 Recommendations

From the findings of the study, the researcher made the following recommendations in line with the study.

5.3.1 Effect of Budgeting Process on Financial Performance

School administrators should undergo comprehensive training in budget planning and management. This training should focus on best practices for forecasting, allocating resources, and monitoring expenditures. By equipping administrators with advanced budgeting skills, schools can create more accurate and realistic budgets that align with their financial goals, ultimately improving financial performance.

Schools should adopt a participatory budgeting approach that involves input from key stakeholders, including teachers, parents, and community members. By engaging a broader group in the budgeting process, schools can ensure that the budget reflects the needs and priorities of the entire school community. This inclusiveness can lead to more effective allocation of resources and stronger financial outcomes.

Establishing a system for the regular monitoring and evaluation of budget performance is crucial. Schools should set up periodic reviews of budget adherence, identifying any discrepancies and taking corrective actions promptly. This continuous assessment will help schools stay on track financially, make informed adjustments, and ultimately improve their overall financial performance.

5.3.2 Effect of Internal Controls on Financial Performance

School staff, particularly those involved in financial management, should receive continuous training on internal control practices. This training should cover the importance of internal controls, how to implement them effectively, and how to recognize and address potential issues. Educating staff on the role of internal controls will empower them to contribute to stronger financial oversight and better financial performance for the schools.

Schools should invest in establishing and strengthening internal control systems that ensure transparency, accountability, and accuracy in financial transactions. This includes implementing checks and balances, such as regular audits, segregation of duties, and clear financial reporting protocols. By doing so, schools can prevent financial mismanagement and improve overall financial performance.

5.3.3 Budgeting Process and Internal Controls

Schools should formally integrate internal controls into every stage of the budgeting process. This includes setting up mechanisms for approving budget allocations, monitoring expenditures, and ensuring compliance with financial policies. By embedding internal controls within the budgeting process, schools can enhance financial discipline, reduce the risk of errors or fraud, and improve financial outcomes.

To ensure a cohesive approach to financial management, schools should establish clear and regular communication channels between the teams responsible for budgeting and those overseeing internal controls. This collaboration will allow for real-time adjustments to the budget based on feedback from internal control activities and ensure that the budget is being implemented effectively and within the set guidelines.

Provide ongoing training for both the budgeting and internal control teams to ensure they understand the interdependence of their roles. Training should focus on how effective internal controls can enhance the budgeting process and vice versa. By building the capacity of staff in these areas, schools can create a more robust financial management system that leverages the strengths of both budgeting and internal controls to achieve better financial performance.

5.3.4 Budgeting Process, Internal Controls and Financial Performance

Given that internal controls partially mediate the relationship between budgeting and financial performance, schools should identify and strengthen specific internal controls that have the greatest influence on financial outcomes. This includes controls related to expenditure tracking, procurement processes, and cash flow management. By bolstering these critical controls, schools can enhance the effectiveness of their budgeting efforts and improve overall financial performance.

Schools should establish a system for regularly evaluating both their internal controls and budgeting processes to ensure they are functioning effectively and contributing to desired financial outcomes. These evaluations should include assessing the alignment between internal controls and budgeting goals, identifying any gaps, and making necessary adjustments. Continuous improvement in both areas will help schools optimize their financial management practices and achieve better financial results.

5.4 Limitations of the Study

- The study was focused on secondary schools in Kumi District, which may have specific economic, cultural, and educational contexts. As a result, the findings may not be fully generalizable to other regions or educational systems with different characteristics. The researcher compared the results with similar studies from other regions and countries to highlight commonalities or differences hence allowing for assessment of how applicable the findings are to different settings.
- External factors such as government policies, economic conditions, or changes in funding could influence the financial performance of schools but were not accounted for in the study. These factors could confound the relationship between budgeting, internal controls, and financial performance. Future research was recommended to include these external factors in the analysis to provide a more comprehensive picture of the financial dynamics in schools.

5.5 Areas for Further Research

- Future research should compare the impact of budgeting processes and internal controls on financial performance across different regions or educational systems. This would help determine whether the findings from Kumi District hold true in other contexts and identify region-specific factors that might influence the relationship.
- Investigating how external factors such as government policies, economic conditions, or funding changes interact with internal controls and budgeting processes could provide a deeper understanding of the contextual influences on financial performance in schools.
- Research could explore how leadership styles and management practices within schools influence the effectiveness of budgeting processes and internal controls. This would help identify best practices in school management that lead to better financial outcomes.
- Researchers could explore the use of qualitative methods alongside quantitative ones to gain a richer understanding of the budgeting and internal control processes. Interviews, case studies, or focus groups could provide deeper insights into the challenges and successes of implementing these practices in schools.

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APPENDIX I

QUESTIONNAIRE FOR RESPONDENTS

Dear Respondent,

I am a student at Busitema University, pursuing a Master's degree in Public Administration. I am carrying out research on "*Budgeting Process, Internal Control and Financial Performance of Secondary Schools in Kumi District*". You have been selected as one of the respondents whose input will be of great value in this research process. You are therefore humbly requested to respond to the following questions. The information provided will be treated with utmost confidentiality and used only for this study.

SECTION A: RESPONDENT'S PERSONAL DATA

Please provide the information required by ticking in the appropriate box.

1. Gender

   Male [ ] Female [ ]

2. Age

   21 – 30yrs [ ] 31 – 40yrs [ ]

   41 – 50yrs [ ] 50yrs and above [ ]

   41 and above [ ]

3. Academic Qualification:

   Certificate [ ] Diploma [ ]

   Degree [ ] Postgraduate [ ]

SECTION B: BUDGETING PROCESS

For each question, please indicate your level of agreement by checking the box that best reflects your perception.

SD	D	N	A	SA
Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**

No.	Statement	SD	D	N	A	SA
	BUDGET PLANNING					
1.	The school involves staff in the initial stages of budget planning.					
2.	The school's budget planning process is clear and well-communicated.					
3.	The budget planning process takes into account the school's long-term goals and objectives					
4.	Adequate time is allocated for budget planning activities.					
5.	The budget planning process includes input from all relevant departments.					
6.	The budget planning process aligns with the educational priorities of the school.					
	BUDGET MONITORING					
7.	The school regularly monitors its financial performance against the budget.					
8.	The school has effective systems in place for tracking budget expenditures.					
9.	Variances between actual expenditures and the budget are promptly identified.					
10.	The school administration takes corrective action when budget variances are detected.					
11.	Financial data used for budget monitoring is accurate and reliable.					
	BUDGET CONTROL					
12.	The school has clear procedures in place for budget control.					
13.	Budget controls are strictly enforced in the school.					
14.	The school administration regularly reviews budget compliance.					

SECTION B: INTERNAL CONTROL

For each question, please indicate your level of agreement by checking the box that best reflects your perception.

SD	D	N	A	SA
Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**

No.	Statement	SD	D	N	A	SA
	CONTROL ENVIRONMENT					
1.	The school's leadership demonstrates a commitment to integrity and ethical values					
2.	The school has a clear organizational structure with defined roles and responsibilities					
3.	Management and staff are held accountable for their actions					
4.	The school promotes a culture of transparency and ethical behavior					
	CONTROL ACTIVITIES					
5.	The school has procedures in place to ensure that transactions are authorized and properly recorded					
6.	Access to financial records is restricted to authorized personnel only.					
7.	The school regularly reconciles its financial records with bank statements.					
8.	The school has controls to prevent and detect fraud.					
	INFORMATION AND COMMUNICATION					
9.	The school ensures that relevant financial information is communicated to all stakeholders.					
10.	Staff are informed about internal control policies and procedures.					
11.	There are clear channels for reporting financial concerns or irregularities.					
12.	Financial information is communicated in a timely and accurate manner.					

	MONITORING					
13.	The school regularly monitors the effectiveness of its internal controls.					
14.	Internal audits are conducted periodically to evaluate compliance with internal controls.					
15.	Findings from audits are addressed and corrective actions are implemented promptly.					

SECTION D: FINANCIAL PERFORMANCE

For each question, please indicate your level of agreement by checking the box that best reflects your perception.

SD	D	NS	A	SA
Strongly Disagree	**Disagree**	**Note sure**	**Agree**	**Strongly Agree**

No.	Statement	SD	D	NS	A	SA
1.	The school consistently meets its financial obligations on time.					
2.	The school maintains adequate financial reserves.					
3.	The school generates sufficient revenue to cover its operating expenses.					
4.	The school's financial statements are accurate and reliable.					
5.	The school invests in necessary infrastructure and resources to support education.					
6.	The financial management team is competent and effective.					