INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE
OF LOCAL GOVERNMENTS IN UGANDA
A CASE STUDY OF KAPCHORWA DISTRICT

By

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March, 2014
DECLARATION

I Simon Peter Chepsikor declare that this research is my original work and it has never been submitted to any institution for any award or publication.

Sign: ……………………… Date: ……………………………

Simon Peter Chepsikor
APPROVAL

We certify that Simon Peter Chepsikor carried out this research work under our supervision and has been submitted for examination with our approval.

Sign: ........................................ Date: ........................................

Dr Stella Kyohairwe.

Supervisor: Uganda Management institute

Sign: ........................................ Date: ........................................

Mr Mayanja Kambugu

Supervisor: Uganda Management institute
DEDICATION

To my parents Rev. E.K. Chepkweshek and Florence Chepkweshek together with my wife Agnes and children.
ACKNOWLEDGEMENT

I take this opportunity to thank all people who made a contribution in my academic journey and warm regards go to all of those who have made a positive contribution in my life.

I would like to express heartfelt gratitude to my supervisors, Dr Stella Kyohairwe and Mr. Mayanja Kambugu, whose tireless efforts have made this dream a reality. No amount of words can express my sincere gratitude for your unending support during the research period. I am greatly indebted to the lecturers and staff of Uganda Management Institute and to my many colleagues the students (MMS 28) for your unending support in this journey.

I am also grateful to the staff, of Kapchorwa Local Government who participated in the research. Special thanks go to the CAO, Heads of Departments, councillors and Finance staff that spared their precious time in answering my Questionnaire and responding to the Interview guide. Without the contribution of all of you this research would not have been possible.

I take this opportunity to thank my entire extended family for their love, patience and encouragement, I am particularly indebted to my Wife; Agnes, Children Linda Chelimo, Aaron Rotich, Florence Chemutai, Mark Kiprop, Leah Cheptoyek, and Moses Kipto, whose time was greatly, compromised during my studies.


May the good Lord bless you all.
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<tbody>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>ACODE</td>
<td>Advocates Coalition for Development and Environment</td>
</tr>
<tr>
<td>C.A.O</td>
<td>Chief Administrative Officer</td>
</tr>
<tr>
<td>C.F.O</td>
<td>Chief Finance Officer</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations</td>
</tr>
<tr>
<td>D.D.P</td>
<td>District Development Plan</td>
</tr>
<tr>
<td>DEC</td>
<td>District Executive Committee</td>
</tr>
<tr>
<td>DPAC</td>
<td>District public Account Committee</td>
</tr>
<tr>
<td>D.S.C</td>
<td>District Service Commission</td>
</tr>
<tr>
<td>F/Y</td>
<td>Financial Year</td>
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<td>ICS</td>
<td>Internal control System</td>
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<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
</tr>
<tr>
<td>KLG</td>
<td>Kapchorwa Local Government</td>
</tr>
<tr>
<td>LAG FAR</td>
<td>Local Government Financial and Accounting Regulations</td>
</tr>
<tr>
<td>LGA</td>
<td>Local Government Act</td>
</tr>
<tr>
<td>LGFC</td>
<td>Local Governments Finance Commission</td>
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<tr>
<td>LLG</td>
<td>Lower Local Governments</td>
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<tr>
<td>PFMPR</td>
<td>Public Financial Management Performance Report</td>
</tr>
<tr>
<td>PPDA</td>
<td>Public Procurement and Disposal of Assets Authority</td>
</tr>
<tr>
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ABSTRACT

Despite the existence of regulations and control measures to guide Local Governments operations in Uganda, mismanagement of funds and other resources persist. The study was aimed at establishing the relationship between Internal Control Systems (ICS) and financial performance in Kapchorwa District and specifically analysed the relationship between control environment, control activities and financial performance in Kapchorwa District, and further assesses whether management is committed to effective implementation of ICS. The study utilized both quantitative and qualitative approaches. Primary data was gathered on a sample population of 182 individuals comprising KLG staff at management level, district councillors, chairpersons of boards and commissions, Finance and Administration and other staff. Data is analysed using SPSS and results are presented in tables and figures. The study found that management of the institution is committed to the control systems and actively participates in monitoring and supervision of the activities of the District. It was further noted that there aren’t enough funds to meet intended objectives. The study established a significant positive relationship between internal control system and financial performance. The study concluded that internal control systems do function although with hiccups and that there is a significant relationship between internal control systems and financial performance in a Local Government. The investigation recommends that managers of public institutions should establish internal control procedures in order to eliminate, mitigate, or compensate for the risks and ensure regular performance reviews, appropriate separation of duties, and periodic reconciliations.
CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study examines the relationship between Internal Control Systems (ICS) and financial performance of Local Governments (LG) in Uganda, taking Kapchorwa District as the case study. This chapter focuses on the major theoretical issues accruing to global perspectives and Africa’s status on internal control systems and financial performance at LG level, it also provides definitions where necessary, gives the status of the subject matter in Uganda with supporting policies and how they are linked to proper functionality of LGs. In addition, it provides the context for the statement of the problem, a discussion of the significance and scope of the study.

1.2 Background to the Study

The decentralization of government programs and service delivery in Uganda over the last decade resulted to the shifting of control systems from the central government to the district level. Whereas power has been decentralized, financing options still remain at the Central Government despite the fact that LGs have to generate their own revenues and ensure effective utilization of all resources (Local Government Finance Commission [LGFC], 2008). Regulation 5 of the Local Government Financial and Accounting regulation (LGFAR, 1998) requires Accounting Officers to institute ICS to ensure minimization of wastage and loss of public assets. The Public Financial Management Performance Report (PFMPR, 2008) suggested that establishment of proper ICS in the public sector leads to improved accountability, communication and information sharing among stakeholders. It also asserts that internal controls exist but audit reports show that they are widely violated or
ignored leading to poor performance in local governments. It is against this background that the researcher is seeking to establish the relationship between ICS and financial performance in Kapchorwa district.

### 1.2.1 Historical Background

Article 16(1) of the constitution of Uganda (1995) provides for the system of local governance in Uganda based on the District as an administrative unit under which there are lower Local Governments (LLG) and local councils. Kapchorwa District was created from the then Bugisu District in 1962, subsequently in 2006 and 2010 Bukwo and Kween districts were curved out of Kapchorwa District respectively (Kapchorwa District development plan, 2011). Over the last decade the Government of Uganda has implemented a decentralization policy which resulted in the devolution of functions, powers and services to local government councils in a bid to ensure good governance and improved service delivery. This meant that LGs were entrusted with more roles in procurement of goods, works and services, thus requiring structures that would ensure proper utilization and accountability of resources entrusted them (LGFC, 2008).

### 1.2.2 Theoretical Background

The study was based on the Agency theory which suggested the existence of a contractual arrangement between the owners of economic resources (the principals) and the managers of the entity (the agents) who are granted the responsibility of controlling and utilizing the resources (Jensen and Meckling, 1976). It looks at principal-agent relationship which is concerned with the separation of ownership and control. In this case the principals are the citizen who are represented by their elected leaders (district councilors), while the agents are the management and staff. This
theory assumes that agents have more information than the principals and this information asymmetry adversely affects the principals ability to monitor the fulfillment of their interests by the agents and that agents act rationally and use the contractual arrangement to maximize their wealth (Berle and Means, 1932), as a consequence they tend to act against the interests of the principals creating what was referred to as an agency problem. This theory was chosen because “Internal control is one of many mechanisms used in business to address the agency problem” (Jensen 1983).

1.2.3 Conceptual Background

Following several high profile failures in the 1980’s, the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 1992) was created with the aim of redefining internal controls and setting the criteria for their establishment. ICS consist of measures undertaken by an organization for the purpose of; protecting its resources against waste, fraud, inefficiency and ensuring accuracy and reliability of accounting data, ensuring compliance with policies and evaluating performance in all units of the organization (Association of Chartered Certified Accountants [ACCA] 2008). The COSO committee described internal controls as consisting of five essential components which include; control environment, risk assessment, Control activities, monitoring, information and communication. However for purposes of this study Internal Control Systems (independent variable) was measured by two components of Control Environment and Control Activities (Muraleetharan 2011).

Control environment is the foundation for all other components of internal control, providing discipline and structure. A conducive control environment is influenced by the following factors; integrity, ethical values and competence of the entity’s people (COSO, 1992). On the other hand,
control activities are defined by the Institute of Internal Auditors (IIA, 2008) as policies and procedures established to address risks that would hinder achievement of the entity’s objectives. They also emphasize that control activities include components of internal control over financial reporting that provide reasonable assurances that financial statements are prepared in accordance with generally accepted accounting principles.

Financial Performance is a measure of how well a firm can use assets from its primary mode of business and generate revenues; it is a general measure of a firm's overall financial health over a given period of time, (Sabanciozer 2012). It shows how financial resources are utilized, whether they are mobilized and spent in an efficient manner (PFMPR, 2008). Financial Performance (dependent variable) was measured by accountability, which shows the extent of achievement of desired outcomes (Kakumba, 2008), which was in turn measured by the ability to prepare annual accounts and performance reports (Colier, 2005). Performance of LGs in Uganda declined over the last five years; as indicated by poor accountability reports and substantial reduction in their revenue collections (Advocates Coalition for Development and Environment [ACODE], 2010).

1.2.4 Contextual Background

The system of Local Governance in Uganda has been based on the District as an Administrative Unit under which there are LLGs that are accountable to the citizens in their areas of jurisdiction (LGA, 1997). Despite the fact that District and LLG councils are mandated to ensure effective service delivery there is widespread consensus that performance of LGs has been less than desirable thus significantly affecting levels of service delivery (ACODE, 2010).
Against this background the Government of Uganda instituted systemic controls in the Integrated Financial Management System (IFMS) to strengthen accountability procedures and prevent unauthorized expenditure. This controls are sometimes bypassed leading to misuse of funds due to non-enforcement of regulations, which builds a culture of disrespect for the law (PFMPR, 2008). The various reported instances of malpractices in the utilization and accountability for public funds in LGs is attributed to management’s failure to implement internal controls (LGFC, 2008). This view is in line with the Internal Audit Report (2009) which recommends strict enforcement of control procedures by management so as to minimize loss of revenue, ensure proper utilisation and accountability of available funds. An analysis of the financial statements of Kapchorwa indicates that the district has experienced declining revenue against an ever increasing cost of service delivery resulting into budget deficit as shown in Table 1 below.

Table 1: Showing Revenue, Expenditure and surplus/Deficit of KLG

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Revenue</td>
<td>9,308,914,507</td>
<td>11,001,149,001</td>
<td>10,891,804,414</td>
</tr>
<tr>
<td>Expenditure</td>
<td>9,159,274,158</td>
<td>11,128,508,650</td>
<td>11,051,530,109</td>
</tr>
<tr>
<td>Surplus /Deficit</td>
<td>149,640,349</td>
<td>-127,359,649</td>
<td>-159,725,695</td>
</tr>
</tbody>
</table>

Source: Adopted from Kapchorwa District Final Accounts (2009-2011).

1.3 Statement of the Problem

Local Governments in Uganda are required to institute and implement ICS to ensure effective utilization and accountability for public funds (LGFAR, 2008). But an assessment of the levels of service delivery revealed that Uganda’s LGs have performed poorly as compared to other East African countries (ACODE, 2010). The LGFC (2008) further notes that failure by LGs in Uganda to comply with financial regulations such as the Public Finance and Accountability Act 2003, LGA
(1997) as amended (2012) and LGFAR, (1998) as amended (2007) has led to poor revenue collection, improper utilization and poor accountability for the available funds. These regulations require accounting officers to ensure effective operation and enforcement of internal controls which include; authorisation and approval of all expenditure, security of public assets and all other resources. However audit reports on the financial statements of Kapchorwa district indicate that these controls have not been effectively implemented leading to poor accountability for the available funds. The Internal Audit report for F/Y 2008/2009 cites low revenue collection and non-remittance of funding to projects by the district that resulted in delayed completion of projects which affected delivery of essential services. The financial statements of Kapchorwa district show a deficit of USh.127,359,649 for 2009/2010 and USh.159,725,695 in 2010/2011. Since then, the district has been experiencing financial difficulties to the extent of failing to meet its statutory tax obligations. It was listed among top tax defaulters that were due to be prosecuted in the Daily Monitor Newspaper of 5th June 2013 (Kulabako, 2013). The Auditor General’s report on KLG for F/Y2008/2009 indicates failure to effectively implement internal controls leading to various anomalies in the utilization and accountability for public funds.

These anomalies have continued to occur despite existence of ICS, raising questions as to why these internal controls have not ensured improved accountability and hence good financial performance. Past studies have not found a solution to this problem leaving a gap that is yet to be filled. It is against this background that this study seeks to establish to extent to which ICS influence financial performance in Kapchorwa district.

1.4 Purpose of the Study
The purpose of the study was to establish the relationship between Internal Control Systems and financial performance in Kapchorwa District.

1.5 Objectives of the Study

The major study objective was to examine the relationship between Internal Control Systems and financial performance in Kapchorwa District. Specifically, the aim of the study was to:

i. Establish the relationship between Control Environment and financial performance of Kapchorwa District

ii. Establish the relationship between Control Activities and financial performance of Kapchorwa District.

1.6 Research Questions

To address the above specific objectives, the study seeks to answer the following questions:

i. What is the relationship between Control Environment and financial performance of Kapchorwa district?

ii. What is the relationship between Control Activities and financial performance of Kapchorwa district?

1.7 Hypothesis of the Study
There is a significant relationship between ICS and financial performance of LGs in Uganda.

Two sub-hypotheses were specified by the researcher as follows:

(i) There is a significant positive relationship between control environment and financial performance of LGs in Uganda.

(ii) There is a significant positive relationship between control activities and financial performance of LGs in Uganda.

1.8 Conceptual Framework

The conceptual framework shows the relationship between Internal Control Systems (independent variable) and financial performance (dependent variable). Internal Control Systems was measured by its components of Control Environment and Control Activities. While financial performance was measured by accountability (Figure 1).

Figure 1: Conceptual framework

Source: Adopted and modified from literature review and INTOSAI (2004).

The above conceptual framework indicates that financial performance is influenced by the control environment that prevails in a local government together with the control activities implemented.
by management of the local government in an effort to ensure improved accountability which is in turn determines the level of financial performance.

1.9 Significance of the Study

The findings of the study will first help to formulate appropriate interventions to address the current problems relating to financial performance of LGs, while at the same time help the political leadership to monitor implementation of policies and regulations. Secondly, help policy makers and regulatory authorities in the development of financial regulations that will ensure improved management of public funds, ensure effective delivery of services and expand knowledge to help other researchers in this area.

1.10 Justification of the Study

The study will help increase awareness among policy makers to appreciate the need for effective implementation of ICS in the management of public funds and hence the achievement of financial performance and other organizations objectives. It will also generate knowledge that links the two dimensions of ICS (Control Environment and Control Activities) with financial performance as measured by accountability in service delivery in LGs.

1.11 Scope of the Study

1.11.1 Geographical Scope
The study was carried out in Kapchorwa District Local Government located on the slopes of Mt. Elgon in eastern Uganda. It is bordered by Bulambuli district to the West and north, Sironko district to the south and Kween district to the East. It is composed of 13 Sub-Counties (DDP, 2010) with a total area of 519 km² and an estimated population of 120,513. It is composed of 13 Sub-Counties and one Town Council (Kapchorwa District Development Plan (DDP), 2012).

The study was conducted among civil servants in various departments of the district, members of the district council, boards and commissions.

1.11.2 Content Scope

The study intends to establish the relationship between ICS and financial Performance of Kapchorwa District. It investigates the stakeholder’s views regarding financial performance of Kapchorwa District, employee perceptions and management plans for future improvement.

1.11.3 Period Scope

The study covers the period 2009 – 2012 which includes an analysis of financial performance of the district and an assessment of the current status together with planned interventions. Primary data collection was in October 2013 and only respondents found in the geographical location of the study area are included in this study. This time period is deemed appropriate for the data collection and the researcher received clearance from Uganda Management Institute and permission was given by the CAO Kapchorwa to conduct the study.

1.12 Operational Definitions
1. Accountability: The liability to give an account of what one has done, or not done, to another who has authority to assess the account and allocate praise or blame

2. Effectiveness: The capability of producing a desired result or intended outcome.

3. Financial Performance: A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues

4. Goals: Desired result an organization plans and commits to achieve as a desired end-point

5. Local Government: A form of public administration which exists as lower tier of governance within a given state.

6. Lower Local Government: the lowest tier of local governance within a given administrative unit of a state.

7. Objectives: These are specific results that an organization strives to achieve within a time frame and with available resources.

8. Service delivery: Is the provision of services by Local Governments to the public in accordance the laws of the country.

CHAPTER TWO

LITERATURE REVIEW
2.1 Introduction

This chapter reviews the literature on the relationship between Internal Control Systems (ICS) and financial performance with particular focus on accountability in local governments. It comprises a review of literature on ICS (independent variable) with emphasis on Control Environment and Control Activities. While financial performance (dependent variable) is measured by the various aspects of accountability which is also reviewed by looking at literature from previous researchers.

2.2 Theoretical Review

The study focuses on the Agency theory which refers to a governance scheme in modern corporations that are typically characterized by a large number of owners (shareholders) who allow separate individuals (directors) to control and direct the use of their collective capital for future gains (Sridharan, 2011). Initial discussions on ownership and control in large corporations are raised by Berle and Means (1932) who proposes that in order to address the concerns of separation of ownership and control, a comprehensive contract has to be written to help harmonize the interests of the principals and agents. This is further improved by Jensen and Meckling (1976) who views it as an ‘agency problem’ in governing the corporation and identifies managers as the agents who are employed to work for maximization of shareholder’s (principals) returns. The later further suggest that the relationship is improved by the principal employing an expert to monitor the actions of the agent.

Coarse (1937) however states that the relationship is affected by what is described as adverse selection and moral hazard as reflected by the agent not doing exactly what he is appointed to do and not possessing the requisite knowledge about what should be done. Jensen and Meckling
(1976) go further to develop the concern for separation of ownership and control into a fully-fledged agency problem comprised within the economic ‘theory of the firm’ and they identify internal control as one of the mechanisms to address the agency problem.

The significance of the agency theory is further emphasized by Watts & Zimmerman (1983) who noted that it is used to justify the need for internal controls and that the principal-agent model provides a coherent and useful framework for understanding managerial accounting procedures. Kloot and Martin (2001) however suggest that the social contracts that exist between the parties as envisaged by Berle and Means (1932) form a basis for accountability by the agents. This argument is in line with Funnell (2003) who links the principal-agent relationship to performance and accomplishment of agreed goals where agents are required to account for their actions. He argues that service delivery has moved from a political activity to a technical issue placing greater emphasis on accountability, budgeting and performance.

2.3 Conceptual Review

Internal Control Systems are measures instituted by an organization to ensure the realization of the entity’s objectives. It is a process, implemented by an entity’s directors and management to provide reasonable assurance regarding the achievement of organizations objectives in form of effectiveness and efficiency of operations, reliability of financial reports, and compliance with applicable laws and regulations (COSO. 1992). According to Ludwig, (1968) control systems consist of people, structures and processes that work together to make an organization healthy. INTOSAI, (2004) however assert that they are a series of interrelated components in form of actions that occur throughout an entity’s operations in a continuous basis. Their argument is in line
with COSO that ICS are procedures put in place by the management of an organization to ensure efficient and effective operation of activities, so as to meet the organization’s objectives.

The COSO definition categorized the primary objectives of ICS into three interrelated categories of ensuring efficient and effective operations, accurate financial reporting, and compliance with laws and regulations. They went further to identify five components of ICS which include; control environment, Risk assessment, Control activities, monitoring, information and communication as shown in Figure 2.

**Figure 2: Components of internal control framework**

From Figure 2, the COSO model is depicted as a pyramid with control environment as a base for control activities, risk assessment and monitoring while information and communication link the different levels of the pyramid which forms an integrated system with synergy, linkage and ability to cope with changing conditions.
Whittington and Pany, (2004) bring in the concept of reasonable assurance which implies that no system is perfect. They look at ICS as policies and procedures that are established to provide reasonable assurance that the organization’s objectives are achieved. Cunnigham (2004) on the other hand asserts that management plays an oversight role and takes the overall responsibility for the effective operation of the system. He suggests that control systems begin as internal processes with the positive aim of ensuring that an entity meets its objectives.

However ACCA, (2008) emphasizes that ICS should be an integral part of the organizations financial policies and procedures, they reinforced their argument by asserting that successful firms are those which strive to ensure adherence to internal control procedures. This view was supported by IFAC, (2012) who assert that to be successful organizations take advantage of opportunities and counter threats through effective application of internal controls to improve their performance, their report points out that one of the best defences against business failure is having an effective ICS which manages risk and enables creation and preservation of value. However despite the existence of internal controls, accountability failures of Local Governments’ in Uganda are blamed on the weak systems of internal control (Kakumba, 2008).

2.4 Actual Literature Review

In the next subsections, evidence in literature on the relationships between key subcomponents of ICS and financial performance is reviewed.
2.4.1 Control environment and financial performance

Control Environment refers to the overall governance and management functions of an entity which reflects the attitude, awareness and actions of its directors, management and owners (IFAC, 2012). It is the most important component of ICS as it sets the tone of the organization by influencing the consciousness of management (Whittington and Pany, 2001). The factors that influence the control environment include; employee’s integrity, organization’s commitment to competence, management’s philosophy and operating style and direction of the board of directors and its audit committee (COSO, 1992). It is the foundation of all the other components of internal control as depicted in the COSO model in Figure 2.

The significance of control environment is emphasized by INTOSAI, (2004) who asserts that it focuses on the overriding philosophy and operating style within the organization which shows management’s involvement in the establishment of a control system that they believe is effective. They further note that it provides a framework for preparing verifying and disseminating financial reports to the stakeholders. This is supported by Rittenberg et al. (2005) who points out that control environment starts with the board of directors and management who set the tone of the organization through policies, behaviours and effective governance; they also assert that laxity in the tone set by management means that fraudulent financial reporting is likely to occur. Management in LGs have on many occasions overridden the ICS, as indicated in the Auditor General’s report (2010), which cites inability by accounting officers to enforce internal controls regarding accountability as one of the reasons for poor financial reports the F/Y 2009/2010.
2.4.2 Control activities and financial performance

Control activities are policies, procedures, techniques and mechanisms that are taken to ensure that management’s response to reduce risk is carried out (INTOSAI, 2004). This view is supported by the Centre for Audit control (2007) which looks at them as specific policies and procedures designed to mitigate financial reporting risk. This argument is in line with COSO, (1992) who refer to control activities as actions taken to address risk prone areas and go ahead to identify some of the most commonly used control activities as authorization, verification, approval, segregation of duties, reconciliation, physical security over assets and planning.

However, Thuy (2007) points out that they are procedures that help to ensure reliability of financial reporting. This is in agreement with the Institute of Internal Auditors (2008) who assert that they include components of internal control over financial reporting that provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting regulations.

2.4.3 Financial Performance

Financial performance is the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time (Jones and Stewart, 2009). While performance, relates to an organizations general policies and procedures that focus on, strategy, value creation, resource utilization and opportunities that guide its decision making (ACCA, 2008). Fryer, Antony & Ogden (2009) brought in the concept of financial health when they defined financial performance as a general measure of a firm's overall financial health over a given period
of time which is more specifically concerned with business results such as revenues, expenses, and profits.

Performance in local governments can be viewed in three perspectives, service delivery; financial management; and human resource management (Boyle, 1996). However, Hitt et al. (1997) had a different perspective of the existence of financial and non-financial measures of performance. They contend that low performance is due to poor managerial capabilities. This was however by Collier (2005) who questioned appropriateness of conventional accounting in providing information for public sector accountability. He argues that the provision of traditional accounting reports is only a part of what constitutes financial performance. This is also highlighted by Cameron (2004) who asserts that the reporting of comprehensive performance information is now fundamental to public sector accountability.

According to available literature, it seems to be evident that most researchers have mainly focused on the broader aspect of performance of LGs as compared to a specific analysis of financial performance of LGs. However, according to an assessment by ACODE (2010) financial performance of LGs in Uganda has been declining over the five years. They cite poor accountability reports and substantial reduction in their local revenue collections as indicators that render them to heavily depend on central government disbursements and grants.

2.4.4 Accountability

Accountability is the liability to give an account of what one has done, or not done, to another who has authority to assess the account and allocate praise or blame (Jones and Stewart, 2009). It refers to a broad spectrum of public expectations dealing with organizational performance,
responsiveness and morality of government and non-profit organizations, these expectations include implicit performance criteria related to obligations and responsibilities (Kearns, 1996).

Available literature shows that LGs have performed poorly in as indicated in the Auditor Generals annual report (2010) which cites lack of accountability as a major challenge in LGs in Uganda with over 11 billion shillings not accounted for in the F/Y 2009/2010.

While accountability may be difficult to define, there is a consensus that it involves one party who is responsible to another, and is obliged to render an account of their decisions and actions to another (Ebrahim, 2003; Goddard, 2005). Barton (2006), in keeping with Gray and Jenkins (1986), suggested that accountability is an obligation to present an account of the execution of responsibilities to those who entrusted those responsibilities. Accountability is thus established when an agent accepts resources and responsibilities entrusted by the principal.

Behn, (2001) broadens the definition of accountability into four components which include; financial accountability, accountability for fairness which he refers to as democratic governance, accountability for performance and accountability for personal probity which requires incorporation of citizens’ interests in the framework. Ackerman, (2004) views it as a proactive process by which public officials inform about and justify their plans of action, behaviour and results. This is supported by Lawson and Rakner (2005) who asserts that accountability denotes a relationship between a bearer of a right or a legitimate claim and the agents or agencies responsible for fulfilling or respecting that right. They further state that it denotes the duty to be accountable in return for the delegation of a task, a power or resource. Accountability in the public sector is hierarchical in nature involving the elected councillors representing the citizens that elected them and local government managers as agents. However, this is complicated by the greater number of accountability relationships such as those between elected officials and managers, between elected
officials and citizens and between citizens and managers (Goddard, 2005). Broadbent and Laughlin (2003) argue that there are two aspects of accountability: public/political accountability that involves the public as principals and is concerned with issues of democracy and trust; and managerial accountability that is concerned with day-to-day operations of organizations. The requirement to produce annual accounting and performance reports explains the importance of the managerial accountability as compared to political accountability as it is intended to ensure effective utilization of resources (Ebrahim, 2003).

However despite a long period of implementing performance management in the public sector, improvements in accountability, value for money and quality of service have not yet been achieved (Fryer, Anthony and Ogden, 2009).

2.5 Summary

Available literature shows that most researchers have focused measurement of general performance and service delivery in LGs leaving a gap in the area of financial performance of local governments in Uganda. It is also evident from the literature review that several studies seem to concur that there is a relationship between ICS and Financial performance in LGs. Various researchers seem to indicate that despite existence of ICS in LGs in Uganda their effectiveness in enabling good financial performance has been inadequate which calls for further research in this area.
CHAPTER THREE

METHODOLOGY

3.1 Introduction

Described in this chapter are methods and procedures used in the study. This includes the research design, study population, sample selection, data collection methods, instruments, tools, techniques and procedures together with validity and reliability of the instruments.

3.2 Research Design

Research design is the way requisite data is gathered and analysed to arrive at a solution (Sekaran, 2003). The researcher used the cross-sectional descriptive survey design which provides a systematic description that is factual and as accurate as possible as indicated by Amin, (2005). A case study was used to provide an opportunity for a thorough analysis of the variables in examining the relationship between internal control practices and the organization’s financial performance. Correlation between the variables, quantitative and qualitative methods of data collection were employed in order to avoid restriction to only statistical results and this helped the researcher to take into account human behaviour. Qualitative methods were utilised to get an in depth account of the issues under study and to explain the relationship between the study variables in terms of behaviour, opinions and attitudes which did not poses numerical values. While on the other hand quantitative methods enabled the researcher to explain phenomena in numerical form (Amin, 2005). Both primary and secondary sources of data were used in the study and the primary survey data categorisation is presented in Table 2.
3.3 Study Population

Sekaran, (2003) defines population as the entire group of people, events or things of interest which the researcher wishes to investigate. The target population of this study was composed of DEC(5), staff at management level(7), chairpersons of boards and commissions(4), district councillors(22), Finance and Administration staff(46) and other staff (98) coming to a total number of 182 respondents.

3.4 Sample Size

To determine the appropriate sample size the accessible population was grouped into categories of DEC, Management, district councillors, chairpersons of boards and commissions’ management, Finance, Administration and other staff (Morgan and Krejcie (1970).

3.5 Sampling Strategies

Purposive sampling was applied on DEC, management, chairpersons of boards and commissions and district councillors in order to select respondents who are directly involved in decision making, policy implementation and could provide desired information due to their knowledge and experience about the subject under study as indicated by Sekaran, (2003). The district staffs were categorized according to their areas of specialization which include Finance, Administration and other departments. Respondents were then selected from these categories using simple random sampling method in order to achieve the desired representation as suggested by Morgan and Krejcie, (1970) as shown in table 2.
Table 2: Respondents by category and sample size

<table>
<thead>
<tr>
<th>Category</th>
<th>Target population</th>
<th>Sample Size</th>
<th>Actual Respondents</th>
<th>Sampling Technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>Purposive Sampling</td>
</tr>
<tr>
<td>Management</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>Purposive Sampling</td>
</tr>
<tr>
<td>Chairpersons Boards and Commissions</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>Purposive Sampling</td>
</tr>
<tr>
<td>District Councillors</td>
<td>22</td>
<td>13</td>
<td>11</td>
<td>Purposive Sampling</td>
</tr>
<tr>
<td>Finance and Administration Staff</td>
<td>46</td>
<td>35</td>
<td>34</td>
<td>Stratified and Simple Random Sampling</td>
</tr>
<tr>
<td>Other staff</td>
<td>98</td>
<td>59</td>
<td>56</td>
<td>Stratified and simple Random Sampling</td>
</tr>
<tr>
<td>Total</td>
<td>182</td>
<td>123</td>
<td>115</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adopted and modified from Kapchorwa district capacity building plan, (2012)

3.6 Data Collection Methods

A combination of methods which include questionnaire survey, interviews and document analysis were employed in order to collect sufficient and appropriate data as compared to when only one of these methods was used.

3.6.1 Questionnaire

The questionnaire was composed of a set of questions arranged and printed in a definite order as suggested by Kothari, (2004), this was structured to include open and closed ended questions and comprised sections systematically organized to include the components of the variables and the demographic characteristics of the respondents.
3.6.2 Interview

This involved administering personal interviews with individuals who were believed to have vital information relevant to the study and an unstructured schedule was used as a framework of key points that guided the investigative discussion as suggested by Kothari, (2004).

3.6.3 Document Analysis

Document analysis was used to collect secondary data to supplement the primary sources of data and an evaluation check list was utilised as a guide (Amin, 2004). All the subcomponents are further discussed in sub sections below.

3.7 Data Collection Instruments

3.7.1 Questionnaire

A self-administered questionnaire was employed for district councillors, Finance, Administration and other staff due to large number of respondent and to provide specific responses that are easier to analyse, while at the same time provide an opportunity for comparison among different groups of respondents as suggested by Amin, (2005). The survey was conducted on 13 district councillors, 34 Finance and Administration staff and 59 staff from other departments as they were believed to be directly involved in the daily operations of the district.
3.7.2 Interview Guide

A semi structured interview guide was used for 7 members of management, 5 DEC members and 4 chairpersons of boards and commissions; who were believed to responsible for implementation of the ICS, this helped the researcher to obtain a detailed discussion of the relationship between ICS and financial performance in Kapchorwa District; this contained both open ended and closed ended questions as indicated by Mugenda and Mugenda, (2003) and Kothari, (2004). The researcher employed cross questioning in order to provide an opportunity to modify earlier responses and also to discuss the meaning of the questions to respondents so as to eliminate ambiguity and misunderstandings that could have arisen during interviews.

3.7.3 Document Analysis Guide

A document review checklist was used as a guide for secondary data that supplemented the primary sources as indicated by Amin (2004). The documents reviewed included; Financial statements, Financial and accounting regulations, Local government Act, Council and committee minutes, District development plans, capacity building plans and Audit reports covering the period 2009 to 2012. This enabled the researcher to access information on ICS and financial performance in Kapchorwa district.

3.8 Validity and Reliability

The quality of the data collection instruments was assessed through validity and reliability of the instruments as discussed in the subsections below.
3.8.1 Validity

Validity refers to the appropriateness of an instrument in measuring whatever it is intended to measure as suggested by Amin, (2005). Triangulation was used to ensure validity of the research findings. A pilot study was carried out on 8th October 2013 prior to the main study on a group of staff members who are excluded from the real study so as to ensure that the instruments are clear and not having ambiguity. Ambiguous questions were corrected to give a clear message to the respondents.

The Content Validity Index (CVI) was measured as:

\[
CVI = \frac{\text{Number of items declared}}{\text{Total number of items}} = \frac{48}{50} = 96.0\%
\]

Based on our calculated CVI, we concluded that the instruments were accepted to be valid since the CVI index is more than 70%.

3.8.2 Reliability

Reliability is the consistency with which an instrument measures what it is intended to measure (Amin, 2004). Cronbach’s Alpha reliability co-efficient was used to test reliability, measures the internal consistence and build confidence that the data is appropriate. Presented in Table 3 are the alpha Cronbach’s coefficients computed using SPSS.
Table 3: Reliability Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Alpha Cronbach’s coefficient</th>
<th>No. items retained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Environment</td>
<td>.831</td>
<td>17</td>
</tr>
<tr>
<td>Control Activities</td>
<td>.816</td>
<td>15</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>.880</td>
<td>16</td>
</tr>
<tr>
<td>Entire data collection tool</td>
<td>.935</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Field survey Data, 2013

Results in Table 3 indicate a cronbach alpha of 0.831 for control environment with 17 items, 0.816 for control activities with 15 items, 0.880 for financial performance with 16 items and 0.935 for all the variables under study totalling 48 items. In conclusion, the tool therefore passed the test of reliability for each of the variables and for all the variables since they are all greater than 0.7, given that the level of Cronbach that is adequate is any value equal to or greater than 0.7 as indicated by Amin, (2005).

3.9 Data Collection Procedures

The following procedure was followed: For quantitative data, a questionnaire was administered to selected respondents with the help of two research assistants were trained and participated in the pre-testing of the instruments. Properly validated questionnaires were then delivered to the respondents assuring them of confidentiality, anonymity and their voluntary participation. Collection of completed questionnaires was done after three days and checked for completeness and correctness. For qualitative data, the researcher contacted key informants and provided them with the necessary details of the study seeking their consent to participate and made arrangements for appropriate dates to conduct the interview, the interview was then conducted and data collected by the researcher. Information gathered was then recorded after checking and editing for errors.

3.10 Data Analysis
After successfully collecting and editing the data from various sources, it was then analysed using thematic analysis by translating the narratives into a set of equivalent statements (themes). Secondary data was also analysed to provide further evidence and to clarify the situation on the ground. Triangulation method of analysis was used to ensure that appropriate conclusions and recommendations are made.

For qualitative data analysis, the process began by checking each response for completeness, correctness and accuracy, after which coding is used to categorize the responses into meaningful full answers. The data was then compiled, sorted classified and entered into a computer for analysis using the Statistical package for social scientists (SPSS). Frequency distributions and percentages were derived and results presented in form of graphs and pie charts. A general description of data was done using descriptive analysis such as measures of dispersion (standard deviation and range) and measures of central tendency (mean, median and mode).

Lastly, correlation analysis was used to examine relationships such as presence or absence of correlation, the direction of correlation (positive or negative) and the strength of correlation. This helps to measure the relationship between the dependent and independent variables while regression analysis is utilised to establish the cause and effect. Pearson and multiple regressions are also used to test the hypothesis. Significance testing is employed to examine the extent to which the findings reflect the criteria of the target population and whether the study allows generalization of the findings (Sarsntakos, 2005). For qualitative data, the analysis is done manually and responses summarized in a narrative form as a representation of the findings of the study and categorized into themes so as to support the hypothesis tested.

3.11 Measurement of Variables
Measurement was done using the ordinal scale, which provides for variables that generate responses that can be ranked. The study uses the five point Likert scale with the level of agreement ranging from strongly disagree as response 1 to strongly agree as response 5 (Sekaran, 2003). The nominal scale was applied on cases which had a set of common characteristics such as sex, marital status religion, employment status while the ordinal scale categorized the elements and ranked them in order. The numbers in the ordinal scale represents the relative positions or order among the variables (Mugenda and Mugenda 2003).

3.12 Ethical Considerations

Permission to conduct the study was obtained from the CAO and consent was also obtained from all the respondents before the commencement of the interviews. High levels of confidentiality were maintained throughout the study and all sources of data have been mentioned. All the stakeholders who participated in this study shall receive a feedback of the findings and recommendations of the study.
ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the analysis and discussion of the study findings arising from the field survey data collected. Descriptive statistics on response rate and additional demographic information about respondents are presented together with discussion of empirical results.

4.2 Response Rate

A total of 107 questionnaires were distributed and 101 questionnaires were returned as shown in table 4 below, giving an overall response rate of 94.4%. This is an internationally acceptable response rate since it is above the 50%.

Table 4: Showing Response by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample Size</th>
<th>Actual Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Councillors</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Finance and Administration Staff</td>
<td>35</td>
<td>34</td>
</tr>
<tr>
<td>Other staff</td>
<td>59</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>107</td>
<td>101</td>
</tr>
</tbody>
</table>

Source: Field survey Data, 2013

The researcher in addition to the data got through questionnaires, also collected qualitative data using interviews from a number of knowledgeable respondents including management, DEC and chairpersons of boards and commissions with an overall response of 14 out 16 respondents (87.5%) as shown in table 5 below.

This indicates that data was collected from a reasonable number of respondents hence this data and findings from it can be relied on as suggested by Mugenda and Mugenda, (2003).

Table 5: Showing response by category from Interviews
4.3 Descriptive Analysis

In this section the background characteristics of the respondents are presented. The section presents gender distribution of the study respondents, their level of education, their employment status, their age groups and years of service at Kapchorwa District in the following subsections.

i. Gender characteristics of respondents

The study involved 101 respondents out of which 75.2% were males and 24.8% were females showing that the respondents were fairly representative in terms of gender as shown in Table 6.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>76</td>
<td>75.2</td>
</tr>
<tr>
<td>Female</td>
<td>25</td>
<td>24.8</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey data, 2013

ii. Respondents highest level of education

Table 7 presents a disaggregation of the respondents’ level of education. Findings reveal that persons with diplomas are higher (46.5%) followed by Bachelor’s degree holders (39.6%) while postgraduate degree holders were the least among the surveyed respondents (5%) showing that the respondents were representative of all levels of education.
### Table 7: Showing the distribution of respondents by highest level of education

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postgraduate</td>
<td>5</td>
<td>5.0</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>40</td>
<td>39.6</td>
</tr>
<tr>
<td>Diploma</td>
<td>47</td>
<td>46.5</td>
</tr>
<tr>
<td>Certificate</td>
<td>9</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>101</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Field survey data, 2013

#### iii. Employment status of respondents

Table 8 shows employment status of respondents. More than 84% of the respondents are permanent staff and 10.9% are holding political positions such as DEC, and boards and commissions, with the majority of the respondents being permanent staff, this provides a good indication on period of experience and on goings within KLG.

### Table 8: Employment status of respondents

<table>
<thead>
<tr>
<th>Employment status</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>11</td>
<td>10.9</td>
</tr>
<tr>
<td>Permanent Staff</td>
<td>85</td>
<td>84.2</td>
</tr>
<tr>
<td>Probationary Staff</td>
<td>5</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>101</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Field survey data, 2013

#### iv. Distribution of respondents by age

Table 9 indicates that most of the district employees are in the age group of 31-40 years (55.4%), followed by the 41-50 years group (25.7%), below 30 years (9.9%) and those above 50 years (8.9%). This means that the majority of the respondents are in their most productive age and therefore able to provide an appropriate assessment of the operations in the district.
Table 9: Distribution of respondents by age group

<table>
<thead>
<tr>
<th>Age group</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 30 Years</td>
<td>10</td>
<td>9.9</td>
</tr>
<tr>
<td>31-40 Years</td>
<td>56</td>
<td>55.4</td>
</tr>
<tr>
<td>41-50 Years</td>
<td>26</td>
<td>25.7</td>
</tr>
<tr>
<td>Above 50 Years</td>
<td>9</td>
<td>8.9</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey data, 2013

v. Years of service of respondent in Kapchorwa district

The majority of the respondents, 35(34.7%) have work experience of 2-5 years, while 33(32.7%) have work experience of 6-10 years, 29(28.7%) have experience of more than 10 years, while only 4(4.0%) have work experience of less than 2 years (Table 10). this provided a good representation of those who with more experience in the district.

Table 10: Distribution of respondents by years of service

<table>
<thead>
<tr>
<th>Years of service</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>4</td>
<td>4.0</td>
</tr>
<tr>
<td>2-5 Years</td>
<td>35</td>
<td>34.7</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>33</td>
<td>32.7</td>
</tr>
<tr>
<td>More than 10 Years</td>
<td>29</td>
<td>28.7</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey data, 2013

4.4 Empirical Findings

In this subsection results are presented using means, standard deviation and correlation coefficients in relation to the specific objectives. All the variables were measured on a five point likert scale
ranging from 5= strongly agree, 4= agree, 3 = neutral, 2= disagree, 1= strongly disagree. Furthermore, results are presented, analysed as per our study specific objectives for ease in ensuring that what was set out to be undertaken has been achieved.

**4.4.1 Analysis of the relationship between control environment and financial performance**

Control environment comprises of the actions, policies, values, and management styles that influence, and sets the tone of, an organization day to day operations. Respondents’ views on control environment are measured using seventeen indicators on a five point likert scale. Results are summarised in Table 11 below.

<table>
<thead>
<tr>
<th>Table 11: Respondents views on Control Environment</th>
<th>Statements measuring Control Environment</th>
<th>SA</th>
<th>A</th>
<th>UD</th>
<th>D</th>
<th>SD</th>
<th>Mean</th>
<th>S.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is an enabling control environment in Kapchorwa District</td>
<td>14.9</td>
<td>69.3</td>
<td>2.0</td>
<td>12.9</td>
<td>1.0</td>
<td>3.84</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>Management is committed to the operation of internal control systems</td>
<td>10.9</td>
<td>73.3</td>
<td>4.0</td>
<td>11.9</td>
<td>0.0</td>
<td>3.83</td>
<td>0.78</td>
<td></td>
</tr>
<tr>
<td>The reporting structure is clearly stipulated</td>
<td>26.0</td>
<td>56.0</td>
<td>4.0</td>
<td>12.0</td>
<td>2.0</td>
<td>3.92</td>
<td>0.98</td>
<td></td>
</tr>
<tr>
<td>Management closely monitors implementation of Internal control systems</td>
<td>19.8</td>
<td>50.5</td>
<td>7.9</td>
<td>21.8</td>
<td>0.0</td>
<td>3.68</td>
<td>1.03</td>
<td></td>
</tr>
<tr>
<td>Management acts with integrity in execution of their roles</td>
<td>11.9</td>
<td>57.4</td>
<td>4.0</td>
<td>22.8</td>
<td>4.0</td>
<td>3.50</td>
<td>1.09</td>
<td></td>
</tr>
<tr>
<td>All employees are aware of the internal control guidelines</td>
<td>7.9</td>
<td>39.6</td>
<td>5.9</td>
<td>38.6</td>
<td>7.9</td>
<td>3.01</td>
<td>1.20</td>
<td></td>
</tr>
<tr>
<td>All staff perform their responsibilities as per the regulations and guidelines</td>
<td>16.8</td>
<td>40.6</td>
<td>5.9</td>
<td>33.7</td>
<td>3.0</td>
<td>3.35</td>
<td>1.20</td>
<td></td>
</tr>
<tr>
<td>Management provides feedback to the Council and junior officers about the operation of the system</td>
<td>12.9</td>
<td>36.6</td>
<td>8.9</td>
<td>36.6</td>
<td>5.0</td>
<td>3.16</td>
<td>1.20</td>
<td></td>
</tr>
<tr>
<td>The district council and its committees are independent of Management</td>
<td>17.8</td>
<td>51.5</td>
<td>11.9</td>
<td>14.9</td>
<td>4.0</td>
<td>3.64</td>
<td>1.06</td>
<td></td>
</tr>
<tr>
<td>The policies, procedures and guidelines are properly documented.</td>
<td>22.8</td>
<td>47.5</td>
<td>12.9</td>
<td>14.9</td>
<td>2.0</td>
<td>3.74</td>
<td>1.03</td>
<td></td>
</tr>
</tbody>
</table>
All stakeholders have access to copies of the guidelines  

<table>
<thead>
<tr>
<th></th>
<th>8.0</th>
<th>27.0</th>
<th>16.0</th>
<th>32.0</th>
<th>17.0</th>
<th>2.77</th>
<th>1.25</th>
</tr>
</thead>
</table>

Appropriate measures are taken to correct violation of Accounting & Financial regulations  

<table>
<thead>
<tr>
<th></th>
<th>12.0</th>
<th>53.0</th>
<th>10.0</th>
<th>20.0</th>
<th>5.0</th>
<th>3.47</th>
<th>1.10</th>
</tr>
</thead>
</table>

Ethical values are upheld in all management decisions  

<table>
<thead>
<tr>
<th></th>
<th>6.9</th>
<th>46.5</th>
<th>14.9</th>
<th>24.8</th>
<th>6.9</th>
<th>3.22</th>
<th>1.11</th>
</tr>
</thead>
</table>

Our Institution has an objective, independent and active internal audit unit  

<table>
<thead>
<tr>
<th></th>
<th>16.8</th>
<th>41.6</th>
<th>9.9</th>
<th>21.8</th>
<th>9.9</th>
<th>3.34</th>
<th>1.28</th>
</tr>
</thead>
</table>

Guidelines are effectively followed by the District Council.  

<table>
<thead>
<tr>
<th></th>
<th>10.9</th>
<th>50.5</th>
<th>15.8</th>
<th>19.8</th>
<th>3.0</th>
<th>3.47</th>
<th>1.03</th>
</tr>
</thead>
</table>

There is a positive attitude by Council towards implementing internal controls  

<table>
<thead>
<tr>
<th></th>
<th>14.9</th>
<th>65.3</th>
<th>11.9</th>
<th>5.0</th>
<th>3.0</th>
<th>3.84</th>
<th>0.85</th>
</tr>
</thead>
</table>

The control environment in the district helps the district to attain its objectives  

<table>
<thead>
<tr>
<th></th>
<th>17.8</th>
<th>54.5</th>
<th>6.9</th>
<th>17.8</th>
<th>3.0</th>
<th>3.66</th>
<th>0.93</th>
</tr>
</thead>
</table>

Source: Field survey data, 2013

From Table 11, results reveal that when the respondents were asked whether there is an enabling control environment in Kapchorwa district, the majority, 84.2% agreed, while only 2.0% were undecided and 13.9% disagreed. The small number of respondents who disagreed indicates that there a few people who have not yet conceptualized the dimensions of control environment. This was supported by the CAO who said;

“*There is need to sensitize all stakeholders at Kapchorwa district to enable them appreciate and understand the environment under which the district operates”*

On the issue of whether management is committed to the operation of internal control systems, the majority, 84.2% of the respondents agreed, while 11.9% were undecided and 11.9% disagreed. Some respondents may have disagreed because of the misconception of who is part of management at the district local government. This was evidenced by some heads of department who were interviewed but were not sure whether they were part of management.

On the issue of whether the reporting structure is clearly stipulated, the majority, 82.0% agreed, while only 4.0% were undecided and 14.9% disagreed. The majority of the respondents (82.0%)
therefore agreed that the reporting structure is clearly stipulated. While on the issue of whether management closely monitors implementation of internal control systems, the majority, 70.3% agreed, while 7.9% were undecided and 21.8% disagreed. This indicates that although monitoring is being done, management does not avail the monitoring reports to all stake holders to enable them to appreciate the role of monitoring. This was mentioned by the vice chairperson who said; “The council is not regularly provided with reports on the implementation of Internal Control Systems in the district”

On the issue of whether management acts with integrity in execution of their roles, the majority, 69.3% agreed, while 26.8% disagreed. The level of integrity varies in the different sections of the district; the responses therefore an indicator of this situation.

On the issue of whether all employees are aware of the internal control guidelines, 47.5% agreed, while only 5.9% were undecided 46.5% disagreed. This finding shows that the level of awareness varies a lot among the employees according to their professional background. This can be overcome by ensuring that all staffs are sensitized on internal control guidelines.

On the issue of whether all staffs perform their responsibilities as per the regulations and guidelines, the majority 57.4% agreed, while only 5.9% were undecided and 16.8% strongly agreed, 40.6% agreed, 5.9% were undecided, 37.7% disagreed. The big number of respondents who disagreed could be linked to the limited access to copies of the regulations at the district.

On the issue of whether management provides feedback to the Council and junior officers about the operation of the system, 49.5% agreed, while only 8.9% were undecided and 45.5% disagreed. The varying nature of responses, show that the feedback is affected by the form of communication used to the various levels of hierarchy and also according to proximity of the district councillors. This could be addressed by exploring more effective forms of communication to ensure a faster
way of sending the feedback. On the issue of whether the district council and its committees are independent of management, 69.3% agreed, while 14.9% were undecided and 18.9% disagreed. The respondents who disagreed are significant which could be linked to a district council resolution asking the chairperson to ensure implementation of DPAC recommendations by the CAO.

On the issue of whether the policies, procedures and guidelines are properly documented, the majority, 70.3% agreed, while 12.9% were undecided and 16.9% disagreed. The majority of the respondents, therefore agreed that the policies, procedures and guidelines are properly documented while a small number who disagreed which could attributed to the district councillors who may not have conceptualized the documentation of policies.

On the issue of whether all stakeholders have access to copies of the guidelines”, 35.0% agreed, while 16.0% were undecided and 48.0% disagreed. This indicates that most staff did not have access to the guidelines despite the fact that they agreed that the guidelines are properly documented; management therefore needs to ensure that all departments have sufficient copies of all guidelines and are accessible to all stakeholders.

On the issue of whether appropriate measures are taken to correct violation of Accounting & Financial regulations”, the majority, 65.0% agreed, while 10.0% were undecided and 25.0% disagreed. This finding shows that even when measures are taken to correct violation of Accounting & Financial regulations, a significant number of people do not agree because this information is not shared or not properly communicated to all stakeholders to be aware of such measures. This was emphasized by one member of the DEC who said;

“We are never informed when the CAO implements the DPAC recommendations”
On the issue of whether ethical values are upheld in all management decisions, 53.4% agreed, while 14.9% were undecided and 31.7% disagreed. This finding shows the varying perception of the level of ethical values in the district which could be addressed by sensitizing all the stakeholders on ethical issues. On the issue of whether our Institution has an objective, independent and active internal audit unit, 58.4% agreed, while only 9.9% were undecided and 31.7% disagreed. The big number of respondents who are both undecided and disagreeing shows that the objectivity and independence of internal audit is in doubt. This was implied by the district internal auditor when he said, “we have tried to do our best with limited resources and a number of challenges but they don’t appreciate our efforts”

On the issue of whether guidelines are effectively followed by the District Council, the majority, 61.4% agreed, while 15.8% were undecided and 22.8% disagreed. The significant number of respondents who were undecided and those who disagreed are attributed to the low level of accessibility of the guidelines to the stakeholders. On the issue of whether there is a positive attitude by Council towards implementing internal controls”, 80.2% agreed, while 11.9% were undecided and only 8.0% disagreed. This was in line with the DCAOs who commented that;

“Council has been quite helpful in ensuring adherence to budget provision and control of expenditure”

On the issue of whether the control environment in the district helps the district to attain its objectives”, 72.3% agreed, while only 6.9% were undecided and 20.8% disagreed. This was in line with one member of DEC who said:

“The district is now stable and we are implementing our manifesto”

4.4.2 Analysis of the relationship between control activities and financial performance
Our second specific objective was to examine the relationship between control activities and financial performance and Control Activities are measured using sixteen indicators on a five point likert scale. Results are summarised in Table 12.

Table 12: Respondents views on control activities

<table>
<thead>
<tr>
<th>Statements measuring Control Activities</th>
<th>SA</th>
<th>A</th>
<th>UD</th>
<th>D</th>
<th>SD</th>
<th>Mean</th>
<th>S.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has clear separation of roles and responsibilities</td>
<td>20.8</td>
<td>60.4</td>
<td>3.0</td>
<td>15.8</td>
<td>0.0</td>
<td>3.86</td>
<td>0.93</td>
</tr>
<tr>
<td>There is appropriate supervision of junior staff by their seniors</td>
<td>9.9</td>
<td>62.4</td>
<td>5.0</td>
<td>18.8</td>
<td>4.0</td>
<td>3.55</td>
<td>1.03</td>
</tr>
<tr>
<td>Accounting procedures are clearly segregated</td>
<td>10.9</td>
<td>51.5</td>
<td>19.8</td>
<td>14.9</td>
<td>3.0</td>
<td>3.52</td>
<td>0.98</td>
</tr>
<tr>
<td>The roles of stakeholders are well spelt out and followed</td>
<td>15.8</td>
<td>40.6</td>
<td>9.9</td>
<td>30.7</td>
<td>3.0</td>
<td>3.36</td>
<td>1.16</td>
</tr>
<tr>
<td>Budget reviews are held to compare actual with budgeted expenditure and explanations for the variances given</td>
<td>12.9</td>
<td>62.4</td>
<td>9.9</td>
<td>12.9</td>
<td>2.0</td>
<td>3.71</td>
<td>0.92</td>
</tr>
<tr>
<td>Controls are in place to prevent incurring expenditure in excess allocated funds</td>
<td>12.9</td>
<td>71.3</td>
<td>5.9</td>
<td>7.9</td>
<td>2.0</td>
<td>3.85</td>
<td>0.82</td>
</tr>
<tr>
<td>Corrective action is taken to address weaknesses in internal controls</td>
<td>14.9</td>
<td>47.5</td>
<td>9.9</td>
<td>24.8</td>
<td>3.0</td>
<td>3.47</td>
<td>1.11</td>
</tr>
<tr>
<td>All requests for expenditures and disbursements are backed by appropriate supporting documents.</td>
<td>27.7</td>
<td>51.5</td>
<td>5.0</td>
<td>13.9</td>
<td>2.0</td>
<td>3.89</td>
<td>1.03</td>
</tr>
<tr>
<td>Expenditures and cash releases are duly approved by appropriately authorized persons</td>
<td>36.0</td>
<td>57.0</td>
<td>2.0</td>
<td>4.0</td>
<td>1.0</td>
<td>4.23</td>
<td>0.76</td>
</tr>
<tr>
<td>Bank reconciliations are reviewed by an officer independent of those processing cash and payments</td>
<td>19.8</td>
<td>51.5</td>
<td>18.8</td>
<td>7.9</td>
<td>2.0</td>
<td>3.79</td>
<td>0.92</td>
</tr>
<tr>
<td>The procurement and disposal of assets procedures are strictly followed</td>
<td>24.8</td>
<td>24.8</td>
<td>6.9</td>
<td>37.6</td>
<td>5.9</td>
<td>3.25</td>
<td>1.35</td>
</tr>
<tr>
<td>There is an up-to-date asset register and asset movements are always recorded</td>
<td>10.9</td>
<td>37.6</td>
<td>11.9</td>
<td>35.6</td>
<td>4.0</td>
<td>3.16</td>
<td>1.15</td>
</tr>
<tr>
<td>There is a system that identifies and safeguards Institutional Assets</td>
<td>10.9</td>
<td>31.7</td>
<td>14.9</td>
<td>32.7</td>
<td>9.9</td>
<td>3.01</td>
<td>1.22</td>
</tr>
<tr>
<td>Council authorizes work plans and budgets for all expenditure</td>
<td>27.7</td>
<td>58.4</td>
<td>7.9</td>
<td>2.0</td>
<td>4.0</td>
<td>4.04</td>
<td>0.89</td>
</tr>
</tbody>
</table>
Committee members and staff are trained in their roles and responsibilities in implementing financial regulations

<table>
<thead>
<tr>
<th></th>
<th>14.9</th>
<th>37.6</th>
<th>5.9</th>
<th>24.8</th>
<th>16.8</th>
<th>3.09</th>
<th>1.38</th>
</tr>
</thead>
</table>

Source: Field survey data, 2013

Table 12 shows a summary of the findings from the statements measuring control activities. Below the researcher presents the narrations and interpretations.

On the variable “Our institution has clear separation of roles and responsibilities”, 81.2% agreed, while only 3.0% were undecided and 15.8% disagreed. The majority of the respondents (81.2%) therefore agreed that our institution has clear separation of roles and responsibilities as suggested by the speaker of the district council who said;

“My role is to ensure that council operates effectively and in harmony with other sectors”

On the variable “There is appropriate supervision of junior staff by their seniors”, 72.3% agreed, while only 5.0% were undecided and 22.8% disagreed. These results are in conformity with assertion that management should include preparing and distributing reports to various levels for effective control of activities in an entity. While on the variable “Accounting procedures are clearly segregated”, 62.4% agreed, while 19.8% were undecided and 17.9% disagreed. The significant number of respondents who were undecided could be attributed to the low staffing level in some departments and segregation is not practical as indicated by the CFO when he was asked for his opinion on the adequacy of accounting process in the district, he said;

“We are facing the challenge of limited number of staff to carry out the various procedures”

On the variable “The roles of stakeholders are well spelt out and followed”, 56.4% agreed, while only 9.9% were undecided and 33.7% disagreed. The responses in this section show the varying perception of the roles of stakeholders with 33.7% of the respondents disagreeing which could be attributed to the availability of the relevant guidelines.
On the variable “Budget reviews are held to compare actual with budgeted expenditure and explanations for the variances given”, 75.3% agreed, while only 9.9% were undecided and 14.9% disagreed. This was in conformity with minutes of the Finance committee of council (2012) which indicated review of budget performance reports as one of topics discussed.

On the variable “Controls are in place to prevent incurring expenditure in excess allocated funds”, 84.2% agreed, while only 5.9% were undecided and 9.9% disagreed. This finding shows that adequate expenditure control mechanisms are implemented which is in line with Whittington and Pany(2004) who recommended regular performance reviews.

On the variable “Corrective action is taken to address weaknesses in internal controls”, 62.4% agreed, while only 9.9% were undecided and 27.8% disagreed. The majority of the respondents therefore agreed that corrective action is taken to address weaknesses in internal controls which indicate commitment by management to take corrective action as recommended by the Sarbanes-Oxley Act (2002). This was also contained in the internal audit report which indicated that “despite implementation of various audit recommendations there are some cases that were not addressed by finance department which should be handled urgently”.

On the variable “All requests for expenditures and disbursements are backed by appropriate supporting documents”, 79.2% agreed, while only 5.0% were undecided and 15.9% disagreed. The few who disagreed indicates that some expenditure is not appropriately supported showing existence of a gap to be addressed by the district. These findings were also in line with the DPAC minutes (2012) which recommended recovery of funds spent without the required supporting documents. On the variable “Expenditures and cash releases are duly approved by appropriately authorized persons”, 93.0% agreed, while only 2.0% were undecided and only 5.0% disagreed.
This finding is in line with the LGFAR (1998) and the PFAC (1998) which emphasize that expenditure and cash releases must be duly approved by authorized persons.

On the variable “Bank reconciliations are reviewed by an officer independent of those processing cash and payments”, 71.3% agreed, while 18.8% were undecided and only 9.9% disagreed. The majority of the respondents therefore agreed that Bank reconciliations are reviewed by an officer independent of those processing cash and payments. While on the variable on the variable “The procurement and disposal of assets procedures are strictly followed”, 49.6% agreed, while only 6.9% were undecided, 43.5% disagreed. The results here show that the respondents were divided which could imply that management is not doing enough to ensure adherence to PPDA regulations. This was also highlighted in the Auditor General’s report (2011) faulted the districts for failure to adhere to PPDA procedures.

On the variable “There is an up-to-date asset register and asset movements are always recorded”, 48.5% agreed, while 11.9% were undecided and 39.6% disagreed. This finding indicates that the respondents are almost equally divided on this variable implying that although there may be an asset register it does not appropriately record asset movements. This was highlighted in the internal audit report which noted that; “the asset register was not regularly updated to reflect the current status of all assets in the district” while on the variable “There is a system that identifies and safeguards Institutional Assets”, 42.6% agreed, while 14.9% were undecided and 42.6% disagreed. This finding could imply that even if the system identifies Institutional Assets it does not adequately safeguard them. This was in contrast with the variable “Council authorizes work plans and budgets for all expenditure”, 86.1% agreed, while only 7.9% were undecided and only 6.0% disagreed. This finding is in line with the district council minutes (2013) in which the district budget and development plan were approved.
On the variable “Committee members and staff are trained in their roles and responsibilities in implementing financial regulations”, 52.5% agreed, while only 5.9% were undecided, 41.6% disagreed. This implies that the district has not done enough to ensure that all stakeholders are trained on their roles. This is evidenced by one member of the DEC who said; “I am not conversant with matters of financial regulations and we need training”

4.4.3 Analysis of findings on financial performance in Kapchorwa district

Financial performance is measured by Accountability which in turn is measured using sixteen indicators and Table 13 presents a summary of the findings on statements measuring financial performance of Kapchorwa district.

Table 4: Respondents views on Financial Performance of Kapchorwa District

<table>
<thead>
<tr>
<th>Financial performance (Accountability)</th>
<th>SA</th>
<th>A</th>
<th>UD</th>
<th>D</th>
<th>SD</th>
<th>Mean</th>
<th>S.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>The district successfully attains its set objectives.</td>
<td>3.0</td>
<td>46.0</td>
<td>13.0</td>
<td>35.0</td>
<td>3.0</td>
<td>3.11</td>
<td>1.02</td>
</tr>
<tr>
<td>The districts’ financial performance has generally been good</td>
<td>4.0</td>
<td>57.0</td>
<td>15.0</td>
<td>21.0</td>
<td>3.0</td>
<td>3.38</td>
<td>0.96</td>
</tr>
<tr>
<td>Financial reports and accountabilities are prepared in time as required</td>
<td>9.9</td>
<td>45.5</td>
<td>16.8</td>
<td>24.8</td>
<td>3.0</td>
<td>3.35</td>
<td>1.05</td>
</tr>
<tr>
<td>The quality of the financial statements meets the required expectations</td>
<td>7.9</td>
<td>59.4</td>
<td>18.8</td>
<td>8.9</td>
<td>5.0</td>
<td>3.56</td>
<td>0.94</td>
</tr>
<tr>
<td>Audit reports on the accounts are discussed by LGPAC</td>
<td>32.7</td>
<td>50.5</td>
<td>8.9</td>
<td>5.9</td>
<td>2.0</td>
<td>4.06</td>
<td>0.92</td>
</tr>
<tr>
<td>The district has been operating a balanced budget</td>
<td>16.8</td>
<td>36.6</td>
<td>16.8</td>
<td>21.8</td>
<td>7.9</td>
<td>3.33</td>
<td>1.22</td>
</tr>
<tr>
<td>There has been having sufficient revenue to fund all activities and meet its obligations</td>
<td>7.0</td>
<td>7.0</td>
<td>9.0</td>
<td>48.0</td>
<td>29.0</td>
<td>2.15</td>
<td>1.13</td>
</tr>
<tr>
<td>The districts revenue and asset base has increased over time</td>
<td>2.0</td>
<td>15.8</td>
<td>15.8</td>
<td>37.6</td>
<td>28.7</td>
<td>2.25</td>
<td>1.10</td>
</tr>
<tr>
<td>All revenues are dully collected and reported</td>
<td>2.0</td>
<td>33.0</td>
<td>20.0</td>
<td>33.0</td>
<td>12.0</td>
<td>2.80</td>
<td>1.09</td>
</tr>
<tr>
<td>The Accounting system adequately identifies the receipts and expenditure of all funds as required</td>
<td>12.9</td>
<td>45.5</td>
<td>13.9</td>
<td>22.8</td>
<td>5.0</td>
<td>3.39</td>
<td>1.12</td>
</tr>
</tbody>
</table>
Accountability for all funds is properly documented | 14.0 | 49.0 | 7.0 | 28.0 | 2.0 | 3.45 | 1.10
Compliance to Financial guidelines leads to reliable financial reporting | 15.8 | 67.3 | 7.9 | 6.9 | 2.0 | 3.88 | 0.83
Accountability helps to ensure improved financial performance | 31.7 | 56.4 | 4.0 | 4.0 | 4.0 | 4.08 | 0.94
The district receives value for money in all its activities | 5.9 | 29.7 | 13.9 | 43.6 | 6.9 | 2.84 | 1.11
The district council gets appropriate accountability for all expenses | 5.0 | 37.6 | 9.9 | 38.6 | 8.9 | 2.91 | 1.15
The council is contented with the financial performance of KLG | 2.0 | 35.6 | 13.9 | 41.6 | 6.9 | 2.84 | 1.06

Source: Field survey data, 2013

This section looks at the various variables of financial performance as shown in Table 13. On the variable “The district successfully attains its set objectives”, 49.0% agreed, while 13.0% were undecided and 38.0% disagreed. This implies that the district does not adequately meet its objectives as reflected in the respondents mixed responses as emphasized by members of DEC who rated the district accountability and reporting as poor while Management said it was good.

On the variable “The districts’ financial performance has generally been good”, 61.0% agreed, while 15.0% were undecided and 24.0% disagreed. This finding could be attributed to the favourable audit reports on the financial statements of the district over a couple of years. This was in line with the Auditor General’s opinion on the accounts of Kapchorwa district which was unqualified for a couple of years. On the variable “Financial reports and accountabilities are prepared in time as required”, 55.4% agreed, while 16.8% were undecided and 27.8% disagreed. The majority of the respondents therefore agreed that financial reports and accountabilities are prepared in time as required while those who disagreed could be due to the poor accountability reports of some departments as reflected in the internal audit reports for the year 2011/2012.
On the variable “The quality of the financial statements meets the required expectations”, 67.3% agreed, while 18.8% were undecided and 13.9% disagreed. This could be attributed to the favourable audit reports on the financial statements of the district over a couple of years while those who disagreed may be due to due the LGPAC report for the 3rd quarter of 2012, which criticized the quality of financial reports.

On the variable “Audit reports on the accounts are discussed by LGPAC”, 83.2% agreed, while only 8.9% were undecided and 7.9% disagreed. The majority of the respondents therefore agreed that Audit reports on the accounts are discussed which could have been influenced by the LGPAC reports for the year 2011/2012 that were presented to the district council as reflected in the committee minutes. While on the variable “The district has been operating a balanced budget”, 53.4% agreed, while 16.8% were undecided, and 29.7% disagreed. The majority of the respondents therefore agreed that the district has been operating a balanced budget while the significant number who disagreed may have been influenced by the fact that the district does not have enough funds to cover all the required services.

On the variable “There has been having sufficient revenue to fund all activities and meet its obligations”, 14.0% agreed, while only 9.0% were undecided and 77.0% disagreed. This finding is in line with a number of projects that have appeared in the District budget and Development Plan for many years without being implemented due insufficient funds and the fact that the final accounts have indicated a deficit for a number of years.

On the variable “The districts revenue and asset base has increased over time”, only 17.8% agreed, while 15.8% were undecided and 66.3% disagreed. The majority of the respondents therefore disagreed that the districts revenue and asset base has increased over time. This was also voiced by most of the management staff and DEC who were interviewed and in line with the financial
reports of the district for the years 2009 to 2011 as shown in table 1. The Local Government Finance Commission also in their report (2012) indicates a drastic decline in the sources of revenue for local authorities. On the variable “All revenues are dully collected and reported”, 35.0% agreed, while 20.0% were undecided and 45.0% disagreed. The majority of the respondents therefore disagreed that all revenues are dully collected and reported. This was in contrast with the auditor general’s report (2009 & 2011) and internal audit report (2010) which cited anomalies relating to revenue collection in the district and sub counties.

On the variable “The Accounting system adequately identifies the receipts and expenditure of all funds as required”, 58.4% agreed, while 13.9% were undecided, 27.8% disagreed. The majority of the respondents therefore agreed that the accounting system adequately identifies the receipts and expenditure of all funds as required. While those who disagreed could be due ineffectiveness of the system in some departments and Sub counties, which was cited in the internal audit report (2012) which cited revenue from the department of Natural resources that was not disclosed.

On the variable “Accountability for all funds is properly documented”, only 63.0% agreed, while only 7.0% were undecided and 30.0% disagreed. The majority of the respondents therefore agreed that accountability for all funds is properly documented. However the respondents who disagreed were in line with the Auditor General’s report 2009/2010 which cited lack of accountability as a major challenge in LGs in Uganda and LGPAC reports which made recommendations for recovery of unaccounted funds.

On the variable “Compliance to Financial guidelines leads to reliable financial reporting”, 83.1% agreed, while only 7.9% were undecided, 8.9% disagreed. The majority of the respondents therefore agreed that compliance to financial guidelines leads to reliable financial reporting in the district which could imply that the respondents attributed the good financial statements to
compliance to financial regulations. While on the variable “Accountability helps to ensure improved financial performance”, 88.1% agreed, while only 4.0% were undecided and only 8.0% disagreed. The majority of the respondents therefore agreed that Accountability helps to ensure improved financial performance.

On the variable “The district receives value for money in all its activities”, 35.6% agreed, while only 13.9% were undecided, 50.5% strongly disagreed. The majority of the respondents therefore disagreed that the district receives value for money in all its activities which was in line with the internal audit report 2011 which reported that the impact of the money spent by the district was not visible, this was also in agreement with the report of ACCORD (2010) which asserted that there has been no value for the large amounts of funds spent by local governments.

On the variable “The district council gets appropriate accountability for all expenses”, 42.6% agreed, while only 9.9% were undecided, 47.5% disagreed. The results in this section reflect a general perception among the district councillors that management is interested in accounting to the central government who are the main source of funding and they are not willing to be accountable to the district council. While on the variable “The council is contented with the financial performance of KLG”, 37.6% agreed, while 13.9% were undecided, 48.5% disagreed. The number of respondents who agreed to the statement is approximately the same as those who disagreed could be attributed to failure by the district to provide the essential services to the communities as reflected in the District council minutes (2012) regarding poor health services in the district.

4.5 Hypothesis testing
The study’s hypothesis was stated as follows; there is a significant relationship between ICS and financial performance of Kapchorwa District. According to the conceptual framework the independent variable ICS has two dimensions, namely Control Environment and Control Activities. The researcher therefore tested the relationship between each of these two variables and the dependent variable financial performance. In this subsection, we test that there is a significant positive relationship between the two dimensions of ICS and financial performance of Kapchorwa District.

Although there are several approaches to hypothesis testing, the researcher used one of the common approaches of probability. Using this approach to hypothesis testing, the probability value (p-value) given in the output is exactly the p-value used for the hypothesis testing exercise. There are seven recommended steps for hypothesis testing (Amin, 2005, Mugenda and Mugenda, 1990) that have been followed. These are summarised in the following subsection;

Step 1: Specification of the Null and the Alternative hypotheses.

Two sub-hypotheses were specified by the researcher as follows:

(i) There is a significant positive relationship between control environment and financial performance of LGs in Uganda.

(ii) There is a significant positive relationship between control activities and financial performance of LGs in Uganda.

Step 2: Selecting the significant level: The significance level for testing all the hypotheses has been set at 5%. This implies that all one-tailed tests shall be tested using a p-value of 0.05 and two-tailed tests shall be tested using a p-value of 0.025.
Step 3: Calculating the $r$ – statistic (correlation).

Table 14 above shows a matrix of correlation statistics between the four variables under investigation. The table shows that there is a strong positive relationship between control environment and financial performance, given by Spearman’s correlation coefficient of 0.740, a strong positive relationship between control activities and financial performance of 0.733. It further shows that there is a strong positive relationship between Internal Control Systems and financial performance, given by Spearman’s correlation coefficient of 0.788.

### Table 14: Correlation table

<table>
<thead>
<tr>
<th>Variables</th>
<th>Correlation Coefficient</th>
<th>Control Environment</th>
<th>Control Activities</th>
<th>Internal Control Systems</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Environment</td>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>.746**</td>
<td>.933**</td>
<td>.740**</td>
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<tr>
<td>Sig. (2-tailed)</td>
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<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
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<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Control Activities</td>
<td>Correlation Coefficient</td>
<td>.746**</td>
<td>1.000</td>
<td>.931**</td>
<td>.733**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
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<td>.000</td>
<td>.000</td>
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<tr>
<td>N</td>
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<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Internal Control Systems</td>
<td>Correlation Coefficient</td>
<td>.933**</td>
<td>.931**</td>
<td>1.000</td>
<td>.788**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
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<td>N</td>
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<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>Correlation Coefficient</td>
<td>.740**</td>
<td>.733**</td>
<td>.788**</td>
<td>1.000</td>
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<tr>
<td>Sig. (2-tailed)</td>
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<tr>
<td>N</td>
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<td>98</td>
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</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
Step 4: Calculating the p-value. The p-values for control environment, control activities and internal control systems are all equal zero (0), which is less than the critical value of 0.025 that is used to test the significance of Spearman’s correlation coefficient.

Step 5: Comparing the computed p-value with the significant level. Since the p-values are all less than 0.025 the researcher accepted that the three relationships were statistically significant.

Step 6: Interpreting the results.

The above findings can therefore be interpreted as follows:

(i) There is a significant positive relationship between control environment and financial performance of Kapchorwa District \((r=0.740, \text{ p-value}<0.025(=0.000), n=98)\)

(ii) There is a significant positive relationship between control activities and financial performance of Kapchorwa District \((r=0.733, \text{ p-value}<0.025(=0.000), n=98)\).

(iii) There is a significant positive relationship between internal control systems and financial performance in Kapchorwa District \((r=0.788, \text{ p-value}<0.025(=0.000), n=98)\).

Step 7: Making the decision.

The researcher therefore accepted the hypothesis which was stated thus:

(i) There is a significant positive relationship between control environment and financial performance of Kapchorwa District.

(ii) There is a significant positive relationship between control activities and financial performance of Kapchorwa District.
CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary, discussion, conclusions and recommendations from the research findings as guided by the objectives of the research. These are as follows: To establish the relationship between Control Environment and Financial Performance and to establish the relationship between Control Activities and Financial Performance in Kapchorwa District.

5.2. Summary of the Findings

The main objective of the study was to establish the relationship between Internal Control Systems and financial performance in Kapchorwa District. There were two independent variables, namely; Control Environment and Control Activities, while there was only one dependent variable; Financial Performance. This was a case study with the Questionnaire as the main data collection method, where a total of 107 respondents were approached, although only 101 responded; from a target population of 182 people in the study area of Kapchorwa District.

The research hypotheses were answered by collecting data using the guidance of the research objectives, which helped to gather the necessary information to answer the research questions.

5.2.1 Correlation between control environment and financial performance

The summary of the correlation results between control environment and financial performance shows a strong positive relationship the between control environment and financial performance, given by Spearman’s correlation coefficient of 0.740. The p-value for control environment is less than 0.025 (p=0.000), the researcher therefore accepted the relationship as statistically
significant (r=0.740, p-value<0.025(=0.000), n=98). This implies that improvement in control environment leads or translates into an improvement in financial performance.

5.2.2 Correlation between control activities and financial performance

The hypothesis test here was whether there is a significant positive relationship between control activities and financial performance. Results in Table 16 shows that there is a strong positive relationship between control activities and financial performance, given by Spearman’s correlation coefficient of 0.733. The p-value for control activities is less than 0.025 (p=0.000), the researcher therefore accepts the relationship as statistically significant (i.e. r=0.733, p-value<0.025(=0.000), n=98). This implies that improvement in control activities leads or translates into an improvement in financial performance.

5.3. Discussion of the Findings

The findings of the study are discussed in the following subsections;

i. Control environment and financial performance

The findings of the study are in agreement with Ramos (2004) who asserted that control environment sets the tone of an entity, influences the control consciousness of all the people within the organization and is the foundation for all other components of internal control system. DiNapoli (2007) agrees with the above scholar in line with the findings of the study that control environment is one of the key components of an entity’s internal controls. He further adds that
control environment is the philosophy, style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization.

The findings are in line with Rae and Subramaniam (2006) observed that control environment sets the tone of an institution and influences the control consciousness of its people. They further argue that individual attributes (integrity, ethical values and competence) and the environment in which they operate determine the success of the institution. Similarly, Whittington and Pany (2001), observed that control environment factors include; integrity and ethical values of personnel which are responsible for creating, administering and monitoring the controls.

Additionally, they agreed with the study findings that the core of any business is its people who work the environment or conditions which are governed by the control environment. Similarly, Krishnan (2005) agreed with the findings and asserted that competent management has a significant impact on the strength of the organization’s controls. Therefore control environment is important in achievement of effective financial accountability in Kapchorwa District.

ii. Control activities and financial performance

The research findings indicated inadequate implementation of control procedures such as authorisation and segregation of duties which is line with Ramos (2004) who suggested that a variety of control activities should be performed to check the accuracy and completeness as well as the authorization of transactions and that development of new systems and changes to existing ones should be controlled by the entity’s management. The findings further revealed lack of proper control and safeguard of the assets of the district which in agreement with scholars like Jenkinson
who suggested that procedures must be established and executed to help ensure that actions necessary to achieve the institution’s objectives are effectively carried out.

5.4 Conclusions

The study findings revealed that there were a number of shortcomings in the implementation of control procedures and activities resulting into poor accountability which affected the level of financial performance in Kapchorwa district. Based on the findings of the study it is evident that Internal Control Systems have a significant positive relationship with financial performance in Kapchorwa District as indicated in the following subsections.

i. Control environment and financial performance

The findings of the study indicate that there is a significant positive relationship between Control Environment and Financial Performance in Kapchorwa district suggesting that an improvement in the Control Environment leads to improved financial performance as indicated by the majority of the district councillors being dissatisfied with the financial performance of the district.

ii. Control activities and financial performance

The study further revealed that there is a significant positive relationship between Control Activities and financial performance in Kapchorwa district suggesting that effective implementation of Control Activities results into good financial performance. However the findings also indicated inability by the existing ICS to adequately safeguard institutional assets and it is recommended that should strengthen the existing procedures to minimise this anomalies.
The study therefore concluded that Internal Control Systems have a significant positive relationship with financial performance in Kapchorwa District implying that an improvement in Internal Control Systems leads to attainment of financial performance.

5.5 **Recommendations**

The study makes the following recommendations in relation to findings and conclusions.

i. The study highlighted the importance of control environment in influencing the level of financial performance in LGs, although the majority of the respondents agreed that there is an enabling control environment in Kapchorwa district managers should strengthen the control environment to ensure improved accountability and hence financial performance.

ii. Systems of controls are established by management to carry out business in an orderly and efficient manner. According to the findings management at Kapchorwa District have been implementing the laid down procedures in a bid to achieve the objectives of the district, but appropriate ethical standards should be established to discourage violation of the regulations and unethical behaviours which should be effectively communicated through appropriate means, including official policies and codes of conduct.

iii. Although all stakeholders have access to the guidelines, management should always keep them informed of any new control policies introduced so as to ensure their effective implementation since they are the very people to implement the policies.

iv. The study recommends that managers of LGs and other public institutions should establish internal control procedures in order to eliminate, mitigate, or compensate for the risks and
hence prevent misstatements before they occur while also safeguarding the entity’s resources.

5.6 Limitations of the Study

Although this research was carefully planned, it had some shortcomings which have been summarized as shown below;

The research was conducted in only Kapchorwa district which has unique conditions as compared with the rest of the districts which were left out due to cost implications, but this was representative of all the LGs in Uganda.

The other limitation was that a number of staffs were hesitant to provide detailed discussion of issues but the researcher assured them of at most confidentiality and that permission had been sought from the chief administrative officer.

5.7 Contributions of the Study

This study is expected to contribute policy changes and direction of public institutions in Uganda especially in regards to improving financial performance. Theoretically the study summarized the agency theory and its proponents and provided linkage with financial accountability management in public sector and researcher labored to link related concepts of internal controls systems against financial performance and accountability in Local Governments.

The curiosity of the Researcher was to answer the question; to what extent do the internal control systems in local governments in Uganda influence financial performance?
Various studies have been made in relation to internal controls and financial accountability in public institutions. However, no such study has been found to have been carried out in Local Governments which is the focus of this study. This may tend to compare with different areas and context where similar studies have been carried out.

5.8 Recommendations for further research

The study concentrated on effect of internal control systems (control environment and control activities) on financial performance of Local Governments in Uganda. However other factors like risk assessment, monitoring, information and communication which were not part of this study are possible areas of further research. Further study perspectives should specifically focus on examining the relationship of the other components of ICS on financial performance in local governments in Uganda and the public sector in general.

It is also recommended that further research should be conducted in urban local governments considering the fact that this study was done in a rural setting which is different from the urban environment.
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APPENDIX I: QUESTIONAIRE

QUESTIONAIRE FOR THE RELATIONSHIP BETWEEN INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE IN KAPCHORWA DISTRICT LOCAL GOVERNMENT

Dear Respondent;

This is a questionnaire to be used in a study to examine the relationship between Internal Control Systems and financial performance in Kapchorwa District local government.

Kindly spare some time and tick the appropriate box to indicate your opinion on each of the statements given.

The information obtained from this study will be strictly confidential and shall be used for academic purposes only.

Thank you in advance.

Simon Peter Chepsikor

QUESTIONAIRE TO BE ADMINISTERED ON SAMPLED STAFF AND DISTRICT COUNCILORS

SECTION A: BACKGROUND INFORMATION

Kindly tick the appropriate box

1. What is your Sex?  
   1.1 Male  
   1.2 Female  

2. What is your highest level of education?  
   2.1 Postgraduate  
   2.2 Bachelor’s Degree  
   2.3 Diploma  
   2.4 Certificate  
   2.5 Others (Specify)  

3. What is your employment status?  
   3.1 Political (District Councillor)  
   3.3 Permanent Staff  
   3.4 Probationary Staff  

4. Age bracket  
   4.1 Below 30 years
4.2 31 – 40 years
4.3 41 – 50 years
4.4 Above 50 years

5. How many years have you worked in the District?
5.1 Less than 2 years
5.2 2 – 5 years
5.3 6 - 10 years
5.4 More than 10 years

SECTION B: INTERNAL CONTROL SYSTEMS (ICS) IN KAPCHORWA DISTRICT LOCAL GOVERNMENT

Please, tick in the appropriate box against the statements as defined in the scale below;

<table>
<thead>
<tr>
<th>Scale</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Undecided</td>
<td>Agree</td>
<td>Strongly Agree</td>
</tr>
</tbody>
</table>

1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree

**Control Environment**

1. There is an enabling control environment in Kapchorwa District
2. Management is committed to the operation of internal control systems
3. The reporting structure is clearly stipulated
4. Management closely monitors implementation of Internal control systems
5. Management acts with integrity in execution of their roles
6. All employees are aware of the internal control guidelines
7. All staff perform their responsibilities as per the regulations and guidelines
8. Management provides feedback to the Council and junior officers about the operation of the system
9. The district council and its committees are independent of Management
10. The policies, procedures and guidelines are properly documented.
11. All stakeholders have access to copies of the guidelines
12. Appropriate measures are taken to correct violation of Accounting & Financial regulations
13. Ethical values are upheld in all management decisions
14. Our Institution has an objective, independent and active internal audit unit
15. Guidelines are effectively followed by the District Council.
16. There is a positive attitude by Council towards implementing internal controls
17. The control environment in the district helps the district to attain its objectives
<table>
<thead>
<tr>
<th>Control Activities</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Our institution has clear separation of roles and responsibilities</td>
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<tr>
<td>2. There is appropriate supervision of junior staff by their seniors</td>
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<td>3. Accounting procedures are clearly segregated</td>
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<td>4. The roles of stakeholders are well spelt out and followed</td>
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<td>5. Budget reviews are held to compare actual with budgeted expenditure and</td>
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<tr>
<td>explanations for the variances given</td>
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<td>6. Controls are in place to prevent incurring expenditure in excess allocated</td>
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<tr>
<td>funds</td>
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<td>7. Corrective action is taken to address weaknesses in internal controls</td>
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<td>8. All requests for expenditures and disbursements are backed by appropriate</td>
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<tr>
<td>supporting documents.</td>
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<tr>
<td>Expenditures and cash releases are duly approved by appropriately authorized</td>
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<tr>
<td>persons</td>
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<tr>
<td>10. Bank reconciliations are reviewed by an officer independent of those processing</td>
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<tr>
<td>cash and payments</td>
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<tr>
<td>11. The procurement and disposal of assets procedures are strictly followed</td>
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<tr>
<td>12. There is an up-to-date asset register and asset movements are always recorded</td>
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<tr>
<td>13. There is a system that identifies and safeguards Institutional Assets</td>
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<tr>
<td>14. Council authorizes work plans and budgets for all expenditure</td>
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<tr>
<td>15. Committee members and staff are trained in their roles and responsibilities in</td>
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<tr>
<td>implementing financial regulations</td>
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<tr>
<td><strong>SECTIOB C: ACCOUNTABILITY IN KLG</strong></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1. The district successfully attains its set objectives.</td>
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<tr>
<td>2. The districts’ financial performance has generally been good</td>
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<td>3. Financial reports and accountabilities are prepared in time as required</td>
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<tr>
<td>4. The quality of the financial statements meets the required expectations</td>
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<td>5. Audit reports on the accounts are discussed by LGPAC</td>
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<tr>
<td>6. The district has been operating a balanced budget</td>
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<td>7. There has been having sufficient revenue to fund all activities and meet its</td>
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<tr>
<td>obligations</td>
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<tr>
<td>8. The districts revenue and asset base has increased over time</td>
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<tr>
<td>9. All revenues are dully collected and reported</td>
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<tr>
<td>10. The Accounting system adequately identifies the receipts and expenditure of</td>
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<tr>
<td>all funds as required</td>
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<tr>
<td>11. Accountability for all funds is properly documented</td>
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<td>12. Compliance to Financial guidelines leads to reliable financial reporting.</td>
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<tr>
<td>13. Accountability helps to ensure improved financial performance</td>
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<tr>
<td>14. The district receives value for money in all its activities</td>
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</table>
The district council gets appropriate accountability for all expenses

The council is contented with the financial performance of KLG

QUESTIONNAIRE TO BE ADMINISTERED ON DEC, MANAGEMENT AND BOARDS AND COMMISSIONS

SECTION A: BACKGROUND INFORMATION

Kindly spare some time and tick the appropriate box

1. What is your Sex?
   1.1 Male
   1.2 Female

2. What is your highest level of education?
   2.1 Postgraduate
   2.2 Bachelor’s Degree
   2.3 Diploma
   2.4 Certificate
   2.5 Others (Specify) ..........................................

3. What is your employment status?
   3.1 Political (District Councillor)
   3.2 Statutory Board / Commissioned Member.
   3.3 Permanent Technical Staff
   3.4 Probationary Technical Staff

4. Age bracket
   4.1 Below 30 years
   4.2 31 – 40 years
   4.3 41 – 50 years
   4.4 Above 50 years

5. Duration of employment with the organization;
   5.1 Less than 2 years
   5.2 3 – 5 years
   5.3 6 - 10 years
   5.4 More than 10 years
APPENDIX II: INTERVIEW GUIDE FOR KEY INFORMANTS

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<tr>
<td>DEC Members</td>
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<tr>
<td>Board / Commissioned Chairperson</td>
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<td>Chief Administrative Officer</td>
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<td>Assistant Chief Administrative Officer</td>
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<tr>
<td>Chief Finance Officer</td>
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Dear Respondent:

My name is Simon Peter Chepsikor.

I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master’s Degree in Management Studies (Financial Management) of Uganda Management Institute

You have been selected to participate in this study due to the importance of your position in the district. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality.
Relationship between internal control systems and financial performance in Kapchorwa District

Kindly help me generate solutions to the following Questions:

1. What is your position in the district?
2. What management level do you occupy by virtue of your position in the district?
3. In your opinion, does the district implement internal controls systems? If so how does your role support it?
4. Are the systems of internal controls referred to in 3 above functioning as they are intended to? If not what do you think should be done to rectify the situation?
5. In your opinion, what would you consider to be the main measures of financial performance in a Local Government?
6. In your opinion is having enough money the best measure of financial performance of a Local Government?
   What would be the other measures you would consider appropriate?
7. In your opinion, do you think your institution has adequate revenue to meet its obligations as and when they fall due? Give any reasons to explain the situation.
8. Is the public/community satisfied with the financial performance of Kapchorwa district?
9. In your opinion, is the Accountability process adequate in Kapchorwa District? Give reasons.
10. How would you rate the accountability and reporting process in your organization?

Thanking you for your participation.
APPENDIX III: COVER LETTER

Cover letter to respondents for interviews, questionnaire and document analysis.

September 2013

Dear Sir/Madam;

I am carrying out an investigation to establish the relationship between internal control systems and financial performance local governments in Uganda, using Kapchorwa District as a case study. You have been selected to participate in this study because you are one of those who can help us to understand how we can improve on the performance of local governments. Your opinions are valued and we want you to feel comfortable in expressing what you think. We shall be most grateful with your genuine responses in a short interview that will be carried out with you and your responses will be confidential and completely anonymous unless you state your wish to be otherwise. You are free to decline to participate or to withdraw at any time without suffering any disadvantage or prejudice.

I would like to thank you in advance for taking the time and effort to participate in this study. I ………………………………… agree to have an interview with you on ………2013 at …………….a.m./p.m. I understand that this interview will take some time to collect all the responses and that the interviewer may come back to me for clarifications where necessary. I understand that information collected during this interview will be confidential and there is no risk associated with my participation in the study.

By signing this form I consent to participate in this study.

Respondent ………………………… Interviewer ……………………………

Date …………………………… Date ……………………………
## APPENDIX IV: DOCUMENT ANALYSIS GUIDE

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<td>Internal Audit Reports</td>
<td>Audit reports for 2009 and 2011</td>
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<td>Auditor Generals reports</td>
<td>Auditor Generals reports on Kapchorwa district for 2009 and Annual reports on Local Governments for 2009, 2010 and 2011</td>
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<td>Council Minutes for 2013</td>
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<td>Finance committee minutes for 3(^{rd}) Quarter, 2011/2012</td>
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<td>District public Account Committee minutes</td>
<td>Minutes for 2(^{nd}) and 3(^{rd}) quarter 2011/2012</td>
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<td>District Development Plans</td>
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<td>Kapchorwa District Capacity building Plans</td>
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<td>Local Government Financial and Accounting Regulations, Public Finance and Accountability Act, Local Government Act</td>
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**APPENDIX V: MORGAN AND KREJCIE (1970) TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION**

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**Note:**

“N” is population size
“S” is sample size.