

**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE IN LOCAL
GOVERNMENT IN UGANDA: A CASE STUDY OF KYANKWANZI DISTRICT
LOCAL GOVERNMENT**

BY

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OCTOBER, 2018

DECLARATION

I, the undersigned, hereby declare that the work embodied in this Report entitled “Internal control and financial performance in local government in Uganda: A case study of Kyankwanzi District local government” is an original research work carried out by me. I declare, to the best of my knowledge, that no part of the report was presented or submitted anywhere for any award before.

Signed.....

Date.....

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STATEMENT OF APPROVAL

This is to certify that BugembeNoah carried out the research embodied in the present report entitled “Internal control and financial performance in local government: A case study of Kyankwanzi District local government”. The report has been submitted with my approval as university supervisors.

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DEDICATION

I dedicate this Research report to my dear mother NalugwaScovia, my wife ZainahBugembe and children Vanessa,Valerian And Valmah for the endless and unconditional love, care and support both financially and morally to me during my academic struggle. May God the almighty bless them abundantly.

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LIST OF ABBREVIATIONS

CAO:	Chief Administrative Officer
FP:	Financial performance
GoU:	Government of Uganda
ICS:	Internal Control System
KDLG:	Kyankwanzi district Local government
LG:	Local Government
OAG:	Office of the Auditor General
R.A:	Reliable accountability
T.R:	Timely reporting

Abstract

This study investigated the Internal Control System (ICS) that affect financial performance (FP) in Uganda: a case of Kyankwanzi district local government. A descriptive case study research survey design was adopted using quantitative methods. The study targeted 71 respondents and 65 returned the survey questions, indicating a response rate of 91.5 percent. Purposive sampling techniques were used to select administrative staff and political leaders and top-level administrators. Data analysis involved frequencies, percentages. The study concludes that reliable accountability, compliance with rules and regulations and timely positively affected Financial Performance in one way or the other.

The study recommends that Kyankwanzi District Local Government (KDLG) should employ more security officers since many of the respondents mentioned sufficient staffing which is the custodian of the ICS. Training of the staff members should be encouraged and sponsored by the district

CHAPTER ONE: INTRODUCTION TO THE STUDY

1.1 Background to the study

The study is about internal control and financial performance in local government sector in Uganda, using Kyankwanzi district local government as the case.

Internal control is a process, effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of a firm's objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation (Kaplan, 2008).

Internal control and financial performance in Local government sector is important because, Internal controls in any organisation helps to ensure safe custody of all assets; to avoid misuse or misappropriation of the firm's assets and to detect and safeguard against probable frauds. Public institutions use internal control mechanisms to make sure the staffs respect its policies and procedures. Everyone in an organization has the responsibility to ensure internal control succeeds to some extent. Internal control leads to timely reporting, proper accountability and proper allocation of resources.

Kyankwanzi District Local Government is more significant and important thereby being representative of the issues involved in the study because, the study is based on 71 population of workers at the district but specifically used a sample of 65 respondents. The choice was 65 was due to availability of respondents and ability to return the questionnaire. The response rate of 91.5 percent is big enough to make conclusions about the population hence making the study reliable. The study uses Kyankwanzi district local government because it is large enough as it

comprises of 1 county, namely Kyankwanzi County, its further divided into 7 sub-counties and 2 Town Council. The District is constituted of 53 parishes (LCIIs) and 298 villages (LCIs). The district service commission is in place and fully functional, it's in charge of recruiting, confirming, promoting, and disciplining district staff. The public account committee is in place and fully functional, it oversees the management of public funds and makes recommendations to the District Executive Committee. This audit section is in place and checks the flow and implementation of funds in the different department of the district.

Table 10000: Numbers of administrative Units at KDLG

SUB -COUNTY	PARISHES/WARD	VILLAGES/CELL
Butemba	6	49
Wattuba	7	50
Gayaza	4	19
Kyankwanzi	6	16
Mulagi	4	28
Nsambya	8	58
Ntwetwe	10	42
Ntwetwe Town Council	4	20
Butemba Town Council	4	16
Total	53	298

Source: Kyankwanzi district planning unit

The Policy implementation framework of the study is based on the Local Government Management Act. According to the Local Government Management Act, the following are the internal controls which guide the performance in the Local government sector:

- Timely reporting
- Reliable Accountability
- Professionalism
- Compliance with Rules and regulations etc

This study examines the following of the above

- i. Reliable Accountability
- ii. Timely reporting
- iii. Compliance with Rules and Regulations.

Reliable accountability- According to Sanusi (2015) accountability is a concept of ethics and governance with several meanings. This concept is similar to responsibility, answerability, blameworthiness, and liability. As an aspect of governance it has been central to discussions related to problems in the public sector. In Uganda, the Auditor General reviews financial statements of all public entities and forwards the report to the Parliamentary Public Accounts Committee for review and enforcement of accountability.

Accountability and transparency needs to be improved at all levels to ensure that all funds collected as local revenue are protected from misuse (Local Government Finance Commission, 2003, p 31). A significant feature aiding accountability and transparency is internal controls. If these are adhered to carefully and according to their spirit, then many aspects of control,

accountability and transparency will automatically follow, producing greater trust and as a result improved revenue for the local government as financial performance

ii) **Timely reporting.** Whittington and Pany (2003) argue about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization.”

They mention internal control devices to include: use of budgetary techniques, production standards, inspection laboratories, employee training and time and motion studies, among others.

According to Omunuk (1996), corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. In GoU and, the financial statement is audited by the Office of the Auditor General (OAG) and an opinion is formed whether they are free and fair.

iii) **Compliance with regulations and rules,** According to Goddard (2002) regulatory compliance is an adherence to laws, regulations guidelines and specifications relevant to its business. Compliance is either a state of being in accordance with established guidelines or specifications or the process of becoming so. The Report of the C.A.O of the Financial Statement

of Kyankwanzi district local government for the year ended 30th June 2017 proves that they complied with the laws, regulations and policies in producing their financial statements.

1.2 Statement of the problem

In spite of the above clearly stated policy objectives, the problems of internal control in Kyankwanzi District local Government still exist. The Government of Uganda established external control systems as a measure of promoting accountability generally in local governments, but with particular emphasis on achieving enhanced human resource performance; promoting civil society alertness and participation; ensuring adherence to standards and regulations, fostering proper financial accountability and utilization, transparency and responsiveness to community needs. Also the Government of Uganda has put in place the necessary organs to empower ICS at different levels like the municipal urban councils so as to set up financial performance (Financial and Accounting Regulations, 2007). Kyankwanzi district local government has always had an Internal Audit department to help in compliance with the ICS, regulations and procedures.

With all the several successes scored under the decentralized system of local governance in Uganda, a surge of debilitating problems continues to unfold (Kakumba, 2003). Corruption, misuse of power and numerous financial malpractices still exist, suggesting significant managerial and capacity handicaps in the control institutions (Office of Auditor General-report, 2006). The technical competences, capacities and commitment of the institutions and structures seen as custodians of public accountability have been repeatedly questioned. Despite all the above efforts Kyankwanzi district local government still struggles with timely accountability, reliable reports, compliance with laws, regulations and policies, frauds, and misuse of council

resources which has been unearthed by the Annual Report of the Auditor General (2017) hence the purpose of this study is to investigate the effect of internal control on financial performance in local government sector in Uganda using Kyankwanzi district local government as the case.

1.3 Purpose of the study

The purpose of this study is to examine the role of internal control on financial performance of local government sector in Uganda, basing on Kyankwanzi district local government as the case study.

1.4 Objectives of the study

- i. To examine how control environment ensures financial performance in Kyankwanzi district local government.
- ii. To assess how information communication ensures financial performance in Kyankwanzi district local government.
- iii. To assess how compliance with rules, regulations and policies ensure financial performance in Kyankwanzi district local government.

1.5 Research questions

In order to achieve the intended objectives, the study is guided by the following questions.

- i. How does control environment ensure financial performance in Kyankwanzi district local government?
- ii. How does information communication ensure financial performance in Kyankwanzi district local government?

- iii. How does compliance with rules, regulations and policies ensure financial performance in Kyankwanzi district local government?

1.6 Hypotheses

In order to achieve the study objectives, we formulate the following hypotheses

- i. H₀; control environment significantly affect financial performance in Kyankwanzi district local government.
- ii. H₀: Information communications significantly affect financial performance in Kyankwanzi district local government.
- iii. H₀: Compliance with rules, regulations and policies significantly affect financial performance in Kyankwanzi district local government.

1.6 Scope of the study

The scope of the study is examined at three levels, namely: geographical coverage of the study, content of the study and time scope.

1.6.1 Content scope

The scope of this study include the selected internal controls, that is, compliance with rules, regulations and policies, timely reporting and Reliable accountability .

1.6.2 Geographical scope

The study was conducted in Kyankwanzi District local government. Kyankwanzi District was formerly Kiboga west Constituency until it was declared a full- fledged District by the Act of Parliament of 22nd December 2009 and operationalized on 1st July 2010. One of the reasons given to justify its formation included the long distance residents had to travel to access services at Kiboga district. Kyankwanzi District is the northern most district in the Central Region of Uganda and Buganda Kingdom, bordering Bunyoro. The district headquarters are in Butemba Town council. The Kyankwanzi District borders with the Nakaseke District to the east across the Mayanja River, Kiboga District to the south-east, Mubende and Kibaale Districts to the south-west across the Lugogo River, and Hoima and Masindi Districts to the north across the River Kafu. The district headquarters in Butemba Town on the Bukwiri-Kyankwanzi Road are approximately 160 Kilometres (99 miles) by road from Kampala, the nation's capital.

The coordinates of the district headquarters are 1.143N, 31.602E. The district area is full of lush green forests and prairies with minor elevation differences as it is the plateau behind the western fork of the East African Rift valley running across the Hoima District. The altitude is roughly 1,000–1,200 Metres above sea level. Kyankwanzi district lies between latitude 010 12N and longitude 310 48E in the north western part of Uganda. Its approximately 150 Kilometers, by road from Kampala. It's bordered by Masindi District in the north, Hoima District in the northwest, Nakaseke District in the east, Kiboga District in the southeast, Mubende District in the south and Kibaale District in the southwest. The district covers a total land area of about 2,326 square kilometers

1.6.3 Time scope

The study was conducted over a period of three months and would mainly consider information related to eight years that is (2010- 2018). The period of eight years was chosen because it was long enough for the researcher to establish the effect of internal audit on the financial performance at Kyankwanzi District local government.

1.7 Significance of the study

This study may be of interest to:

i. **Academicians and future researchers.**

These might undertake other researches related to this. The study may also add to the existing knowledge regarding internal controls systems by the Local governments. Scholars and researchers who would like to carry out more studies on internal Controls and financial performance may find the study beneficial.

ii. **Government**

The development partners who are usually interested in helping the districts in Uganda to prosper may have an understanding of a wide variety of factors that hinder the districts governments hence sustainability.

The study may help policy makers to come up with better proposals on internal control systems and their effects on financial performance of manufacturing firms. The recommendations of the study are of interest to the management of government institutions because they point out the areas

iii. Kyankwanzi district local government.

Furthermore, the study may help to inculcate scientific and inductive thinking and promotes the development of logical habits and thinking by all staff in the organization. The government may use the findings of this study to craft appropriate legislation and policies that will promote the growth and stability of public Institutions and help them safeguard their assets.

The results of the study may help identify gaps within the systems of internal control in district local governments in Uganda. It is also the researcher's belief that invaluable benefits to management and those charged with governance in Uganda will emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of the district objectives.

Researcher

The study may provide knowledge and skills to the researcher in terms of data collection, data analysis and report writing hence resulting into an academic achievement in terms of the award of Masters in Business Administration.

1.8 Arrangement of the study chapters

The report is organized in nine (9) chapters as shown below.

Chapter one presents the introduction to the study. Chapter two presents the study literature; it highlights literature surveys, literature review and the conceptual framework of analysis. Chapter three presents research methods; it highlights the research design, data collection and management. Chapter four presents the demographic characteristics of the respondents. Chapter five presents findings on objective one. Chapter six presents findings on objective two. Chapter

seven presents findings on objective three. Chapter eight links the findings to literature review. It suggests a way forward for internal control and financial performance of KDLG. Chapter nine presents summary and conclusions to the study.

1.9 Operational definitions of terms

1.91 Internal control system

As defined in Accounting and Auditing is a process of assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies

1.9.2 Performance

The term performance refers to the accomplishment of a given task measured against present standards of accuracy, completeness, cost and speed (Financial performance Analysis conceptual framework, 2012)

1.9.3 Financial Performance

Is a general measure of an entity's overall financial health over a given period of time and can be used to compare similar entities across the same industry or to compare industries or sectors in aggregation.

1.9.4 Government Sector

Is the part of national economy providing basic goods or services that are either not or cannot be provided by the private sector. It consists of national and local governments, their agencies and parastatals.

CHAPTER TWO: STUDY LITERATURE

2.0 Introduction

This chapter presents the study literature; it highlights literature surveys, literature review and the conceptual framework of analysis.

2.1 Literature survey

This study is virgin as it focuses on Kyankwanzi District local government. The study has not been conducted before in the same area. The few studies conducted in Uganda include Odongkara (2016) studied internal control systems and financial performance of municipal urban councils in northern Uganda in Kitgum municipal urban council. The study concludes that internal control activities, internal control environment and audit positively affected FP in one way or the other. Nankunda (2013) about internal audit function and financial performance of public sector organizations: a case of national water and Sewerage Corporation at Mbarara branch. The study concluded that there is a positive impact of internal audit function on the financial performance of corporation.

The study results indicate that, internal auditing function ensures efficient and effective use of public resources ensures reliability and integrity of information for economics, management system of internal control among others. However, the study also pointed out that; less developed human capacity, pressure from political leaders, limited human resource review to be among the challenges facing internal auditing. Komwereko, (2013 about internal auditing and performance of local governments in Uganda. a case study of Sheema district local government. The study revealed that the nature of internal audit in Sheema district local government involves carrying

out of value for money audits through physical accountability, checking of financial expenditure, budget implementation and work plans to establish whether they conform to the rules and procedures in the local government Act. The study also established that there is a relationship between internal audit and performance of Sheema local government as indicated by the scores of roles of internal audit and financial performance. In addition, political interference, corruption, conflict of interest, inadequate skills, inadequate information, inadequate funds, and improper communication flow are the major challenges faced by internal audit and performance of Sheema local government.

2.2 Literature review

Internal control and financial performance of mainly public institutions as a subject has received immense coverage by different researchers and schools of thought. Various Models have been formulated on internal control and financial performance. This section reviews those that are relevant to the current study. The review aims at extracting a conceptual framework within which problems relating to internal control and financial performance at Kyankwanzi district local government may be put into proper perspective. The following are the major models that have been found from the existing studies on internal control and financial performance

2.2.1 The Principal Agency theory

The Principal Agency theory” as put across by Jensen and Meckling (1976) and later expanded on by Sarens and Abdol-mohammadi (2010, p. 1-20). Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals such as shareholders and agents of the principals for example, company executives. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent

are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. The agency theory is a supposition that explains the relationship between principals and agents in organizations (Kerano, 2014).

The most common agency relationship in finance occurs between shareholders (principal) and company executives (agents). Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and performance helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal controls and internal audit in firms but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational.

According to the agency theory, a firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen and Meckling, 1976). The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents. As such, the theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents (Jensen

11 and Meckling, 1976). According to the theory, in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. The agent-principal relationship is strengthened more by the principal employing an expert and systems (auditors and control systems) to monitor the agent (Jussi and Petri, 2004).

2.2.2 Contingency theory by Fred Fiedler (1960)

A contingency theory is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. A contingent leader effectively applies their own style of leadership to the right situation. Contingency theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations.

The assumption underlying contingency theory is that no single type of organizational structure is equally applicable to all organizations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system. Contingency theories were developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by (Woods, 2009). Contingency theory is used to describe the relationships between the context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting. Empirical study suggests that internal auditors who are specialized and higher in internal audit

ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency (Cadez and Guilding, 2008).

2.2.3 The theory of the firm

In simplified terms, the theory of the firm aims to answer these questions: Existence, Boundaries, Organization, why are firms structured in such a specific way, for example as to hierarchy or decentralization? Heterogeneity of firm actions and performances, what drives different actions and performances of firms, and lastly, the evidence, what tests are there for the respective theories of the firm (Thomas, 2008). The theory of the firm consists of a number of economic theories that describe, explain and predict the nature of the firm, company, or corporation, including its existence, behavior, structure, and relationship to the market. This theory affirms that a firm is a “black box” operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits, or more accurately, present value. The theory helps to explain why an entrepreneur or manager in a firm which has a mixed financial structure containing both debt and outside equity claims will choose a set of activities for the firm such that the total value of the firm is less than it would be if he were the sole owner and why this result is independent of whether the firm operates in monopolistic or competitive product or factor markets (Kantarelis, 2007).

2.2.4 Reliability Theory

Reliability theory simply describes the probability of a system completing its expected function during an interval of time (Gavrilova and Gavrilova, 2001). It was originally a tool used to help nineteenth century maritime insurance and life insurance companies in computing profitable rates to charge their customers. According to the reliability theory, an internal control system

comprises of components that are interrelated and each for component, there needs to be a defined measure of success. As such, the state of a component is determined by whether the component is „successful“ or „not successful“. The reliability of a component is defined as the probability of the component being found in the „success“ state. In addition, the reliability of the entire internal control system is a binary combination with two possible values, „success“ and „failure“. This study considered the part of the reliability theory which relates the internal control system to component reliabilities.

The tractability of reliability theory to the evaluation and design of internal control systems have appeared in the professional literature but no applications have been reported that draw upon the substantial power of the theory of reliability (Kinney, 2000). The two potential users of the reliability theory are the external auditor and organization management. Kinney (2000) states that; during the external audit, evidence is gathered to support a professional opinion. Internal control systems have a primary purpose of assessment and control of risks; that a material error was not be prevented or detected on a timely basis by the system leaving to losses. Weak internal control systems result in more substantive work and hence greater cost. According to Gavrillov and Gavrilova (2001), the determination of the "weakness" of any internal control system is primarily judgmental upon the formulation of the process and system.

2.2.5 Systems Theory

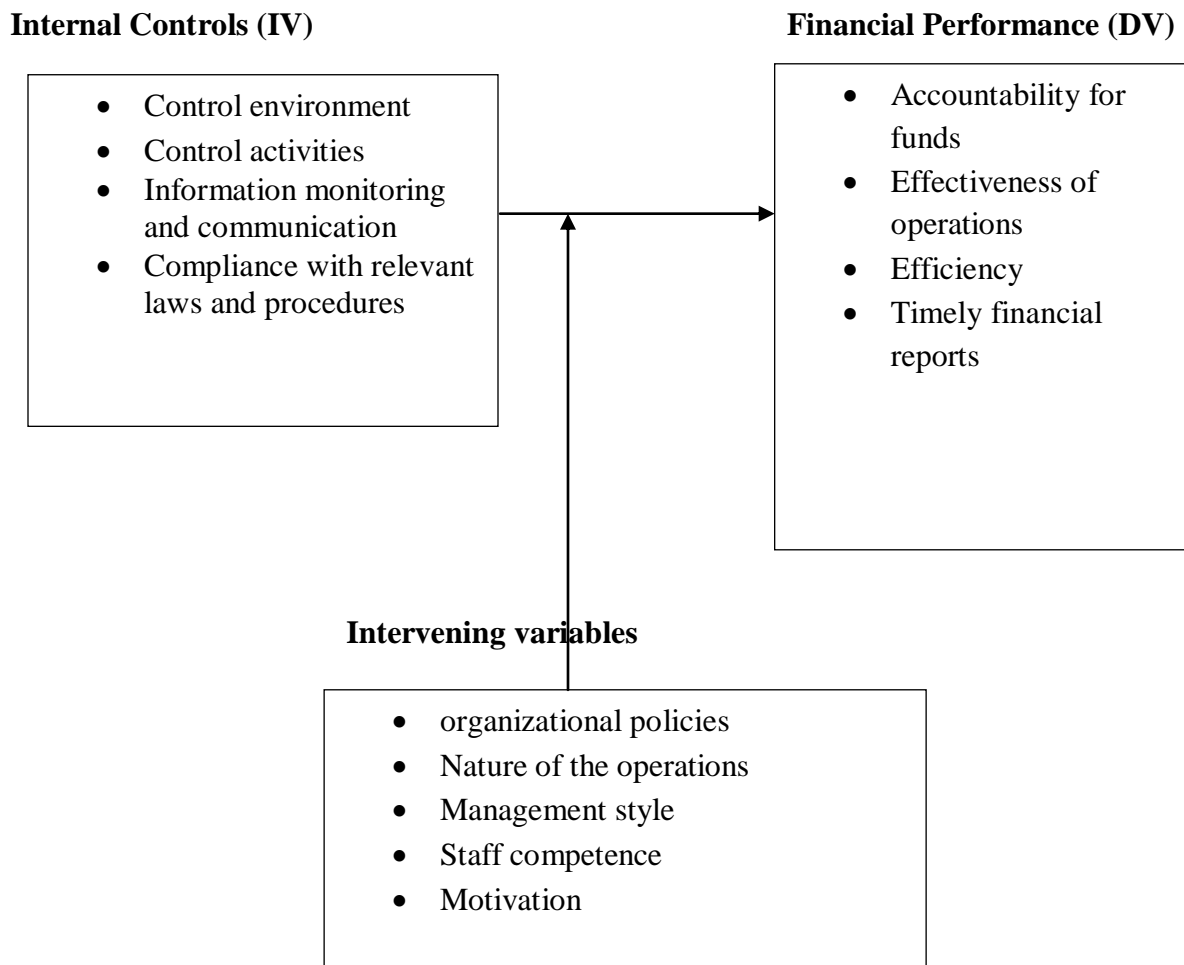
As cited in Keraro (2014) the systems theory was propounded in the 1940s by a biologist Ludwig von Bertalanffy and advanced by Ross Ashby in his study “Introduction to Cybernetics” in 1956. Bertalanffy (1968) emphasized that real systems were open to, and interact with, their environments, and that they can acquire qualitatively new properties through emergence,

resulting in continual evolution. He argued that rather than reducing an entity or organization to the properties of its parts or elements, systems theory focused on the arrangement of and the inter-relations between the parts which connect them into a whole. Such an organization determined a system that is independent of the concrete substance of the elements (for example, the various departments such as finance, accounting, human resources, research and development). Thus, the same concepts and principles of organization underlie the different disciplines, providing a basis for their unification.

Hartman (2010) observed that the systems theory provides a leader with a tool for analyzing organizational dynamics without providing a specific theory about how an organization should be managed. He also observed that with the recognition of systems theory, all organizations consist of processing inputs and outputs with internal and external systems and sub-systems helpful in providing a functional overview of any organization. Smit and Cronje (2002) observed that a system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well. The effect of the systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the work place.

2.4 Conceptual frame work

Fig. 2.1: Conceptual Framework



Source: Adopted from Kudinz (2009) and modified by the researcher, 2018

In the Conceptual framework above, internal control system is an Independent variable affects Financial Performance, a dependent. However, there are intervening factors like late coming, corruption and unclear and untimely communications between departments.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents the research design and data collection and management.

3.1 Research Design

A research design is a road map or a plan of research to be used to answer the research questions and research objectives. It is the structure or framework to solve a specific problem. It gives direction and systematizes the research. It refers to the process that the investigator will follow from the inception to completion of the study (Cooper & Schindler, 2011; Kothari, 2011; Timan, 2006).

Krishnaswami (2003) defined the research design as an arrangement of conditions for collection and analysis of data in a manner that aimed to combine relevance to the research purpose with economy in procedures. Kombo and Tromp (2006) defined research design as the structure of research which is used to hold all the elements in a research project together. Therefore, the design is a framework used to attach the research components together. This part dealt with the methodology and procedures that were used in the study. The research design therefore was seen as a conceptual structure within the research conducted with an intention to explore new knowledge to a recent study.

A research design is the determination and statement of the general research approach or strategy adopted/or the particular project. It is the heart of planning. If the design adheres to the research objective, it will ensure that the client's needs will be served. Orodho (2003) simplifies the definition by stating that a research design. Below outlined is the research design adopted by this study.

3.1.1 Research approach

Phenomenology focuses on experiences, events and occurrences with disregard or minimum regard for the external and physical reality. Phenomenology, also known as non-positivism, is a variation of interpretive, along with other variations such as hermeneutics, symbolic interactions and others. This branch of philosophy “describes the philosophical approach that what is directly perceived and felt is considered more reliable than explanations or interpretations in communication. In phenomenology ideas are generated from rich amount of data by the means of induction and human interests, as well as stakeholder perspective may have their reflection on the study. Moreover, phenomenology in business studies is a valuable philosophy for exploring human experiences in management studies.

Positivism adheres to the view that only “factual” knowledge gained through observation (the senses), including measurement, is trustworthy. In positivism studies the role of the researcher is limited to data collection and interpretation in an objective way. In these types of studies research findings are usually observable and quantifiable.

Since positivism depends on quantifiable observations that lead to statistical analyses it is used in this study. Positivism is in accordance with the empiricist view that knowledge stems from human experience. It has an atomistic, ontological view of the world as comprising discrete, observable elements and events that interact in an observable, determined and regular manner. Also in positivism studies the researcher is independent form the study and there are no provisions for human interests within the study.

3.1.2 Research strategy

A Research Strategy is a step-by-step plan of action that gives direction to your thoughts and efforts, enabling you to conduct research systematically and on schedule to produce quality results and detailed reporting. The study uses a case study research strategy using Kyankwanzi district local government. A case study is an empirical in-depth inquiry about an individual, family, group or organization. The case study is preferable when 'how' and 'why' questions are asked. The case study is mainly used to explain those causal links in real-life intervention that are too complex for either the survey or experimental strategies. Like other research strategies, its design includes questions or propositions, units of analysis, the logic linking the data to the questions or propositions, and the interpretations of the outcomes. A case study can be reported as a single case or as a compilation of a series of cases.

3.1.3 Research duration

The research duration can be longitudinal or cross-sectional. A longitudinal study, like a cross-sectional one, is observational. So, once again, researchers do not interfere with their subjects. However, in a longitudinal study, researchers conduct several observations of the same subjects over a period of time, sometimes lasting many years. The benefit of a longitudinal study is that researchers are able to detect developments or changes in the characteristics of the target population at both the group and the individual level. The key here is that longitudinal studies extend beyond a single moment in time. As a result, they can establish sequences of events

This study uses a longitudinal design. A longitudinal study is an observational research method in which data is gathered for the same subjects repeatedly over a period of time. Longitudinal

research projects can extend over years or even decades. In a longitudinal cohort study, the same individuals are observed over the study period.

3.1.4 Research classification

The two basic research approaches are quantitative and qualitative research. Both types have different purposes. The qualitative on the other hand provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. Qualitative Research is also used to uncover trends in thought and opinions, and dive deeper into the problem. Qualitative data collection methods vary using unstructured or semi-structured techniques.

Qualitative Research is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. Qualitative Research is also used to uncover trends in thought and opinions, and dive deeper into the problem. Qualitative data collection methods vary using unstructured or semi-structured techniques. Some common methods include focus groups (group discussions), individual interviews, and participation/observations. The sample size is typically small, and respondents are selected to fulfill a given quota.

Quantitative Research is used to quantify the problem by way of generating numerical data or data that can be transformed into usable statistics. It is used to quantify attitudes, opinions, behaviors, and other defined variables – and generalize results from a larger sample population. Quantitative Research uses measurable data to formulate facts and uncover patterns in research. Quantitative data collection methods are much more structured than Qualitative data collection

methods. Quantitative data collection methods include various forms of surveys – online surveys, paper surveys, mobile surveys and kiosk surveys, face-to-face interviews, telephone interviews, longitudinal studies, website interceptors, online polls, and systematic observations. Quantitative research is statistics-based. It involves questions that can best be answered in numbers hence it was used in this study.

3.1.5 Study limitations

There were some shortcomings experienced by the researcher as follows;

- The research was carefully prepared but could not be extended beyond Kyankwanzi district local government simply because the cost of operation was so high and could not allow the research to be conducted in other districts.
- High costs to finance the research, such as stationary costs, air time costs and transport costs are very high. However, assistance was obtained from different groups like friends, and relatives.
- Some respondents were not cooperative at the beginning and reluctant to give the necessary data in time. Related to the above some respondents had tight schedules and could not get ample time to respond to the questionnaires on a timely basis. This result in to delays into the accomplishment of this work.
- The study also faced the problem of limited time to undertake the comprehensive study in time. However, the researcher followed the drafted work plan to undertake the study successfully in addition to the direct response in accordance to the supervisor's comments.
- The researcher found difficulty in meeting drivers and inspector of schools in their offices since most of their work is done in the field.

3.2 Data collection and management

3.2.1 Target Population

A population is the whole group that the research focuses on (Kothari, 2012). It is the total number of respondents, or the total environment of interest of the researcher (Oso& 66 Onen, 2009). Kombo and Tromp (2011) define a population as a group of individuals, objects or items from which samples are taken for measurement. Cooper and Schindler (2011) observe that population is the total collection of elements about which one wants to make inferences. Kothari (2011) defines population as the researcher's universe. The population of the study has been defined as a complete set of individuals, cases or objects with some common observable characteristics (Mugenda and Mugenda, 2003). The target population of the study was Kyankwanzi district local government workers.

3.3 Sample size, Sampling frame and Sampling technique

Purposive sampling was used and it involved selection of key informants and also the choices of subjects who met predetermined criteria such as convenience to the researcher in terms of proximity, readily available, willingness to be included in the sample and any other criteria that was considered relevant by the researcher.

The sampling frame comprises of a comprehensive list of all the sampling units from which a sample could be selected. A sampling frame is required to define the universe (population). The frame (data sources) could be a list from households, establishments, and industries with detailed addresses, products produced and/or consumption, expenditure, revenue data, and others (Kothari, 2011). In this study the sampling frames of the district employees. The sample size is 65 workers who have filled and returned the questionnaires. The drivers were most of the times away from

the station hence none of them was accessed. The inspector of schools was also not accessed as he was in the field most of the time.

Table 2: Kyankwanzi District departmental employees

	Department	Designation	Sample
1	Human Resource (3)	Senior human resource officer	✓
		Principal human resource officer	✓
		Human resource officer	✓
2	Education (4)	Senior education officer	✓
		Senior inspector of schools	✓
		Inspector of schools	X
		Sports officer	✓
3	Planning (3)	District planner	✓
		Senior planner	✓
		Statistician	✓
4	Agriculture (7)	District production and marketing officer	✓
		Principle Agriculture officer	✓
		District Entomologist (Fisheries officer)	✓
		Senior veterinary officer	✓
		District commercial officer	✓
		Commercial officer	✓
		Driver	X
5	Community (4)	District community development officer	✓

		Senior community development office	✓
		Labour officer	✓
		Probation and welfare officer	✓
6	Finance (9)	Chief finance officer	✓
		Senior accountant	✓
		Accountant	✓
		4 Senior Assistant accountants	✓
		Office attendant	✓
		Inventory management officer	
7	Audit (4)	2 Internal auditors	✓
		Examiner of accounts	✓
		Pool stenography /secretary	✓
8	Natural resource(3)	Senior natural resource officer	✓
		Assistant forest officer	✓
		Forest ranger	✓
9	Works (8)	Senior civil engineer	✓
		Road inspector	✓
		Superintendent of works	✓
		Senior engineering water officer	✓
		3 Drivers	X
		Plant operator and attendant	✓
10	Administration (7)	Chief administrative officer (CAO)	✓
		Deputy CAO	✓

		Principal assistant secretary	✓
		Stenographer secretary	✓
		Communications officer	✓
		Driver	X
		Office attendant	✓
11	Procurement (1)	Senior procurement officer	✓
12	Health (4)	Assistant District Health Officer	✓
		Driver	X
		Statistician	✓
		Assistant inventory management officer	✓
13	Commercial/trade & industry (2)	Senior commercial officer	✓
		commercial officer	✓
14	Records management(3)	Assistant records officer	✓
		Assistant recordsofficer	✓
		Office attendant	✓
15	land / Statutory bodies (3)	Senior land managementofficer	✓
		Staff surveyor	✓
		Assistant records officer	✓
16	Production (6)	District head of production	✓
		Principle agriculture officer	✓
		Senior agriculture officer	✓
		Principle fishers officer	✓

		Senior veterinary officer	✓
		Office attendant	✓
	TOTAL = 71 staff members		Total sample = 65

Source: field survey by the author

✓ means the staff was sampled and X means not sampled Or the questionnaire was not returned.

3.4 Data Collection methods

Data was collected using both primary and secondary sources. Primary data collected by the researcher which reflected the individual viewpoints of the participants by administering questionnaires and key informant interviews, while secondary data was collected using information that had already been produced by other authors so as to analyze and interpret the findings to form new research ideas through review of secondary data.

3.4.1 Questionnaire

A questionnaire is a set of questions to which respondents' recorded their answers as administered. This method was appropriate for the research because the filled questionnaires can be used for future reference. This provides research information in that close and open ended questions will be either self-administered to those who are able to read and write and to fill in the answers against the questions. The researcher intends to use questionnaires because majority of the workers at the district are elites who can read and write. The responses will be gathered in a standardized way, so questionnaires will be more objective. Generally, it is relatively quick to collect information using a questionnaire. Potentially information can be collected from a large portion of a group.

3.4.2 Interviews

An oral interview was conducted in order to get direct information from some respondents. Interviews gave the researcher an insight of the feelings, expectations and aspirations of staff from the community department leaders on how internal controls and financial performance could be improved not only from their own perspective but also on a general assessment.

3.4.3 Document revising

Documents relevant to the research were reviewed to get information on internal control system and financial performance. Documents reviewed include relevant publications, articles from internet and reports from various stakeholders in internal control systems and all secondary data and information from various sources.

3.5 Data processing and Data analysis

The study targeted departmental heads, management committee members, accounts, internal control, internal audit and finance and accounts personnel among others to form Units of analysis. The collected Data was fed into computer programs (using particularly Excel and STATA) and presented in terms of tables and graphs for easy analysis and explanation of results.

3.6. Data collection instruments

The following instruments were used during data collection:

3.6.1 Self-administered questionnaires

The main data collection instrument that was employed in the study was self-administered questionnaires (SAQs), this was designed and was filled by relevant employee of the district that included different departments of Kyakwanzi district local government. The questionnaire comprised of statements requiring the respondents to opt for one answer out of five options using the Likert scale (1= strongly disagree; 2= Disagree, 3 = Not sure, 4= Agree and 5= Strongly Agree). SAQs were used because of the busy schedule of respondents and this gave them time to fill at their convenience. The questionnaire was anonymous and respondents were more truthful since their identity was not required.

Amin (2005) asserts that questionnaires are popular with researchers because information can be obtained fairly, easily and the questionnaire responses are easily coded. This instrument of self-administered questionnaires (SAQs) enabled the researcher to collect large volume of data at shortest period of time and these questionnaires were easily sent and filled by the employee of the organization with consultation of their records and policies in the organization.

3.6.2 Interview guide

Interview is a face-to-face interaction between the interviewer and interviewee about a given topic to obtain relevant facts. Interview guide was used to collect data from the employees of Kyakwanzi district local government. The information obtained supplemented those obtained through the use of questionnaires. According to Mugenda (1999), interviews are advantageous in that they provide in-depth data, they give the interviewer a chance to probe and clarify questions which are not possible with the questionnaire.

Interviews were conducted with board of CAO, senior management and audit department in order to have deemed information about the internal control systems and financial performance of Kyakwanzi district local government.

3.7 Data Validity and reliability

Emasu (2007) define content validity as the degree to which the sample test or instrument items represent the content that the instrument is designed for while face validity is the degree to which an instrument appears to measure what it is supposed to measure. To ensure validity of the instrument, the instrument was given to the supervisors, colleagues, and other experts in research to check on content and validity. This helps to determine the degree to which the instrument gathers the intended information. The feedback from the supervisors, colleagues, and other researchers and scholars was used to make the necessary adjustments on the instrument for instance by removing the ambiguous items, spelling mistakes and other typographical errors that could have been made.

In addressing the question on the characteristics of a good measurement tool in research, Cooper & Schindler (2011) argued that the tool should be an accurate counter or indicator of what the research is interested in measuring. Besides, the instrument should be easy and efficient to use. Such a measurement tool would, thus, be subjected to tests of validity (the extent to which a test measures what the researcher wishes to measure, reliability (the accuracy and precision of a measurement procedure) and practicality (concerns factors of economy, convenience and interpretability).

3.8 Ethical considerations

The researcher adhered to the professional ethical conduct of research. The researcher got a letter of introduction from the University Research Coordinator and dean of the graduate school, appointments were made with the respondents and interviews were conducted with utmost confidentiality.

Ethical considerations were also taken care of by the researcher briefing the respondents as to the purpose of the research (academics purpose only), their relevance in the research process and expectations from them. The respondents were informed that data provided would be kept with utmost confidentiality. The researcher maintained close relationship with the respondents, and data was collected without fabrication for the success of this study. The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from the research activities (Cooper and Schindler, 2001).

CHAPTER FOUR: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

4.0 Introduction

This chapter presents the major results and discussions arising from the data analysis related to the demographic characteristics of the respondents from the data collected from the field using questionnaires and interview guide. The first section presents the response rates and the second section presents the background information. The third section presents the relationship between internal audit and financial performance. The fourth section presents the indicators of financial performance

4.1 Response Rate

Response rate, also referred to as return rate or completion rate, refers to the number of people who responded to the survey divided by the number of people in the sample, and is normally presented in form of percentages. A low response rate can give rise to sampling bias if the non-response is unequal among the participants regarding exposure and outcome. In this study the sample size was 65. Out of the 71 questionnaires and interviews administered, only 65 were returned and fully completed. this means that the response rate of 91percent. With that high response rate the findings of the study were representative of the actual population and could be generalized as observed by Sekaran (2003).

4.2 Background information of the respondents

This section provides the background characteristics of the respondents which present their gender distribution, age groups, level of education and experience in years. This information was required to ensure that the sample that participated had characteristic distribution similar to that

of the population it was drawn from. This determines accuracy, prediction reliability, and representativeness of the information drawn from the sample to the entire population

The study respondents during the field data finding were the employees of the Kyankwanzi district local government from the different aimed sections. This section provides profile of employees from the different departments. The profile covered working departments/sections of the respondents as well as their gender distribution, age group, years in service, religion, region of origin, area of residence and marital status. This analysis has been done specifically to show the representation of the respondents with regards to their background as indicated in Table 3

Table 3: Background information of respondents

Characteristics	Category	Frequency	Percentage
Gender	Male	41	63.1
	Female	24	36.9
Age group	Below 25 years	1	1.5
	26-35 years	21	32.3
	36-45 years	31	47.7
	46-55 years	8	12.3
	56 years and above	4	6.2
Years in service (Experience)	Below five years	7	10.8
	5-10 years	36	55.4
	Above 10 years	22	33.8
Level	Certificate	7	10.7
	Diploma	15	23.1

of education	Bachelor's degree	17	26.2
	Post graduate diploma	13	20.0
	Master's degree	13	20.0
Religion	Christianity	45	69.2
	Islam	13	20
	Others	7	10.8
Area of residence	Urban	40	61.5
	Rural	25	38.5
Region of origin	Central	43	60
	Eastern	5	7.7
	Western	14	21.5
	Northern	3	4.6
Marital status	Married	52	80
	Not-married	13	20

Source: field survey by the author

4.2.1 Distribution of respondents by Gender

It was also found modest to have profile of customers especially with regard to their sex. The data was collected from 65 respondents and of these 41 (63.1percent) were male compared to 24(32percent) who were female. The majority of the respondents were male compared to female which shows exactly the gender bias in Kyankwanzi. Some departments like human resource, production and procurement had no female employees. The male dominance in local government

can contribute to lack of ability to perform as expected of them, leading to poor performance and corruption tendencies which tend to be more associated with male employees.

This shows that, in this study female respondents were not well represented. In addition, since the study covered almost all the employees in the different departments, it seems that Kyankwanzi district local government has not so much excelled in considering female representation in its employment process which is also an indication that there is not yet increasing numbers of women in the work force in some government institutions. According to International Labour Organization ILO (2004), the number of women in the work force has been increasing over the years with the corresponding increase of the number of highly educated women worldwide.

4.2.2 Distribution of respondents by Age group.

The working age population is defined as those aged 15 to 64. The basic indicator for employment is the proportion of the working age population aged 15-64 who are employed. The age dependency ratio is the ratio of dependents (people younger than 15 or older than 64) to the working-age population.

This table indicates that the majority of the respondents were in the age brackets between 35-45 years (47.7percent) while 21 (32.3.2percent) were in the age bracket of 26-55 years. Only 1 respondent (1.5 percent) was below 25 years of age and she was the office attendant in the finance department. Four employees (6.2 percent) were above 56 years and were moving towards retirement. These includes: Dr. Kamurasi Tom the senior veterinary officer from agriculture department, Principle assistant secretary, the Chief administrative office (CAO) who has served for More than 20 years (was serving by the time Kyankwanzi was declared a district)

and assistant senior veterinary officer. Only 8 (12.3percent) were in the age bracket of 46-55 years. This showed that most of the staff were still in a very active stage and energetic to perform as required.

4.2.3 Respondent's years in service / working experience

Results in table above shows that the majority of the respondents, that is 36 (55.4percent) had been in service for a period ranging between five to ten years. 22, that is 33.8percent had served for over ten years and only 7 employees (10.8percent) had less than five years' experience. Since experience is believed to be the best teacher, the staff of KDLG had attained a reasonable amount of experience and balance which could be sufficient for them to register effective and efficient financial performance.

4.2.4 Respondents' highest level of education

The above table shows that the majority of the respondents 17 (26.2percent) were holders of a Bachelor's degree, while 15 (23.1percent) were holders of a Diploma and 20.0percent held the Master's degree just like the post graduate diploma holders. Only 7 (10.7percent) were holders of certificates of either O level or A level. None of the respondents had PhD degree. This showed that most of the staff in Kyankwanzi district local government had attained a reasonable level of education which could be sufficient for them to register effective financial performance and adhered to internal control system.

4.2.5 Religion of the respondent

This means the belief in and worship of a superhuman controlling power, especially a personal God or gods. In other words it is a particular system of faith and worship. In this study we

classified religion into three major denominations that is Christianity, Islamic religion and others. Christianity in this study included the Catholics, orthodox, Pentecostals, born-again and Presbyterian. Islamic religion included the Muslims. Others mean that either the respondent is traditionalist, pagan or refused to say. From the study we found out that majority of the respondents were Christians, that is 45 (69.2percent) compared to 13 (10.8 percent) who were Muslims. 7 (10.8 percent) respondents fell under others, implying they are traditionalists, pagans or refused to say.

4.2.6 Region of origin

This is the region in which the household head resides. This variable (region) was coded ranging from one to four with 1 for Central region, 2 for Eastern region, 3 for Northern region and 4 for Western region. In Uganda, the southern region is considered to be part of the Central region.

Results in table above shows that the majority of the respondents, that is 43 (60.0percent) are coming from the Central Region. This could have been due to the fact that the district itself is also located in Buganda, Central region. This was seconded by western region which produced about 14 (21.5percent) of the respondents. Only 5 (7.7percent) were originating from the eastern parts of the country, that is Busoga, Teso land, Bugishu land among others. The minority represented region was the Northern part of Uganda, with only 3 (4.6) and we found out that these were the security officers of the district.

4.2.7 Findings on the area of residence

The study investigated about the location/area of residence of the respondents. Location refers to a person's home, especially a large and impressive one. In thus study residence was classified into two that is urban and rural residents. The term urban includes those living in cities, town,

suburbs among others while rural in this study includes those coming from village areas. We found out that 40 respondents, that is about 61.5 percent were coming from urban areas. 25 (8.5 percent) were rural residents. The researcher took an initiative to engage respondents about their residence and it was found out that majority of them were coming from the Capital city, Kampala and just go to Kyankwanzi district local government for work and return over the weekend to their families

4.2.8 Respondents' Marital status

Civil status, or marital status, is any of several distinct options that describe a person's relationship with a significant other. Married, single, divorced, and widowed are examples of civil status. In this study, marital status was classified into two that is married and not married. Married means those married in any form whether religiously or customary, the bottom line is that they must have come together. From the study, we found out that majority of the respondents, that is 52 accounting for 80 percent were married. Just 13 respondents (20 percent) were not married.

4.3 Relationship between financial performance and internal audit

Respondents were also required to give their opinion on whether internal audit was related to performance. To establish this, the respondents during the study were provided with options of Yes and No.

From the figure (2), 38 and 20 males and females respectively agreed that financial performance is related to internal audit. Only 3 males and 4 males were not agreeing. All in all we can see that on, average financial performance is related to internal audit

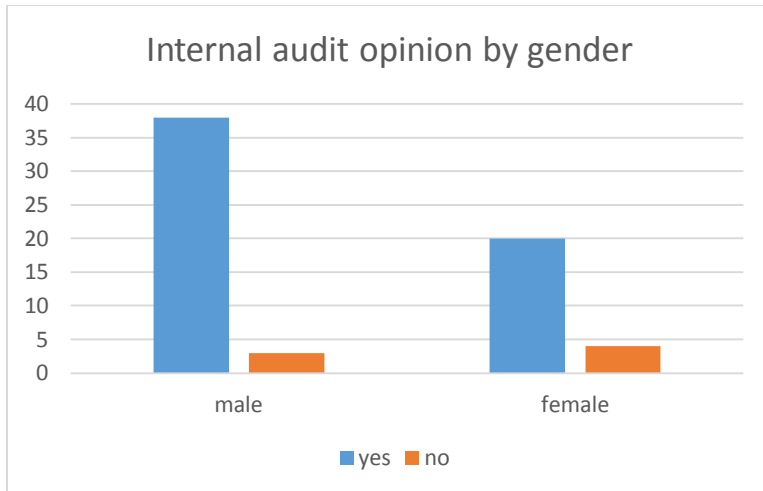


Figure 1: Internal audit opinion by gender

In order for the researcher to get respondents views different from those that were put in a questionnaire as answers to open questions about the importance/ role of internal auditing, various responses were mentioned and they include; recovering of misappropriated funds and results summarized in figure 3

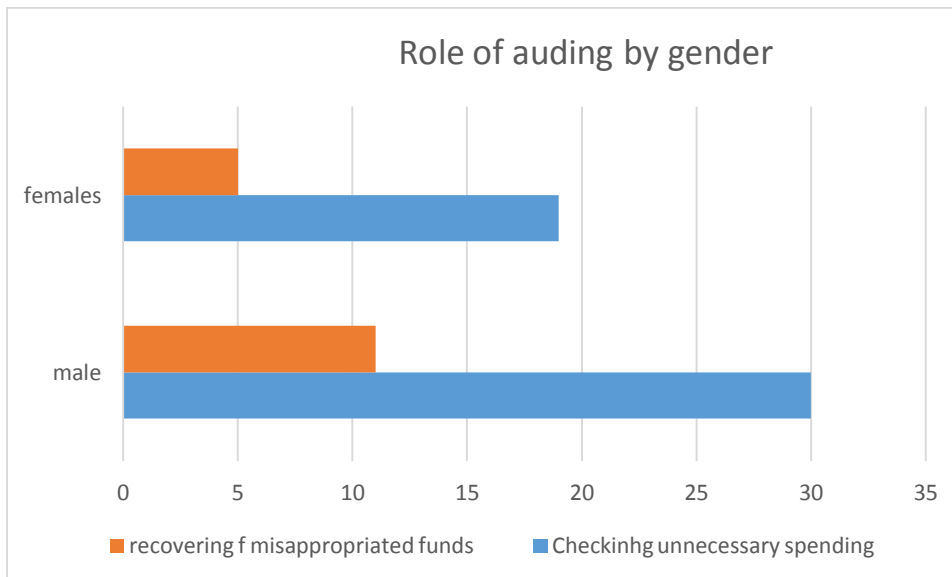


Figure 2: Role of auditing by gender

From figure 3, Respondents totaling to 49 (30 males and 19 females) also stressed that internal auditing checks and control unnecessary spending within the local government’s employees. Here they lamented on over extravagancy among some employees to benefit themselves rather than the general public. 16 respondents (11 males and 5 females) argued that internal auditing helps in recovering of misappropriate funds. Here respondents further explained that defaulters have been brought to book and asked to refund or imprisoned thus increasing public resources that would others be lost if the internal audit would be weak.

4.4 The indictors of financial performance

A number of indicators of financial performance were listed in the questionnaire and respondents asked to have their own opinions. The results were summarized in figure 4

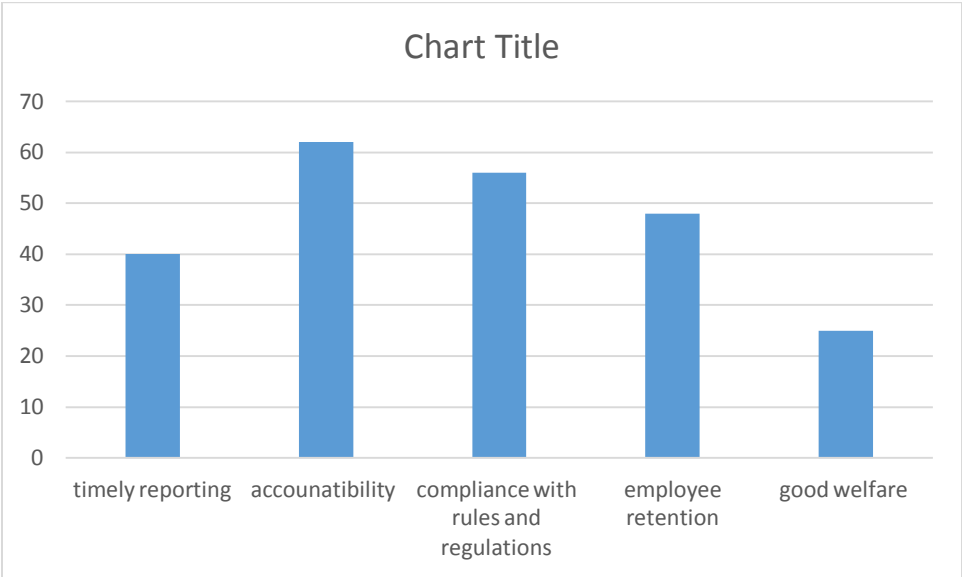


Figure 3: The indictors of financial performance

From figure 4, accountability was the most cited indicator of financial performance seconded by compliance with rules and regulations, followed by employee retention, timely reporting and good welfare. The respondents gave their opinion on the effectiveness of the accountability procedure and supported their position by citing some key examples which are presented below; they believe that, the Accountability process is adequate and their reason being that some staff take the process for granted. Some line managers noted that they have never been asked for accountability for money given to them especially after implementing the activities. They also pointed out that the problem of accountability is related with lack of a comprehensive finance manual that stipulates clearly what has to be done in regard to accountability. They also pointed out lack of supervision and follow up of accountability related issues. However, they equally support that other instances regarding accountability seem to be adequate and these include; improving transparency in the system, and procurement process.

The respondents seem to have mixed opinions regarding the local government's position on reporting. Others believe that the local government has adequate reporting system (the reporting in the local government is gradually improving) while others think the reporting system is not any better (lack of regular reports; senior managers do not ask for reports from their juniors, similarly, line managers also fail to ask for regular reports and with sanctions in case this is not adhered to)

4.5 Effectiveness of the Internal Financial Control

Considering the rate of effectiveness of the internal financial control in the organization, the following findings were obtained and summarized in figure 5

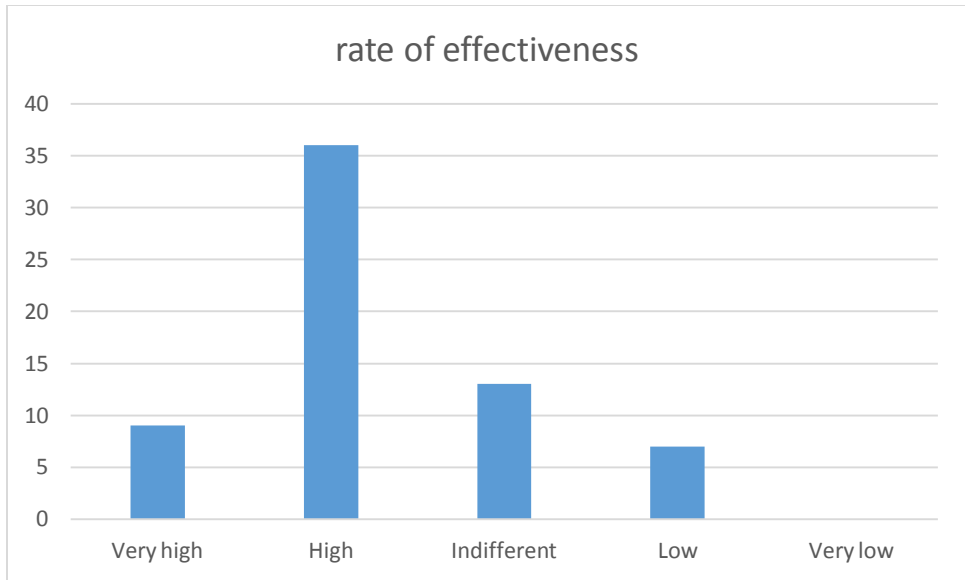


Figure 4: rate of effectiveness

Out of the 65 respondents of the study, 36 (55.4percent) of the respondents reported high level of effectiveness of the internal financial control practiced, while 13 (20percent) of the respondents indicated indifference in effectiveness of the internal financial control, meaning that the financial control of the organization is neither high nor low. Very high effectiveness was reported by 9 respondents (13.8percent) and only 7 respondents which are equivalent to 10.8percent of the respondents reported low level of effectiveness of the internal financial control exercised at KDLG. However, there was no respondent who reported a case of very low effectiveness rate of the internal financial control in the organization.

**CHAPTER FIVE: CONTROL ENVIRONMENT AND FINANCIAL PERFORMANCE IN
KYANKWANZI DISTRICT LOCAL GOVERNMENT**

5.0 Introduction

This chapter presents the major results and discussions arising from the data analysis related to the First objective of the study, that is, to assess the effect of reliable accountability on financial performance in Kyankwanzi district local government.

5.1 Reliable accountability and financial performance in Kyankwanzi district

The objective of the study was to assess the effect of reliable accountability on financial performance in Kyankwanzi district local government. The respondents were asked to respond to a number of statements regarding internal reliable accountability and the findings are summarized in the table below.

Table 4: Reliable accountability and financial performance in KDLG

Accountability items	1	2	3	4	5
Our organization has an accounting and financial management system	2 (3.1%)	5(7.7%)	7 (10.7%)	40(61.5%)	11(16.9%))
Management is committed to the operation of the system	5(7.7%)	8(12.3%))	8(12.30%))	36(55.4%)	8(12.3%)
Management closely monitors implementation of Internal control systems in the institution	15(23.1%)	6(9.2%)	10(15.4%))	30(46.2%)	4(6.2%)

Management provides feedback to the junior officers about the operation of the system	7(10.8%)	8(12.3%)	7(10.8%)	35(53.8%)	8(12.3%)
Management acts with a great degree of integrity in execution of their roles	1(1.5%)	15(23.1%)	5(7.7%)	38(58.5%)	6(9.3%)
Ethical values are upheld in all management decisions	15 (23.1%)	2(3.1%)	3(4.6%)	25(38.5%)	20(30.8%)
Our organization has an objective, independent and active audit committee	0(0%)	2(3.1%)	0(0%)	10(15.4%)	53(81.5%)

Scale (1-Strongly disagree, 2- disagree extent, 3-Not sure, 4-agree, 5- strongly agree)

To analyze the findings, employees that strongly agreed and those who agreed were combined in one category of those who concurred with the item. In addition, employees who strongly disagreed and those who disagreed were combined in one category of those who opposed the items. Another category of employees was those who neither agree nor disagree that is, not sure with the item. Thus the three categories of employees were compared. Interpretation was then drawn from the comparison of the three categories as shown below.

According to the data collected from the respondents, the researcher found out that majority (78.4percent) of the respondents agrees that the organization has an accounting and financial management system. A few of them (10.8percent) disagree while just 10.7percent were not sure.

As regards the Management's commitment to the operation of the system, the respondents were satisfied with the top management. 67.7percent agreed, 20percent disagreed while 12.3percent were not sure. Only 7 percent were strongly disagreeing. This means that KDLG

staffs are committed to their work. The studies also found out that 52.4percent of the staff members agree that the Management closely monitors implementation of internal control systems in our institution. 32.3percent disagree while 15.45 were not even sure and majority of these were from the human resource department. They argued that sometimes monitoring is done and other times not done. For the question about whether Management provides feedback to the junior officers about the operation of the system, 66.1percent agree 23.1 disagree and about 10.7percentwere not sure. Some of those who were not sure argued that they are not keen and therefore not taken up by some activities that take place in Kyankwanzi District local government

Another measure of reliable accountability is the way Management acts with a great degree of integrity in execution of their roles. The findings indicate that 67.8percent agree, 24.6 percent disagree and 7.7percent were not sure. A deeper question was asked to the respondents who disagreed and they gave a scenario were some staff members were recruited not on merit but rather on personal arrangement which even included bribery.

About whether Ethical values are upheld in all management decisions, 69.3percent agree, 26.2 disagree and small minority (3) were not sure. Those who disagreed (names withheld), explained the fact that, there is a tendency of top management sexually harassing workers for employment when the district had just been established but made it clear that the act is currently not common. On the same objective the question of whether the organization has an objective, independent and active audit committee was asked and the study found out that 96.9percent were in agreement, only 31.1percent disagree and none of the respondents was not sure. They argued that the audit department has only four staff members and are completely independent. In case of any decision to make the secretary, Examiner of accounts and the two internal auditors meet and

agree. This could perhaps explain the reason one respondent gave, that the audits department has committed staff.

5.2 Testing the influence of Reliable accountability on Financial Performance.

In order to determine the relationship between internal control activities and FP of KDLG, correlation and regression analyses were conducted. Pearson correlation coefficient (r) was used to determine the strength of the relationship between internal control activities and FP of KDLG. The coefficient of determination (R-squared/ square of correlation coefficient) was used to determine the effects of ICS on FP. The significance of the coefficient (p) was used to test the objective by comparing (p) to the critical significance level at 0.05 and this procedure was used to test all the other objectives.

Table 5: Relationship between Reliable accountability and Financial Performance

Reliable accountability	Pearson Correlation Sig-(2-tailed)	Reliable accountability	Fin. Performance
		1	0.271*
	N	65	0.039
			65
Fin. Performance	Pearson Correlation Sig-(2-tailed)	0.271*	1
		0.039	65
	N	65	
*Correlation is significant at the 0.05 level (2-tailed)			

Source: Computed by the author using SPSS. N means the sample size

According to the results above, internal control activities and FP were found to have a significantly positive relationship ($r= 0.271$, $p< 0.05$). Thus the hypothesis which stated that there are positive relationship between internal control activities and FP is partially confirmed. This implies that Reliable accountability have positive effects on FP of KDLG. Therefore, in order to improve on financial performance, there is need to develop a Reliable accountability plan. Mullins (2003) also found out that there is strong positive relationship between internal audit functional and financial performance.

The Correlation analysis reveals a significant positive relationship between Reliable accountability and financial performance. The findings confirm to assertions by IIA, (2001) which states that internal control provides a foundation for reliable accountability in Government Corporations of most developing countries in Africa. It is further argued that Reliable accountability helps to ensure that a ministry, agency or department carries out its required function effectively and efficiently, that its financial reporting is reliable and complies with relevant laws and regulations). It further states that for most countries, such internal controls are focused on controlling allocation of spending, accounting procedures and financial statement.

In order to determine the extent to which internal control activities influences FP, the Simple regression analysis was conducted. The results are summarized in table 6 below.

Table 6: Coefficient of determination showing the influence of Reliable accountability on Financial Performance

R-squared = 0.84		Probability =0.039
	Standardized Coefficient	
	Beta	Significance
Reliable accountability	0.271	0.039

Source: Computed by the author using SPSS

From the above, we can see that Reliable accountability significantly affects FP ($r=0.271$). This means that Reliable accountability are a significant determinant of FP at KDLG. Since the correlation thus implies a casual effect as stated in the objective, the coefficient of determination (R-squared/square of correlation coefficient) which is a square of correlation coefficient (R-squared =84) was computed and expressed as a percentage to determine the variance in FP in KDLG due to Reliable accountability. Thus findings show that Reliable accountability accounted for 84 percent of the variance in FP in KDLG. This technically implies the regression model of a good fit since R-squared the measures the goodness of fit of the regression line.

These findings were further subjected to a test of significance (p) and it is shown that the significance of correlation (probability = 0.039) is more than the recommended critical significance at 0.05. This means that Reliable accountability have a positive significance effect on FP. This implies that FP at KDLG improves with improvement in Reliable accountability.

5.3 Importance of internal audit in the reliable accountability of public corporation funds in Uganda local governments

This study established that internal audit had great linkage with ensuring transparency and accountability with in public offices. Most respondents credited internal audit for a positive transformation and fight against misuse of offices as well as public corporation funds as shown in the table below;

Table 7: importance of internal audit on the accountability of public corporation funds

Importance	Frequency (%)	Sample responses
Ensures management systems of internal control	20 (30.7)	Monitoring and maintenance of public resources
Ensures effective and efficient use of public resources	13(20)	Transparency in offices
Ensures compliance with relevant laws and regulations	13(20)	Auditing leaves workers on a careful guard
Ensures reliability and integrity of information for economics	13(20)	Good information and records flow in offices
Ensure compliance with financial reporting requirements and accounting standards	4(6.2)	Improved accounting for Public resources
Extends councils understanding of risk Management beyond traditional areas of public liabilities	2 (3.1)	Widens knowledge on mismanagement of public resources

Source: Primary Data(2018)

Ensures effective and efficient use of public resources, this was supported by 20 (30.7%) respondents, who stressed that without internal audit, most of the public resources would be lying under waste. They had to put it that public workers have in most cases been forced to

promote transparency in their respective offices so as to concur with expectations of the auditors; otherwise they would be questioned and penalized. Therefore, internal audit has sown seeds of efficiency and effectiveness in KDLGoffice

Ensures management systems of internal control, this was raised by 13 (20%) respondents who asserted that management systems are improving whereby there is close monitoring and maintenance of for instance office equipment and records. This ensures proper management systems for internal control through effective reporting of auditors to audit committees who in turn through reviewing and approving progress results for implementation of the recommendations.

Ensures compliance with relevant laws and regulations, this was pointed out by 13 (20%) of the total respondents who further stressed that internal auditing leaves public workers on a careful guard while dealing with public funds and this improves their accounting standards that even yields compliance to the financial reporting requirements. Hence transparency and proper /and reliable accountability keeps evident. Ensures reliability and integrity of information for economics, was raised by a total of 13 (20%) who that said, reliability and integrity of information for economics in various offices has been reaped out of the seeds sown by internal auditing as a positive move towards ensuring accountability of public funds. They further explained that these are actual schedule of internal auditors in as far as the use of public resources to satisfy the public.

Ensure compliance with financial reporting requirements and accounting standards was raised by 4 respondents, constituting 6.2 percent. They further explained that these are actual schedule of mainly the staff in the accounts section in as far as the use of public resources to satisfy the

general public as well as the clients. Extends councils understanding of risk management beyond traditional areas of public corporation liabilities, this was raised by the least number of respondents 2 (3.1 %), but has nothing to interfere as regards its relevancy towards promotion of accountability of public funds. This is because raising the possibilities of the council to understand risk management would reduce financial mishandling and unnecessary diverting of public corporation intended funds for private gains. All in all, therefore, despite the fact that ensuring effective and efficient use of public resources was supported by the majority of respondents as presented in table above, it should not be wholesomely understood that it is the major role internal audit plays towards ensuring accountability of public corporation funds, other factors raised are equally significant.

5.4 Challenges which face reliable accountability in local governments

The respondents were asked about their opinions on the challenges which face reliable accountability. Precisely, this study has found out seven main challenges which hinder reliable accountability. These are; lack of adequate facilities, bad perceptions of stakeholders about internal auditing, shortage of the project skills to the internal auditors, political influence, inflation rate, organizational structure and long term of work between auditors and audited. The challenges are summarized in Table 8 and are further discussed below it.

Table 8: Challenges which face reliable accountability

Challenges	Frequency	Percentage (%)
Lack of adequate facilities	22	33.8
Stakeholders' perception	19	29.3
Organizational structure	16	24.6
Shortage of project skills to auditors	15	23.1
Long term familiarization between auditors and audited	15	23.1
Political influence	25	38.5
Inflation rate	60	92.3

Source: Field Data (2018).

Note: the respondents were ticking more than one challenge hence the frequency does not talk to 65. The percentage also does not total to 100.

i) Lack of Adequate Facilities

From the study findings, it seems that 22 (33.8) of the respondents showed that lack of adequate facilities play a great role in threatening the internal auditing to perform well. Main facilities which were claimed for by the respondents are; shortage of motor vehicles and drivers which could be used to make several follow ups and thereby simplifying the auditing activities, especially at the field during the value for money audit. Some respondents argued that, there is lack of facilities like sufficient computers which may lead to the auditing works not to be done effectively. With this regard, 22 (38.3%) of the respondents accepted that lack of adequate facilities to internal auditors in the organization affect internal auditing. Many respondents

explained this challenge at high level of concern, for instance, one of the respondents said the following in stressing about the issue:

“Our organization has not kept priority to the existence of sufficient facilities for internal audit unit, and hence the works become less effective or consume a lot of time. For instance, insome occasions, the internal auditors could not visit the site they intended to do verification of the development projects due to the breakdown of their car. They further argued that itbecomes worse in cases where the auditors do not own private cars”.

Apart from that, some respondents indicated with concern that another challenge regarding inadequate facilities in the KDLG is the absence of Auditing Software. The respondents reported that, up to this moment, there is no auditing software for running the auditing activities professionally and as par standards. In fact, auditors do still use manual system to process their daily works, which retards the auditing works and thereby making the output not creditable. In addition to that, the process leads to spending of more precious time on running auditing activities. One of the respondents had this to say in justifying the above scenario.

“We are using outdated technology for auditing, because our internal auditors in the organization till now use manual system for running their auditing assignments. So, this is costly to the auditors and even to the organization”.

Following from the above observation, it can be concluded that, absence of auditing software is a great challenge at KDLG to make the auditing work run smoothly. Due to that, there is urgent need to have the Auditing Software in place so as to accelerate the auditing works as per norms and standards.

ii) Stakeholders' Perceptions on Auditing

The findings display that, existence of bad perceptions of stakeholders to the auditors create large affection the internal auditing activities. The respondents from the study gave this challenge a second priority in terms of its negative effect on internal auditing. Out of 65 respondents, 19 (29.3%) highlighted bad perceptions of stakeholders to the auditors in affecting internal auditing in the organization as a big challenge. In defending their views about the challenge, one of the auditors (name withheld) said that:

“Some stakeholders perceive internal auditors as policemen. Since the policemen theory of auditing states that, the auditor is responsible for searching, discovering and preventing fraud, so they do think that the major aim of the auditing is only to scrutinize the area where the fraud has taken place”.

In so doing, there is ideological difference between the auditors and those who are audited and hence the auditing becomes affected. Some respondents showed their views about the challenge by saying that this issue leads to acquiring of no proper data during the field findings. One respondent was quoted saying that:

“Due to the fear which staff members have about the internal auditing exercise, they do sometimes deliver wrong data aiming at defending themselves. In so doing, they affect the auditing exercise and its output”.

iii) Functional Organizational Structure

The factor that was ranked at second last position by respondents isa major challenge facing internal auditing was the functional structure of the organization. From the study findings, many

respondents out-cried about the existing organizational structure which normally puts the internal audit office as a section or a unit within the administration department. This is not proper because, internal audit deserves to be an independent unit given the nature of its activities. 16 respondents (24.6 percent) reported this as one of the challenges which hinders proper functioning of the audit unit ostensibly because it denies fully fledged autonomy to the unit

The respondents suggested that, there should be separate internal audit department which will be independent from the council administration functionally. Furthermore, some respondents viewed that, internal audit unit can remain as it is administratively; however, it needs to report differently in terms of functioning.

iv) Shortage of Auditors' Skills about the Projects Technicalities

Findings displayed that, about half of the respondents mentioned lack of technical knowledge on the side of auditors regarding development projects as one of the challenges facing the internal auditing. They argued that, most of the time, auditors stay at the office for undertaking auditing functions, and hence their profession does not match with the technical activities at the site. So, it becomes difficult for them to conduct value for money audit for issues they are not conversant with. The respondents proposed that, there should be several trainings to the internal auditors about technical skills for running projects. This will equip them technically and will eventually make internal auditing more effective.

v) Long term Familiarization between Auditors and the Audited

Internal auditing is also affected by the long term familiarization of work between auditors and those being audited in the same organization. As far as the issue of long term familiarization between workers is concerned, about half of the respondents mentioned it as a serious

predicament. In fact, respondents have a view that long term familiarization play a big role on affecting internal auditing in the organization. On explaining about this, one respondent claimed about this challenge by saying that:

“There are some staff members from auditing unit who have served this organization for quite long time. This is a setback because there must be close relationship with other staff or top management. Due to that, the auditing exercise is likely to be affected”.

From the study findings, it was widely narrated by the respondents that there should be rotation of the auditors from time to time. If this is done, the dilemma of long term familiarization of the auditors and other staff members in the organization can be reduced if not eradicated. The advantage would be avoidance of illegal and unwanted practices about auditing exercise.

vi) Political Interference

From the study findings, it was found out that the political interference is another challenge facing internal auditing in KDLG. The findings displayed that 13 respondents which accounted for 43.3% of all the respondents nominated political interference as one of the internal auditing challenge. The study respondents indicated that sometimes politicians contravene the professional judgment made by internal auditors due to their political interests. They continued saying that, internal auditors are restricted by politicians through top management of the council to report the issues which may affect political stability of some politicians.

vii) Inflation Rate

Inflation has been one of the challenges facing the value for money audit. This problem causes fluctuation of material prices, escalation of projects' costs and

elongation of projects' completion time."Precisely, the study findings show that internal auditors become challenged mainly during the value for money audit due to the inflation rate. From the findings, 60 (92.3%) of the respondents mentioned this as a challenge. This means that "Inflation rate may lead to the value for money audit become ineffectively done. This is due to the fact that; project completion time may reach its end but the project itself may have not been completed. This dilemma is simply caused by the need for additional money that was not budgeted for due to sunk cost resulted from hiking of material prices."

**CHAPTER SIX: INFORMATION COMMUNICATION AND FINANCIAL
PERFORMANCE IN KYANKWANZI DISTRICT LOCAL GOVERNMENT.**

6.0 Introduction

Respondents were asked to indicate the extent to which their district local governments assessed risks in terms of timely reporting associated with financial management. The findings were summarized as shown in table 9

Table 9: Timely reporting and financial performance Kyankwanzi district local Government

Risk Assessment	1	2	3	4	5
Management has defined appropriate objectives for the organization	0(0%)	4(6.1%)	0(0%)	18(27.7%)	43(66.2%)
Management identifies risks that affect achievement of the objectives	15 (23.1%)	30 (46.2%)	5 (7.7%)	10 (15.4%)	5 (7.7%)
Management has a criterion for ascertainment of which fraud-related risks to the organization are most critical	22(33.4 %)	15(23.1%)	16(24.6%)	5(7.7%)	7(10.8%)
Management has not put in place mechanisms for mitigation of critical risks that may result from fraud	15 (23.1%)	6 (9.2%)	25 (38.5%)	10 (15.4%)	9 (13.8%)

Scale: (1-Strongly disagree, 2- disagree extent, 3-Not sure, 4-agree, 5- strongly agree)

As shown in Table 9; majority 61 (93.4percent) of the respondents indicated that their district local government has appropriate objectives. Only four respondents disagree. The staff members said that the organizational objectives are very clear and they have been pinned at the reception and other offices. The staff argued that, during the orientation of any employee, the human resource team usually emphasizes the organisation objectives, goals, mission, vision as well as the core values.

In line with whether Management identifies risks that affect achievement of the objectives, 69.3percent of the respondents agree, 7.7percent were not sure and 23.1percent were in disagreement. Overall we can say that KDLG tries to identify the risks. However, it is also important to note that while majority of the respondents argue that Management has a criterion for ascertainment of which fraud-related risks to the organization are most critical, they emphasized the fact that the criterion exists but not clear. One respondent in the Audit section concluded that the criterion only exists on paper. Related to the criterion is whether the Management has put in place mechanisms for mitigation of critical risks that may result from fraud. On this note, majority (38.5percent) of the respondents was not sure, 32.3percent disagree and 29.2percent agree. The reasons why there are no mitigation mechanisms include: corruption of the existing little funds alongside shortage of funds. They argued that the funds in most case come late and hence it has affected the planning and hence financial; performance. Another reason was the lack of global exposure to leaders on how risks can be mitigated.

6.1 Testing the influence of Timely reporting on Financial Performance of KDLG

In order to determine the influence of Timely reporting on FP of KDLG, correlation and regression analysis was conducted the results are summarized in the tables

Table 10: Relationship between Timely reporting and Financial Performance

Timely reporting	Pearson Correlation	Timely reporting	Fin. Performance
	Sig-(2-tailed)	1	0.334*
	N	65	0.010
			65
Fin. Performance	Pearson Correlation	0.334*	1
	Sig-(2-tailed)	0.010	65
		65	
*Correlation is significant at the 0.05 level (2-tailed)			

Source: computed by the authors using SPSS. N means sample size

According to the result table above, Timely reporting was found to have positive relationship ($r=0.334$ $p<0.05$). Thus the hypothesis that stated that there is a positive relationship between Timely reporting and FP in KDLG is accepted. This means that Timely reporting has a positive effect on FP of KDLG. This practically implies that FP in KDLG improves with better timely reporting. In order to determine the extent to which Timely reporting influences FP, regression analysis was carried out. The results are summarized in the table

Table 11: Coefficient of determination influence of timely reporting on FP

R-squared = 0.112		Probability = 0.010	
	Standardized Coefficient		
	Beta		Significance
Timely reporting	0.334		0.010

Source: computed by the authors using SPSS

The findings show that timely reporting significantly affects FP ($r = 0.334$). This means that Timely reporting is a significant determinant of FP in KDLG. Correlation just implies a casual effect, coefficient of determination which is a square of correlation coefficient ($r^2 = 0.112$) was computed and expressed as a percentage to determine the variance of FP in KDLG as a result of Timely reporting. Thus findings show that Timely reporting accounted for 11.2 percent variance in FP in K. Since this is correctional data set, a lower coefficient of determination/ R-squared is expected according to the rule of thumb.

Test of significance (p) was also carried out and it shows that the significance of correlation ($p = 0.010$) which is more than the recommended significance at 0.05. This means that Timely reporting has a significant positive effect on Finance performance. In practice, this means FP improves with improvement of timely reporting.

6.2 Effectiveness of the timely reporting in KDLG

Considering the rate of effectiveness of the timely reporting in the organization, the following findings were obtained.

Table 12: Rating of Effectiveness of Timely reporting

Rate of Effectiveness	Frequency	Percentage (%)
Very high	9	13.8
High	36	55.4
Indifferent	13	20
Low	7	10.8
Very low	0	0
Total	65	100

Source: field survey by the author (2018)

Out of the 65 respondents of the study, 36 (55.4 percent of the respondents reported high level of effectiveness of the timely reporting practiced, while 13 (20%) of the respondents indicated indifference in effectiveness of the timely reporting, meaning that the timely reporting of the organization is neither high nor low. Very high effectiveness was reported by nine respondents (13.8%) and only 7 respondents which are equivalent to 10.8 percent of the respondents reported low level of effectiveness of the timely reporting exercised at the Municipality. However, there was no respondent who reported a case of very low effectiveness rate of the timely reporting in the organization. Very low effectiveness was not recorded by any respondent.

6.3 Efficiency of timely reporting

The study also used rate of efficiency of the timely reporting to measure performance level of the internal auditing in the organization. The findings were summarized

Table 13: Evaluation of Efficiency of the internal financial control

Rate of Efficiency	Frequency	Percentage (%)
Very high	6	9.2
High	39	60
Indifferent	11	16.9
Low	9	13.8
Very low	0	0
Total	65	100

Source: Field data (2018).

From the findings, there were 39 (60%) of the respondents who reported high efficiency of the internal financial control. The second choice fell under the category of indifference in rating efficiency, whereby eleven respondents (16.9%) reported so. Nine respondents which is equivalent to 13.8% reported that the efficiency rate is low, whereas six (9.2 %) of the respondents said that rate of efficiency of the internal financial control in the organization with regards to unwanted practices is very high. There was no respondent who reported very low efficiency of the internal financial control in the organization.

6.4 Techniques Used in Auditing Activities in KDLG

An effective approach, to gathering audit evidence normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while the other a high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable.

The study respondents tried to express various techniques /methods which are used in internal auditing activities in KDLG and which are common for gathering audit evidence. The majority of the respondents reported the following three techniques as the major techniques/mechanisms for conducting internal auditing in the organization.

i) Interviewing Technique

Findings showed that, interviewing is a frequently used technique to gather evidence and opinions. Interviews can help to define the issues, furnish evidence to support audit findings, and clarify positions between the auditor and the audited on audit observations and recommendations. Through interviewing technique, auditors may also detect policies, past operations and similar operations of other departments in the organization. It was reported further by respondents that, interview is used to identify problem, provide evidences for confirmation of the audit findings and the positions of the auditor and audit object which may be compared to the breaches identified via audit and recommendations.

ii) Documents Review

The study findings portrayed that, auditors use the technique of reviewing both financial and non-financial documents for getting real picture on how transactions have been implemented. By doing so, they scrutinize vouchers of payments and all important supporting documents to look if

regulations have been obeyed. One respondent from planning section said that, the documentary review is helpful to internal auditors because:

“It entails personally attesting to a process or procedure, for example, the application of controls by members of the auditee's staff or the manner in which stakeholders of the organization are treated. Many service transactions and internal control routines can only be evaluated by seeing the audited performing them”.

iii) Audit Test

Finally, the study findings indicated that, some of the respondents mentioned the audit test as among the internal auditing techniques. This includes compliance testing and detailed inspection which are used for controlling adequacy and effectiveness in auditing. In addition to that, the specific testing may be selected on the basis of judgment (for instance, taking into consideration the scopes, risks or other properties) in auditing exercise. Further findings showed that, the auditors use sampling method in executing audit test. This reduces audit risk to an acceptable and standard level in auditing exercise.

**CHAPTER SEVEN: COMPLAINTS WITH RULES AND REGULATIONS FINANCIAL
PERFORMANCE IN KYANKWANZI DISTRICT LOCAL GOVERNMENT**

7.0 Introduction

Respondents were asked to indicate the extent to which their County Governments practiced the following control activities. The findings were summarized as shown in Table 1 2below.

Table 14: Compliance with rules and regulations and financial performance Kyankwanzi district local government

Compliance with rules and regulations	1	2	3	4	5
Our organization has clear separation of roles	3(4.6%)	2(3.1%)	5(7.7%)	30(46.2%)	25(38.5percent)
Every employee's work check on the others	12(18.5%)	20(30.8%)	3(4.6%)	17(26.2%)	13(20percent)
Corrective action is taken to address weaknesses	32(49.2%)	23(35.4%)	0(0%)	7(10.8%)	3(4.6percent)
Staff are trained to implement the accounting and financial management system	25(38.5%)	23(35.4%)	2(3.1%)	8(12.3%)	7(10.8percent)
It is impossible for one staff to have access to all valuable information without the consent of senior staff	5(7.7%)	8(12.3%)	4(6.2%)	34(52.3%)	14(21.5percent)

Controls are in place to exclude incurring expenditure in excess allocated funds	23(35.4%)	16(24.6%)	20(30.8%)	4(6.2%)	2(3.1%)
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	2(3.1%)	3(4.6%)	1(1.5%)	36(55.4%)	23(35.4%)
Our security system identifies and safeguard organizational Assets	16(24.6%)	14(21.5%)	5(7.7%)	17(26.2%)	13(20%)

Scale1-Strongly disagree, 2- disagree extent, 3-Not sure, 4-agree, 5- strongly agree)

In the table 12above,the researcher set out to examine the functionality of the internal control systems in KDLG using control activities as an internal control component. The results of the suggested that respondents indicated that there was clear separation of roles while executing finance and accounting functions. This is shown by a mean of 84.7percent who agreed as compared to only 7.7percent who were not sure just like those who disagreed. The respondents added that, although the departments are located near each other there is clear separation of the specific roles of each.

The results of the survey as reflected also suggest that respondents had different opinions as to whether every employee’s work is checked by others as revealed 49.3percent who disagreed and 46.2percent who agreed then only 4.6percent were not sure. It can also be seen from the table that 84.6percent of the respondents don’t agree with the statement about whether corrective actions are taken to address the weaknesses. Only 15.4percent were agreeing. nobody was not

sure. one respondent from the agriculture department emphasized that bad acts are done and known but no corrective actions are undertaken.

As regards whether the Staff are trained to implement the accounting and financial management system, majority (73.9percent) of the respondents disagreed and only 23.1percent were in agreement. A small minority of 3.1percent were not sure. The respondents in the accounts and the audits department said that they have never had training on how to implement the management system. The few who got the training emphasized that it was their personal arrangement. the training usually take place in other districts and respondents who attend bear a full financial expenses.

About whether It is impossible for one staff to have access to all valuable information without the consent of senior staff, 73.8percent of the respondents agreed compared to 205 who disagreed. The respondents made it clear that the senior staffs are ethical in the sense that they keep the valuable information confidential. This makes it hard for other staff member to access it. Regarding whether, Controls are in place to exclude incurring expenditure in excess allocated funds, most respondents disagreed, that is 60percent compared to their counterparts which constituted the 9.3percent. The conclusion made by the researcher from the field survey indicates that some controls are in place but don't prevent expenditures from going beyond the budget. This could be due to the fact that in most cases the budgets are made in time but the funds are realized at a very late time. This has given hard time to the top managers in terms of effective planning.

The findings from the study also indicate that 90.8percent of the respondents agreed that their departments have budget reviews where actual expenditure is compared with budgeted

expenditure but in argued that no explanations for the variances is given in case of any disagreement. Once there is disagreement between the budget expenditure and the actual expenditure, it is left in the hands of the external auditors and top management. This means that there is hiding of information at KDLG. On this, only 1.5percent was not sure and 7.7percent disagreement. The study found out that those who disagreed were among the top managers.

The last control activity was about whether, the security system identifies and safeguards organizational Assets. Here mixed results were found out. The number was those who disagree were equal to the number of those who agree, that is 30 respondents. Only 5 (7.7percent) were not sure. This tempted the researcher to investigate deeply. It was found out that the security team tries to provide safety, although the team is small in size and not so well equipped. One respondent gave a scenario where thieves hacked into one office during the heavy rains of February 2016 and the security officer was unable to rescue the situation given the lack of equipment like rain coats, gumboots, torch for light among others.

7.1 Testing the influence of Compliance with rules and regulations on Financial Performance

In order to determine the influence of auditing on FP in KDLG correlation and regressionanalysis was conducted. The results are summarized in the tables below;

Table 15: Relationship between Compliance with rules and regulations on Financial Performance

Compliance with rules and regulations	Pearson Correlation Sig-(2-tailed) N	Compliance with rules and regulations 1 65	Fin. Performance 0.941* 0.021 65
Fin. Performance	Pearson Correlation Sig-(2-tailed) N	0.941* 0.021 65	1 65
*Correlation is significant at the 0.05 level (2-tailed)			

Source: computed by the authors using SPSS

According to the results in the table above, auditing and FP have significant relationship ($r=0.941$ $p < 0.05$). Thus the hypothesis that stated that there is a positive relationship between Compliance with rules and regulations and FP is accepted. This means that auditing has significant influence on FP at KDLG. This practically implies that Compliance with rules and regulations has slightly affected FP of KDLG. In order to determine the magnitude of the influence of Compliance with rules and regulations on FP regression analysis was conducted. The results are summarized in the table below:

Table 16: Coefficient of determination showing the influence of Compliance with rules and regulations on Financial Performance

R-squared = 0.885 Prob = 0.021		
	Standardized Coefficient	
	Beta	Significance
Compliance with rules and regulations	0.941	0.021

Source: computed by the authors using SPSS

According to the summarized results in Table 13, findings show that Compliance with rules and regulations affects FP which means that Compliance with rules regulations is one of the determinants of FP in KDLG. The coefficient of determination (R-squared = 0.885) for Compliance with rules and regulations is 0.885. This means that 88.5 percent of variation in FP is explained by Compliance with rules and regulations. Test of significance (p) was also carried out and it showed that a significance of correlation $p=0.941$ which is more than the recommended significance at 0.05. This means that Compliance with rules and regulations has a positive effect on FP.

7.2 Compliance to the Requirements or Rules by Internal Auditing Mechanisms

The respondents were asked about the Compliance and results summarized:

From the study findings, it seemed that, Internal Auditing mechanisms fulfilled the requirements or rules of the organization. Majority of the respondents showed that the internal auditing

mechanisms fulfilled the requirements or rules of the organization to the high extent. From the total of sixty five (65) respondents, seventeen (26.2%) of the respondents circled highly fulfill the requirement. In case of satisfactorily fulfillment of the organizational requirement, 40 (61.5%) of the respondents of the study reported so. Furthermore, 3 of the respondents (4.6%) indicated indifference in fulfillment of the organization requirements. About 7.7 % of the respondents opined that the internal auditing mechanism do not fulfill requirements to some extent, while there was no respondent who said that the mechanisms of the internal auditing in the organization does not fulfill the requirements. If one considers highly fulfill the requirements and satisfactorily fulfill the requirements as simply fulfill the requirements, then we find out that majority of the respondents have feelings that the internal auditing in the organization fulfill the requirements.

Table 17: *Compliance to the Requirements or Rules by Internal Auditing Mechanisms*

Extent of Fulfillment	Frequency	Percentage (%)
Highly	17	26.2
Satisfactorily	40	61.5
Indifferent	3	4.6
Does not fulfill to some extent	5	7.7
Does not fulfill at all	0	0
Total	65	100

Source: Field data (2018).

CHAPTER EIGHT: HARMONISATION OF INTERNAL CONTROLS AND FINANCIAL PERFORMANCE IN KYANKWANZI DISTRICT LOCAL GOVERNMENT

In this chapter, we develop a discussion which links the findings of the study to literature review and suggests the way forward

This study found a positive relationship between the reliable accountability and FP. This was in line with the study by Wallace & Kreutzfeldt (1991) which was among the first to demonstrate the importance of the reliable accountability in explaining the existence of an internal audit function. More recently, Goodwin-Stewart & Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Recent case studies on internal auditing in Belgium illustrate the importance of the control environment when studying internal auditing practices. Sarens & De Beelde (2006a, 2006b) found that certain reliable accountability characteristics (e.g., tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management and internal controls are clearly defined and communicated) are significantly related to the role of the internal audit function within an organization. The tone-at-the-top refers to a company's ethical values, management's philosophy and operating style (Cohen *et al.*, 2002) which are reflected by the company's code of conduct or code of ethics.

Control environment was found to be positively related to FP in KDLG: Every organization faces a variety of business risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks that may

prevent the achievement of established objectives. Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Furrugia 2002). It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Consequently Jones (2007), looks at Timely reporting as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets.

Compliance with rules, regulations and policies by staff of KDLG was found to be crucial in promoting FP by this study: this compliance with the policies and procedures implemented by management helps to ensure management directives are carried out to meet organizational objectives. They are designed to address risks that could prevent achieving the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. Each department is unique, and only the most basic of control activities are specifically outlined in university policy and procedures. The department head is responsible for identifying other appropriate control activities to address the unique risks to which his or her department may be exposed.

Basing on the role compliance with rules, regulations and policy, timely reporting and reliable accountability play in FP, this study suggests the following way forward

KDLG should put in place are policies and procedures that help ensure that management directives are carried out. This basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls

(necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The district should ensure that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non-routine monitoring activities such as period audits by the internal auditors

Information and Communication should be improved: Pertinent information must be identified, captured, and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across, and up the organizational structure. All personnel must have a means of communicating significant information upstream. The department must also effectively communicate with external parties, such as students, sponsors of research, alumni, and administrative departments. The administrative departments are here to assist you in achieving your operational goals without violating applicable laws, regulations, or policies. If you are unsure of the legal and/or business risks associated with a particular transaction, it is definitely NOT “better to ask forgiveness than request permission.” (Glass, 2005). According to Britnell (2001), Information and communication refer to the systems put in place by an organization to identify, capture, process and report relevant and reliable information in a timely manner so that people can carry out their responsibilities effectively. In addition, these systems deal with both internally and externally generated/required data and flows both vertically and horizontally in the organization. Gaskill (2000), looks at information and communication component as the identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish the financial reporting objectives. Open channels of communication are

necessary to allow information to flow throughout the entity and into the financial statements and therefore management should discuss the identification, capture, and flow of financial information in its report (Richard & Janet 1997).

There should be effective monitoring. This refers to the process of assessing the quality of a system's performance over time (Jones, 2008). It entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives (Coffin, 2003). Monitoring activities may be ongoing or may be separate evaluations and it is important given the complex and dynamic environments faced by most organizations (Henle 2005). It seeks to ensure that systems are performing as intended. However this is accomplished through ongoing monitoring activities, periodic evaluations or a combination of the two (COSO, 2004).he further contends that these activities permeate the entire organization, at all levels and in all functions.

Physical control of assets: An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records, investigate and correct differences. Liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposition. Examples of access controls to assets are as follows: locked door, keypad systems, card key system, badge system, biometric system, locked filing cabinet, guard, terminal lock, computer password, and menu protection, automatic call-back for remote access, smart card, and data encryption. (United States General Accounting Office, 1999) Inadequate

internal control over assets may increase the susceptibility of misappropriation of assets. For example, misappropriation of assets may occur because of the following: inadequate segregation of duties or independent checks, inadequate oversight of senior management expenditures, such as travel and other re-imbursements, inadequate record keeping with respects to assets, inadequate system of authorization and approval of transactions, inadequate physical safeguards over cash, banks accounts, investments, inventory, or fixed assets, disregard for internal control over misappropriation of assets by overriding existing control procedures by failing to correct known internal deficiencies (Integrated Framework, 1992).

CHAPTER NINE: SUMMARY AND CONCLUSIONS

9.0 Introduction

The study examined the ICS that affects financial performance in KDLG. The study specifically set out to explore effect of compliance with rules, regulations and policies, timely reporting and reliable accountability, on financial performance in KDLG. This chapter comprises of three areas of concern as provided for in sections to be presented as summary and conclusion of findings, recommendation and area for future research.

9.1 Summary and conclusions of findings

The Internal Control system a component compliance with rules, regulations and policies, timely reporting and reliable accountability relates to the financial performance a component of timely accountability, reporting and compliance with laws, regulations and policies. The researcher's findings showed that control activities have a significant positive relationship with financial performance. Control activities component includes policies and procedures designed to ensure that management directives are effectively implemented and these policies/procedures provide guidance for timely responses, and thus aid in achieving the organization's objectives and goals (Odongkara, 2016 and Cooper and Geiger, 2004). The findings of this study are in agreement with the World Bank Report (2015). The report shows that control of government entities usually plays an important role in the review of government Annual Budget submission hence financial performance.

The study also concluded that there is a moderate positive relationship between reliable accountability and FP in KDLG. The environment in which ICS operates contributes a lot to the success of the system. Reliable accountability is accepted as a tangible component of a strong

system of internal control which can have a substantive impact on the nature and extent of the audit. Based on the findings of the study and the hypothesis tested, it is concluded that timely reporting has a significance impact on FP and the majority of the respondents agreed that a well instituted and timely reporting and management criterion with qualified staff improves FP.

9.2 Recommendations

The following recommendations were made by the researcher in relation to the findings and conclusions thereof. The recommendations were drawn with study objectives and findings.

- The administration of KDLG should ensure that there exists an effective and strong Reliable accountability and good financial policy, the right number of employees to enable segregation of duties, professional Accountants in audit and Finance departments to uphold ethical values in managing finances of the council.
- The council should also establish strong and effective internal control procedures as provided for in the Local Government Financial and Accounting Regulations of 2007 and Public Finance Management Act 2015 that can help to minimize risk.
- ICS needs a conducive environment for efficient implementation to minimize fraud; efficient and effectiveness of performance including management integrity and ethics are emphasized and strongly adhered to as they determine the strength of reliable accountability and improved financial performance in public institutions.
- Appropriate means are always adopted to correct mistakes in operations of the accounting systems and feedback is provided to junior officers by the senior officers about the operations of the system. This can be achieved by close monitoring, evaluation and reporting of the implementation of internal control systems.

- For the success of ICS, the internal department should be sufficiently staffed with qualified accountants and made Controls are in place to exclude incurring expenditure in excess allocated funds
- Independent to avoid impairing their independence.
- The district should obtain more security guides to increase the safety of the assets. This is because security is a big challenge from the study findings

9.3 Suggested areas for Further Research

The study focused on only ICS that affects FP yet there are other factors that affect FP like government policies, political interference, qualifications of Accountants and internal audit staff. To the researcher's thing, further studies can be conducted such as to investigate:

- Effect of internal control on financial performance at sub-county or county level
- Internal audit effectiveness and financial performance in the public sector.
- The reasons behind the influence of internal control system on performance of County Governments in Uganda. Researchers should go ahead and establish the reasons behind the failure of internal control practices among County Government.

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APPENDIX 1: SURVEY QUESTIONNAIRE

I am by names of Bugembe Noah, registration number 2015/AUG/MBA/M218866/WKD/KLA.

I am student of Nkumba University offering Masters of Arts in Business Administration. This questionnaire is designed to collect data on internal control and financial performance of local government sector. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided with the correct answer or supplies the required information and where required, please specify and elaborate.

Section A: Background characteristics of the respondent

1. What is your gender?

Male

Female

2. What is your age bracket?

Below25

25-35

36-45

46-55

56 and above

3. What is your working experience in terms of number of years of service?

Below 5 years

above five years

4. What is your highest level of education?

Certificate

Diploma

Bachelor's degree

Master's degree

PhD

5. Give their opinion on whether internal audit was related to performance.

YES

NO

6 Tick which one is the major Role of auditing in your own opinion

i) internal auditing checks and control unnecessary spending within the local government's employees

ii) ii) internal auditing helps in recovering of misappropriate funds

7 Which of the following are the indicators of financial performance?

Timely reporting

Accountability

Compare with rules and regulations

Employee retention

Good welfare

SECTION B: Internal Controls and financial performance in Kyankwanzi district local government

. Rank the way your organization promotes reliable accountability. (1-Strongly disagree, 2-disagree extent, 3-Not sure, 4-agree, 5- strongly agree)

Reliable accountability	1	2	3	4	5
Our organization has an accounting and financial management system					
Management is committed to the operation of the system					
Management closely monitors implementation of Internal control systems in our institution					
Management provides feedback to the junior officers about the operation of the system					
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Finance Management System					
Management acts with a great degree of integrity in execution of their roles					
Ethical values are upheld in all management decisions					
Our organization has an objective, independent and active audit committee					

Explain the Importance of internal audit in the reliable accountability of public corporation funds in Uganda local governments

.....

List the challenges that face reliable accountability at your place of work

.....

. Rank the extent to which your organization’s management is involved timely reporting.(1- Strongly disagree, 2- disagree extent, 3-Not sure, 4-agree, 5- strongly agree)

Timely reporting	1	2	3	4	5
Management has defined appropriate objectives for the organization					
Management identifies risks that affect achievement of the objectives					
Management has a criterion for ascertainment of which fraud-related risks to the organization are most critical					
Management has not put in place mechanisms for mitigation of critical risks that may result from fraud					

Rank the way your organization promotes **Compliance with rules, regulations and policies**(1- Strongly disagree, 2- disagree extent, 3-Not sure, 4-agree, 5- strongly agree)

Compliance with rules, regulations and policies	1	2	3	4	5
Our organization has clear separation of roles					
Every employee’s work check on the others					

Corrective action is taken to address weaknesses					
Staff are trained to implement the accounting and financial management system					
It is impossible for one staff to have access to all valuable information without the consent of senior staff					
Controls are in place to exclude incurring expenditure in excess allocated funds					
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given					
Our security system identifies and safeguard organizational Assets					

How is the Compliance to the Requirements or Rules by Internal Auditing Mechanisms?

High

Satisfactorily

Indifferent

Does not fulfill to some extent

Does not fulfill at all

Thank you for your participation

APPENDIX II: Interview Guide

Dear respondent.

My name is Bugembe Noah; I am currently carrying out a research for writing a report as a partial requirement for the award of a master of business administration of Nkumba University Kampala. Due to your position in the organization you have been selected to participate in this study. The information you are going to provide will be treated with utmost confidentiality and will be used for the purpose of this study only. Kindly respond to these questions.

1- Do you occupy any management level by the virtue of your position?

2-In your opinion does the district operates internal control system? If so how your roledoes supports it?

3-Are the systems of internal control referred to in 2 above functional as they are intended to?

4-In your opinion what would you consider the main measure of financial performance in districtcouncils?

5-In your opinion do you think the accountability process in the urban council adequate?

Givereasons for your answer.

6 - How would you rate the reporting process in Kyankwanzi district?

7- In your opinion do you think timely accountability is the best measures of financialperformance?

9-Does Compliance with laws, regulations and procedures measures financial performance of Kyankwanzi district?

10-What other measure would you consider?

Thankyou for your time.

Appendix III: KYANKWANZI DISTRICT LOCAL GOVERNEMENT

