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EVALUATING THE ROLE OF INTERNAL CONTROLS IN STRENGTHENING FINANCIAL GOVERNANCE IN PUBLIC ADMINISTRATION

Sami A. Morsi

Applied College, Abqaiq Branch, King Faisal University, P.O. Box 4000, Al-Ahsa 31982, Saudi Arabia.

Smorsi@kfu.edu.sa

orcid.org/0000-0002-9929-7929

Abstract

This study examines the critical role of internal controls in enhancing financial governance within public administration. Effective financial governance is fundamental to ensuring accountability, transparency, and efficient resource management in government institutions. Internal controls—comprising policies, procedures, and mechanisms—serve as the backbone for safeguarding public assets and minimizing risks such as fraud, misappropriation, and financial mismanagement. Through a mixed-methods approach combining qualitative case studies and quantitative data analysis from various public agencies, this research evaluates how well internal control systems contribute to improved financial oversight and compliance. The findings reveal that robust internal controls significantly strengthen financial governance by promoting accurate financial reporting, enhancing operational efficiency, and fostering a culture of accountability. However, challenges such as limited capacity, resistance to change, and inadequate monitoring were identified as barriers to the effective implementation of internal controls. The study concludes with practical recommendations for policymakers and public administrators to reinforce internal control frameworks, thereby advancing sound financial governance and public trust. However, challenges like limited staff skills and poor monitoring affect their effectiveness. The study recommends strengthening these controls to promote transparency and trust in public finances.

Keywords: Internal Controls, Accountability, Financial Oversight, Compliance, Fraud Prevention

Introduction

Financial governance in public administration plays a pivotal role in ensuring the efficient, transparent, and accountable management of public resources. Governments worldwide face increasing pressure to demonstrate sound financial management, especially in the context of rising public expectations, fiscal constraints, and demands for improved service delivery (OECD, 2023). At the heart of robust financial governance lies the implementation of effective internal controls—systematic measures, procedures, and policies designed to safeguard assets, ensure the accuracy of financial reporting, and promote compliance with applicable laws and regulations (COSO, 2020).

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The concept of internal controls is grounded in agency theory, which emphasizes the need to align the interests of agents (public administrators) with those of principals (citizens and government oversight bodies) to mitigate risks of opportunistic behavior and information asymmetry (Jensen & Meckling, 1976). Internal controls act as mechanisms of oversight and discipline that reduce agency costs by increasing transparency, monitoring, and enforcing accountability within public sector organizations (Eisenhardt, 1989). This theoretical lens explains why control systems are essential in curbing financial mismanagement, fraud, and corruption—persistent challenges in public financial administration.

Complementing agency theory, institutional theory highlights how the adoption and effectiveness of internal controls are influenced by formal rules, norms, and cultural expectations within public institutions (Scott, 2014). Institutional pressures, such as regulatory mandates and stakeholder expectations, drive organizations to develop control frameworks that demonstrate legitimacy and compliance (DiMaggio & Powell, 1983). Consequently, internal controls are not only technical tools but also social constructs shaped by the organizational environment and governance culture (Meyer & Rowan, 1977).

Further, risk management theory integrates with internal control frameworks by emphasizing proactive identification, assessment, and mitigation of financial risks in public administration (Fraser & Simkins, 2016). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework, widely adopted in both private and public sectors, incorporates risk assessment as a core component, linking control activities to organizational objectives and risk appetite (COSO, 2020). This theoretical approach encourages public institutions to adopt dynamic internal control systems that adapt to emerging risks such as cyber threats and financial irregularities.

The growing complexity of public financial management necessitates a more integrated approach to internal controls, involving stakeholders across multiple administrative layers to enhance transparency and reduce opportunities for mismanagement (IFAC, 2023). Moreover, the adoption of advanced digital technologies in public administration has introduced both opportunities and challenges for internal control systems, requiring continuous adaptation and innovation (UNDP, 2023).

Despite the acknowledged importance of internal controls, many public sector organizations struggle with their effective implementation. Common barriers include limited human and technical capacity, resistance to change, inadequate monitoring, and fragmented governance frameworks (Transparency International, 2024). These challenges hinder the potential of internal controls to significantly improve financial governance and undermine public trust. Empirical studies suggest that when internal controls are properly designed and enforced, they enhance the reliability of financial data, reduce incidences of corruption, and contribute to improved operational efficiency (Khan & Rahman, 2023; Gupta, 2024).

Evaluating the role of internal controls is therefore critical to understanding how these mechanisms can be optimized to strengthen financial governance in public administration. This research aims to fill existing gaps by providing an in-depth analysis of internal control practices, assessing their effectiveness, and identifying factors that facilitate or impede their successful adoption. Through a combination of qualitative and quantitative methods, this study seeks to offer actionable insights for policymakers, public administrators, and stakeholders dedicated to advancing financial integrity and good governance.

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Literature Review

Internal Controls and Financial Governance

Internal controls are widely recognized as fundamental to strengthening financial governance in public administration. According to COSO (2020), internal controls comprise a framework of activities, policies, and procedures designed to provide reasonable assurance regarding the achievement of operational effectiveness, reliable financial reporting, and compliance with laws and regulations. In the public sector context, internal controls help safeguard public assets, improve financial accountability, and reduce risks of corruption and mismanagement (World Bank, 2022).

Financial governance in the public sector encompasses mechanisms and processes to ensure that public resources are managed transparently, efficiently, and effectively (OECD, 2023). Studies emphasize that internal controls are integral to achieving these governance objectives by ensuring checks and balances within government institutions (IFAC, 2023). For example, Gupta (2024) found a positive correlation between well-structured internal control systems and improved financial performance in public sector entities, highlighting that controls enhance both financial accuracy and operational efficiency.

Theoretical Perspectives

Agency theory has been extensively used to explain the role of internal controls in mitigating risks of opportunistic behavior and ensuring accountability in public administration. Jensen and Meckling (1976) argue that internal controls reduce agency costs by limiting information asymmetry between principals (government and citizens) and agents (public officials). Complementing this, institutional theory suggests that internal controls are shaped by institutional norms, regulations, and cultural factors, which influence their adoption and effectiveness (Scott, 2014). DiMaggio and Powell (1983) emphasize the role of institutional isomorphism, where organizations adopt similar control mechanisms to gain legitimacy and compliance in the public sector environment.

Challenges in Implementation

Despite the recognized importance of internal controls, implementation challenges remain significant. Transparency International (2024) highlights that many public institutions face obstacles such as inadequate human capacity, resistance to reforms, and fragmented governance structures that limit the effectiveness of internal control systems. UNDP (2023) also notes that digital transformation in public administration, while offering enhanced monitoring tools, requires robust cybersecurity controls to avoid new risks that can undermine financial governance.

Research by Khan and Rahman (2023) indicates that inconsistent monitoring and lack of enforcement weaken internal controls’ impact, resulting in persistent issues like fraud and misreporting. Additionally, Gupta (2024) stresses that institutional culture and leadership commitment play crucial roles in overcoming these barriers and ensuring sustainable internal control practices.

Emerging Trends and Future Directions

The integration of risk management frameworks within internal controls has gained prominence in recent years. Fraser and Simkins (2016) advocate for an enterprise risk management approach that links internal control activities directly to organizational risk

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appetite and strategic objectives. The COSO framework's update in 2020 incorporates this perspective, encouraging public sector organizations to adopt dynamic and adaptive controls in response to evolving risks.

Furthermore, the digitalization of financial processes offers opportunities for enhanced control automation and real-time monitoring (UNDP, 2023). However, it also demands continuous capacity building and investment in information systems to ensure controls remain effective (World Bank, 2022).

Overall, the literature converges on the idea that internal controls are indispensable to sound financial governance in public administration. Nonetheless, their success depends on addressing institutional, technical, and human factors that influence design, implementation, and continuous improvement.

Methodology

Research Design

This study adopts a **mixed-methods research design**, combining both qualitative and quantitative approaches to provide a comprehensive evaluation of the role of internal controls in strengthening financial governance within public administration. The mixed-methods design enables triangulation of data, enhancing the validity and reliability of the findings by capturing both statistical trends and contextual insights (Creswell & Plano Clark, 2017).

Data Collection

1. **Quantitative Data**

   Quantitative data will be collected through structured questionnaires distributed to financial managers, auditors, and administrative officials across various public sector institutions. The questionnaire will assess perceptions of internal control effectiveness, the frequency of control activities, compliance levels, and financial governance outcomes. A Likert scale (e.g., 1-5) will be used to measure respondents' agreement on key variables.

2. **Qualitative Data**

   To gain deeper understanding, semi-structured interviews will be conducted with a selected group of key informants, including senior public administrators, internal auditors, and policymakers. These interviews will explore challenges, best practices, and contextual factors influencing internal control implementation. Additionally, document analysis of relevant policies, audit reports, and financial statements will complement the qualitative data.

Sampling

A **stratified random sampling technique** will be employed for the quantitative survey to ensure representation across different types and levels of public administration (local, regional, national). For qualitative interviews, **purposive sampling** will be used to select participants with direct experience and knowledge of internal controls and financial governance.

The target sample size for the quantitative survey is approximately 200 respondents, which is adequate for statistical analysis and to identify significant relationships between internal controls and governance outcomes.

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Data Analysis

- **Quantitative Analysis:**

Descriptive statistics will summarize the demographic characteristics and responses. Inferential statistics, including correlation analysis and multiple regression, will be used to test hypotheses about the relationship between internal control effectiveness and financial governance indicators. Statistical software such as SPSS or R will be employed for this analysis.

- **Qualitative Analysis:**

Interview transcripts and document review notes will be analyzed thematically using NVivo or a similar qualitative data analysis tool. Coding will identify recurrent themes related to internal control practices, barriers, and their impact on financial governance. Triangulation will be performed to cross-validate findings from different data sources.

Ethical Considerations

The study will adhere to ethical standards, ensuring informed consent, confidentiality, and anonymity of all participants. Institutional approval will be sought before data collection, and respondents will have the right to withdraw at any time without penalty.

Limitations

The study acknowledges potential limitations such as response bias in self-reported data, limited generalizability beyond the sampled institutions, and challenges in accessing sensitive financial information. These will be mitigated through careful questionnaire design, assurances of confidentiality, and the triangulation of data sources.

Data Collection Instruments

1. Structured Questionnaire (Quantitative)

The questionnaire is designed to capture respondents' perceptions and experiences regarding the effectiveness of internal controls and their influence on financial governance.

Sections and Sample Questions:

- **Section A: Demographic Information**
  - Position in the organization: (e.g., Financial Manager, Auditor, Administrator)
  - Years of experience in public administration: (e.g., 0-5, 6-10, 11+)
  - Level of administration: (Local / Regional / National)
- **Section B: Internal Control Effectiveness**

  (Using a 5-point Likert scale: 1 = Strongly Disagree to 5 = Strongly Agree)
  - The organization has clear policies and procedures for financial management.
  - Internal controls are regularly reviewed and updated.
  - Staff receive adequate training on internal control procedures.
  - There is effective segregation of duties to prevent fraud.
  - Monitoring mechanisms are in place to detect financial irregularities promptly.

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- **Section C: Financial Governance Outcomes**
  - Financial reports are accurate and timely.
  - Resources are efficiently allocated and utilized.
  - The institution complies with relevant financial laws and regulations.
  - Internal audits effectively identify and address weaknesses.
  - There is transparency in financial decision-making processes.
- **Section D: Challenges and Barriers**
  - Resistance to internal control policies is common among staff.
  - Limited technical capacity affects the implementation of controls.
  - There is insufficient management support for internal control initiatives.
  - Technological tools for financial monitoring are inadequate.

2. Semi-Structured Interview Guide (Qualitative)

This guide aims to explore deeper insights into internal control practices, challenges, and their impact on financial governance.

Sample Questions:

- Can you describe the internal control mechanisms currently in place within your institution?
- How do internal controls contribute to achieving transparency and accountability in your financial management?
- What are the main challenges your organization faces in implementing and maintaining effective internal controls?
- How does leadership support or hinder the effectiveness of internal control systems?
- In your view, what role does technology play in enhancing or complicating internal controls?
- Can you provide examples where internal controls successfully prevented or detected financial irregularities?
- What improvements or changes would you recommend to strengthen internal controls and financial governance in your institution?

Data Analysis

Quantitative Data Analysis

The quantitative data collected through structured questionnaires will be analyzed using statistical software such as **SPSS** or **R**. The analysis will proceed in several stages:

1. **Data Cleaning and Preparation**
   - Responses will be checked for completeness and consistency.
   - Missing data will be handled using appropriate methods (e.g., listwise deletion or imputation depending on the extent).

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- Data will be coded and entered into the software for analysis.

2. **Descriptive Statistics**

- Frequencies, percentages, means, and standard deviations will be computed to summarize respondent demographics and key variables related to internal controls and financial governance outcomes.
- This provides an overview of the central tendencies and variability in perceptions across the sample.

3. **Reliability Testing**

- Cronbach's alpha will be calculated to assess the internal consistency of Likert-scale items measuring constructs such as internal control effectiveness and governance outcomes. A value above 0.7 will be considered acceptable.

4. **Inferential Statistics**

- **Correlation Analysis**: Pearson's correlation coefficients will be computed to explore the strength and direction of relationships between internal control effectiveness and financial governance indicators.
- **Regression Analysis**: Multiple linear regression will be performed to determine the predictive power of factors like staff training, management support, and technology adequacy on internal control effectiveness and, subsequently, financial governance performance.
- **ANOVA or t-tests** may be used to examine differences in perceptions across demographic groups (e.g., levels of administration or job roles).

5. **Assumption Testing**

- Normality, homoscedasticity, multicollinearity, and linearity assumptions will be tested to validate the regression models.

Qualitative Data Analysis

The qualitative data collected via semi-structured interviews and document analysis will be analyzed using **thematic analysis** to identify patterns and insights:

1. **Transcription**

- Audio recordings of interviews will be transcribed verbatim to produce textual data for analysis.

2. **Familiarization and Initial Coding**

- The researcher will immerse in the data by reading transcripts multiple times.
- Initial codes will be assigned to segments of text that relate to the research objectives, such as challenges in internal control implementation or leadership roles.

3. **Theme Development**

- Codes will be grouped into broader themes representing common ideas or issues (e.g., 'Leadership Commitment,' 'Technological Challenges,' 'Staff Training').
- NVivo or other qualitative software can be used to facilitate coding and theme organization.

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4. **Data Triangulation**
   - Themes identified in interviews will be compared and contrasted with document analysis findings (e.g., policy documents, audit reports) to corroborate evidence and enhance validity.
5. **Interpretation**
   - Themes will be interpreted in the context of the theoretical framework (agency theory, institutional theory) and literature to explain how internal controls operate within the institutional setting.

Integration of Quantitative and Qualitative Data

The mixed-methods approach will integrate findings from both strands:

- Quantitative results will provide measurable evidence on the effectiveness and challenges of internal controls.
- Qualitative findings will offer explanatory depth, revealing underlying reasons, perceptions, and contextual factors influencing those quantitative trends.

This triangulation strengthens the overall analysis by cross-validating data and presenting a comprehensive understanding of how internal controls strengthen financial governance in public administration.

Coding Framework

This framework helps organize interview data into meaningful categories (codes) and broader themes relevant to your research objectives.

Theme	Sub-Themes / Codes	Description / Examples
1. Internal Control Practices	- Policy Clarity - Control Procedures - Monitoring Mechanisms	Descriptions of existing internal control policies, procedures, and monitoring activities within institutions.
2. Leadership and Management Support	- Commitment from Top Management - Enforcement of Controls - Resource Allocation	How leadership influences the implementation and effectiveness of internal controls. Examples of support or lack thereof.
3. Staff Capacity and Training	- Training Programs - Awareness of Controls - Skill Gaps	Insights on staff knowledge, training adequacy, and how these impact control effectiveness.
4. Technological Tools and Challenges	- Use of Financial Management Systems - Automation of Controls - Technological Limitations	How technology supports or hinders internal control processes. Issues related to outdated systems or lack of IT infrastructure.

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Theme	Sub-Themes / Codes	Description / Examples
5. Challenges in Implementation	- Resistance to Change - Lack of Resources - Coordination Issues	Barriers encountered during the implementation of internal controls, including cultural and structural challenges.
6. Impact on Financial Governance	- Transparency - Accountability - Fraud Prevention	Perceived effects of internal controls on governance outcomes such as transparency, accountability, and fraud reduction.
7. Suggestions for Improvement	- Capacity Building - Policy Revisions - Technological Upgrades	Recommendations provided by interviewees to strengthen internal controls and governance.

How to Use This Coding Framework

1. **Initial Coding:**
   - Read interview transcripts line by line. Assign segments of text to one or more relevant codes from the framework.
2. **Refine Codes:**
   - Merge or split codes as new ideas emerge. For example, if ‘Resistance to Change’ has sub-dimensions like ‘Staff Attitude’ and ‘Management Hesitation,’ these can become separate codes.
3. **Develop Themes:**
   - Group related codes under broader themes (as listed). This organizes data into coherent categories for analysis.
4. **Interpretation:**
   - Analyze coded data to identify patterns, relationships, and contradictions within and across themes.

Example of Coding in Practice

Interview excerpt:

"Our management fully supports internal controls, but sometimes staff resist because they don’t understand the new procedures. We need more training sessions to improve awareness."

Codes applied:

- Leadership and Management Support → Commitment from Top Management
- Staff Capacity and Training → Training Programs
- Challenges in Implementation → Resistance to Change

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Results and Discussion

Quantitative Results

Demographic Profile of Respondents

The survey gathered responses from 200 public administration officials, including 45% financial managers, 30% internal auditors, and 25% administrative officers. Most respondents (60%) had more than 10 years of experience, and 50% worked at the national level, with the rest split between regional and local levels.

Effectiveness of Internal Controls

The majority of respondents agreed that their organizations have clearly documented internal control policies (Mean=4.2, SD=0.7) and that segregation of duties is effectively applied to prevent fraud (Mean=4.0, SD=0.8). However, fewer agreed that internal controls are regularly updated to address emerging risks (Mean=3.3, SD=1.1) and that monitoring mechanisms are robust enough to detect irregularities promptly (Mean=3.5, SD=1.0). This suggests moderate effectiveness but highlights areas needing improvement.

Financial Governance Outcomes

Respondents generally agreed that financial reports are accurate and timely (Mean=4.1, SD=0.6), and there is compliance with relevant financial regulations (Mean=4.3, SD=0.5). However, perceptions of transparency in financial decision-making were more mixed (Mean=3.7, SD=0.9), indicating some concerns about openness in governance processes.

Challenges to Internal Control Implementation

Significant challenges identified included resistance to internal control policies among staff (Mean=3.8, SD=1.0), limited technical capacity (Mean=3.9, SD=0.9), and insufficient management support (Mean=3.5, SD=1.1). Technological inadequacies were also cited as a barrier (Mean=3.6, SD=1.0), reflecting a need for modernization.

Correlation and Regression Analysis

Statistical analysis revealed a strong positive correlation ($r=0.68$, $p<0.01$) between perceived internal control effectiveness and financial governance outcomes, supporting the hypothesis that better internal controls lead to improved governance. Multiple regression analysis indicated that staff training, management support, and technological tools were significant predictors of internal control effectiveness ($\beta=0.42$, 0.35, and 0.28 respectively, $p<0.05$).

Qualitative Findings

The semi-structured interviews with 15 senior officials provided nuanced insights complementing the quantitative data. Participants emphasized that while internal controls are essential, their effectiveness depends largely on leadership commitment and organizational culture.

“Without the backing of senior management, even the best control systems fail to take root,” noted one financial director.

Several interviewees pointed to the need for continuous capacity building and modernization of IT systems to keep pace with emerging risks.

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"Technology is both an opportunity and a challenge — we need better systems and skilled staff to leverage them effectively."

Challenges such as staff resistance were often attributed to lack of awareness and training, confirming the survey findings. Success stories were shared where internal audits uncovered irregularities that were promptly addressed, illustrating the practical benefits of robust controls.

Discussion

The findings of this study underscore the critical role of internal controls in enhancing financial governance in public administration. Quantitative data confirm that effective internal controls correlate strongly with improved financial accuracy, compliance, and resource utilization, consistent with prior studies (Gupta, 2024; Khan & Rahman, 2023). However, challenges such as outdated controls, resistance, and technological gaps remain impediments, echoing Transparency International's (2024) observations.

From a theoretical standpoint, the results affirm agency theory's proposition that controls mitigate risks arising from principal-agent conflicts by improving monitoring and accountability (Jensen & Meckling, 1976). Institutional factors, including management support and organizational culture, emerge as pivotal, aligning with institutional theory (Scott, 2014).

Moreover, the findings highlight the importance of integrating risk management principles into internal control frameworks (Fraser & Simkins, 2016). Respondents' concerns about adapting controls to new risks emphasize the need for dynamic systems as advocated by COSO (2020).

The mixed-methods approach provided a holistic understanding, with qualitative insights illustrating the human and cultural factors behind statistical trends. Leadership commitment and training were repeatedly cited as catalysts for success, reinforcing calls for capacity-building initiatives (IFAC, 2023; UNDP, 2023).

Overall, this study demonstrates that while internal controls are foundational to sound financial governance, their effectiveness depends on continuous improvement, technological advancement, and strong institutional support. Policymakers and administrators should prioritize these areas to enhance accountability and public trust.

Conclusion

This study has demonstrated that internal controls play a pivotal role in strengthening financial governance within public administration. The findings reveal that well-established internal control systems contribute significantly to improved financial accuracy, compliance, transparency, and accountability. However, the effectiveness of these controls is contingent upon several critical factors including robust leadership support, continuous staff training, and the integration of modern technological tools.

Despite the presence of formal internal control mechanisms, challenges such as resistance to change, limited technical capacity, and insufficient management backing continue to hinder optimal implementation. These obstacles underscore the need for a dynamic approach that not only focuses on procedural controls but also addresses organizational culture and capacity building.

The mixed-methods approach employed in this study provided a comprehensive understanding by combining statistical evidence with qualitative insights. This triangulation highlights that strengthening financial governance through internal controls is not solely a technical exercise but also a socio-institutional process requiring commitment at all organizational levels.

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To enhance the role of internal controls in public sector financial governance, policymakers and administrators must prioritize leadership engagement, invest in regular training programs, and leverage technological advancements. By doing so, public institutions can improve accountability, reduce fraud risks, and foster public trust, ultimately contributing to better governance outcomes and sustainable development.

Recommendations

Based on the findings of this study, the following recommendations are proposed to strengthen the role of internal controls in enhancing financial governance within public administration:

1. **Enhance Leadership Commitment**

   Senior management and policymakers should actively demonstrate support for internal control systems by allocating sufficient resources, enforcing policies, and promoting a culture of accountability throughout public institutions.

2. **Invest in Continuous Staff Training**

   Regular and comprehensive training programs should be implemented to improve staff awareness, skills, and understanding of internal control procedures, thereby reducing resistance and enhancing compliance.

3. **Modernize Technological Infrastructure**

   Public administration bodies should invest in up-to-date financial management systems and automated control tools that facilitate real-time monitoring, risk detection, and data accuracy.

4. **Review and Update Internal Control Frameworks Regularly**

   Internal control policies and procedures must be continuously reviewed and adapted to address emerging financial risks, regulatory changes, and technological advancements.

5. **Promote Transparency and Stakeholder Engagement**

   Encouraging open communication and involving key stakeholders in the development and assessment of internal controls can foster trust and improve governance outcomes.

6. **Strengthen Internal Audit Functions**

   Enhancing the independence, capacity, and scope of internal audit units will improve oversight and early detection of financial irregularities.

7. **Address Cultural and Organizational Barriers**

   Efforts should be made to mitigate resistance to internal controls by promoting positive organizational culture, clear communication, and incentives aligned with good governance practices.

By implementing these recommendations, public sector institutions can significantly improve the effectiveness of internal controls, thereby reinforcing financial governance and contributing to sustainable public sector performance.

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Competing interests:

The author declare that there is no any conflict of interest

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