



UGANDA MANAGEMENT INSTITUTE

**FINANCIAL DECENTRALIZATION AND QUALITY OF FINANCIAL
REPORTING IN LOCAL GOVERNMENTS IN UGANDA: A CASE STUDY OF
KAMPALA CITY COUNCIL**

BY

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DECLARATION

I, Bamwira John Richard declare that, the material contained in this book has not been presented elsewhere for any academic qualification award.

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DEDICATION

This work is dedicated to my wife Dr. W.B Jamirah and all those who cherish and support Management studies.

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ACRONYMS

AAA	American Accounting Association
AIS	Accounting information System
CG	Central Government
DV	Dependent Variable
FRF	Financial regulatory framework
GAAP	Generally Accepted Accounting Principles
GoU	Government of Uganda
HLG	Higher Level of Government
IAS	Information Accounting Standards
ICCAA	Institute of Certified Public Accountants
IGR	Inter Government Relations
IPSAS	Institute of Public Sector Accounting
IT	Information Technology
IV	Independent Variable
KCC	Kampala City Council
LCS	Local Councils
LDC	Less developed countries
LDT	Liberal democracy Theory
LGA	Local Government Act (1997)
LG FAR	Local Government Financial Accounting Regulation (2007)
LGs	Local Governments

LLG	Lower Local Government
MoLG	Ministry of local Government
MMS	Master Degree in Management Studies
MUK	Makerere University of Kampala
NGOs	Non Government Organizations
PAC	Public Accounts Committee
PFA	Public Finance Act
PFAA	Public Finance Accountability Act
SAS	Statistical analysis system
SPSS	Statistical package for social sciences
UAA	Urban Authorities Act
UAs	Urban Authorities
UMI	Uganda Management Institute

Abstract

This study examined the contributions and relationship between financial decentralization and quality of financial reporting in LG, Kampala City Council as the case study. The independent and dependent variable was the financial decentralization and quality of financial reporting respectively. A correlation design which was cross section in approach combined with descriptive design was used. The study population consisted 300 staff and councilors who have big interests in the problem under investigation. The required sample size consisted of 213 determined using Krejcie and Morgan method before simple random sampling and proportionate stratified random sampling techniques employed in selecting members of the required sample. Three methods namely questionnaire, interview and observation were used in collecting both primary and secondary data. A structured questionnaire with five point likert scale supplemented by an interview guide was administered to the indentified respondents.

The data was presented in tables, charts and frequency tables before being analyzed using descriptive statistics, factor analysis, Pearson correlation Coefficient and Regression models with the help of SPSS. The study revealed that there was a significant positive relationship between independent and dependent variables. The dimensions of the independent variable accounts for 62% and can predict up to 45% variation in the quality of financial reporting. The study further discovered an improvement in quality of financial reporting after the implementation of financial decentralization due to improvement in book keeping, autonomy in financial planning and reporting, monitoring and measuring of performance, reduction in material mis- statements and strengthened internal controls. On the basis of study findings, the researcher recommends increased supervision, strengthening of internal controls, streamlining of recruitment of finance staff, training of key stakeholders on their roles and mandates, introduction of harsh penalties to law breakers in addition to conducting a comparative study before and after financial decentralization if all the weaknesses in the financial decentralization system that influence quality of financial reporting in LGs are to addressed.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study was to establish the contribution and relationship between financial decentralization and quality of financial reporting in Local Governments (LGs) in Uganda with specific reference to Kampala City Council (KCC). According to Auditors General report (2005), KCC had not registered a significant improvement in the quality of financial reporting after the inception and implementation of financial decentralization, and yet there was no clear explanation why this is so.

The independent variable to the study was the financial decentralization while quality of financial reporting was the dependent variable. The intervening variable consisted of financial regulatory framework and staff competence.

This chapter presents the introduction, background to the study, the statement of the problem, purpose of the study, objectives of the study, the research questions, the hypothesis, the scope, significance and justification of the study as well as operational definition of terms used in the study.

1.1 Background to the study

The researcher adopted an approach of (Amin, 2005) while presenting the background to the study that required a background to be presented under four sub headings namely historical, theoretical, conceptual and contextual background.

1.1.1 Historical background

The concept of financial decentralization is as old as the history of accounting (Dele Olowu, 1994). Some scholars claim to have its genesis way back to the ancient civilization of China, Babylonian, Greece and Egypt. It is believed that the need for quality financial reporting which increasingly became of great concern during the era of tracking up costs of labour and materials used in the building of the great pyramids for the rulers and kings gave the rebirth of financial decentralization.

Other academicians believe that financial decentralization was developed at the period when the need for quality information in public and large organizations reached at the peak during the era of the merchants in the city state of Italy during 1400s at the time of Monk Lucas Pacioli and Leonardo da Vinci (1494) with the double entry book keeping. Though the development of financial decentralization is not clear, by consensus it is believed to have took place much earlier but the pace in addressing the financial reporting challenges during the industrial revolution and expansion of public corporations in the 20th century especially in the railway and steel industry, the springing up of economic development and the era of mass production and consumption in 1900's coupled with the stewardship widened the concern and need for implementation of financial decentralization in public sector (Sutton, 1997). The corporation owners were not necessarily the managers of the business and therefore, the managers had to create accounting system to effectively report to the owners. According to Rondinelli (1981), the introduction of income tax, expansion and growth of corporations, massive production and increasing demand for provision of services by federal governments in

health, education, labour and economic planning increased the need for accurate, reliable and timely information for decision making caused the introduction of the financial decentralization system.

Interests in financial decentralization of local Governments (LGs) is wide spread and long standing. The rapid expansion and growth of urban authorities created previously unimaginable problems of financial reporting to various stakeholders with differing interests and background a crucial issue in public financial management (Cheema, 1983). According to Vinod Vyasulu (2007), without considering financial decentralization many countries and local governments world over have been finding difficult in providing adequate solution over the problem of poor quality of financial reporting right from the era of industrial revolution.

The need and advocate for financial decentralization in Local Governments and Urban Authorities in Uganda and Kampala City Council in particular, can be traced from (1964-1967) period when the local governments and urban authorities were governed by the LGA of 1967 and Urban Authority Act of 1964 respectively. During this period, the financial planning, decision making and accounting functions of these institutions were centrally controlled by the ministry responsible for Local Government. According to Kinalwa (1993), in this period these institutions lacked autonomy, technical capacity to plan, manage, attract and retain competent and qualified personnel capable of handling financial reporting needs and challenges. The magnitude of the problem of financial reporting in local government and urban authorities in Uganda which worsened after the

Amin's coup of 1971 created the urgency and need for implementation of financial decentralization in LGs. During this period, the Uganda's public sector financial management system especially that of MoLG began to collapse; and according to Kisakye (2001), the role of public institution involved in financial management lost clarity and supervision of accounting and finance operations were ignored and quality of financial reports drastically deteriorated because the laws and regulations governing these institutions were not reviewed and updated to keep pace with new development and the current financial reporting needs and challenges. The technical staff lacked independence in making vital decisions that negatively affected the level of performance and quality of reporting of these institutions.

The problem of financial decentralization in Local Governments (LGs) and Urban Authorities (UAs) in Africa and Uganda in particular increasingly continued being a big concern among administrator, managers, politicians and academicians (Fissman and Gatti, 2000). Different academicians including (Geeri, 1993) observed that over 60% of local urban authorities in Africa do not prepare and report their financial status to their stakeholders on time even when financial decentralization was introduced. In the Uganda context, the situation is quite bothering because it has been noted that over 72% of LGs in Uganda do not produce and submit financial reports to their stakeholders on time. According to Fissman and Gatti (2002), the usurp of financial independence by MoLG causing non involvement of LGs in the key financial management functions such as making vital financial decisions and choice of accounting system given under financial

decentralization explains the magnitude of problem of poor financial reporting in local government. It was envisaged by (Lockwood, 2005) that this trend would worsen unless these local Authorities and governments urgently put a stop and reverse the challenges in the preparation and reporting their financial status to the diverse needs of its stake holders.

1.1.2 Theoretical Background

The study was guided by the liberal democracy theory (LDT) and local fiscal choice model (LFCM). The theory contend that financial accountability, equality in service delivery, transparent and prompt responsiveness to community's concerns by government can be best achieved through creation and transfer financial, administrative, fiscal and political powers and responsibility from the centre to autonomous local governments and urban authorities in respect to activities of planning, budgeting and decision making (Wright, 1978). The study was also based on the local fiscal choice model (Musgrave and Musgrave, 1989) which was developed to analyze choices made by LGs besides central government using their own resources as well as from the higher levels of Government. The model was based on the assumption that the priorities of LGs were different from that of central Government and therefore, for effective attainability some roles have to be transferred from the centre to independent LGs.

The theory and model therefore were both considered relevant and appropriate in guiding this study in establishing the contribution and relationship of financial decentralization and quality of financial reporting in KCC.

The basis of the argument was that the decision making, budgeting, accountability and financial planning considered to influence quality of financial reporting in KCC were decentralized, and that KCC has got discretionary powers in deciding on any of these variables independently (Article 197 of the 1995 Uganda Constitution).

1.1.3 Conceptual Background.

The concept underlying the study was delivered from the works of Conyers (1990), Rondinelli and Cheema (1983) who defined territorial and functional financial decentralization as the transfer of power, authority and or responsibility to plan, make decisions, manage, mobilization and utilization of resources from central government to lower autonomous local governments and urban local authorities which formed the main guiding principles to this study.

1.1.4 Contextual Background

According to the 1995 Uganda constitution, the system of governance under which KCC operates is decentralization. Under this system, Kampala City Council is recognized as a district under which lower local governments (City divisions) and administrative units (parishes and village wards) are created. The Divisions and KCC each is considered as a primary unit of authority with its own executive, standing committees and council as the supreme body that regulated its operations (Article 180 of the Uganda Constitution 1995) and independently would make decisions provided they are within the legal framework.

Unlike city divisions, administrative units are not body corporate (section 6 of LGA CAP.243),

they have no perpetual succession and common seal and they cannot sue or be sued in their own names and therefore operates under the respective city divisions. Decentralization is the guiding principle applying to all levels of local government in ensuring peoples' participation and democratic control in decision making, budgeting and establishment of sound financial systems and base.

The financial decentralization framework recognize KCC as a district where as it doubles as a capital city of Uganda. The LGA (1997) section 79 and 86, KCC is independent of the divisions and MoLG in respect to financial planning matters including preparation and maintenance of books of accounts, formulation, approval and execution of its own budgets, preparation and submission in its own names final accounts to Auditor General. It has political structures that sanctions and approve all financial activities including receiving and discussing financial reports exclusively and independently. However, KCC and Divisions continued operating under serious influence of the MoLG including issuance of directives and instructions regarding the financial reporting requirements to the expense of their ability and unique interests (Kanyike, 2001). Empirical evidence has confirmed that vital decisions regarding planning, budgeting including the presentation of the financial reports is determined by the center. The financial monitoring, evaluation, auditing and quality control functions were standardized irrespective of capacity and uniqueness of each institution.

1.2 Statement of the Problem

The introduction of financial decentralization by Uganda Government which gave LGs and Urban authority autonomous powers over their financial and planning matters was designed and intended to address the financial reporting difficulties experienced in the centralized system of reporting (Makerere Institute of social research, 1997).

According to LGA CAP.243 section79, Local governments and urban authorities have financial autonomous powers, can formulate, approve, implement its own financial budgets, collect, utilize and independently report to its stakeholders the financial performance.

However, according to Auditor general (2006), Internal Audit reports (2007) and PAC (2008), the incidence of absence and delayed financial reports in KCC is still persistent and of great concern among its stakeholders even after the adoption and implementations of the financial decentralization as indicated in table 1 below.

Table .1 Financial reports produced in KCC annually

Local government	Required No. of Statutory financial reports	Produced financial reports	Percentage (%)
KCC Headquater	36	26	72
Central Divsion	36	20	56
Nakawa Division	36	20	56
Makindye Division	36	18	50
Lubaga Division	36	24	67
Kawempe Divison	36	22	61
Total	216	130	60

Source: Auditor General report, 2006

Out of the 216 statutory financial reports that KCC and the divisions are required to produce in a year; only 60% are produced and submitted even late to the stakeholders and yet there is no clear explanation why this is so. This study explored that knowledge gap.

1.3 Purpose of the study

The study sought to establish contribution and relationship between financial decentralization and the quality of financial reporting in KCC.

1.4 Specific Objectives of the study

- i To establish the relationship between financial decentralization and quality of financial reporting in KCC .
- ii To establish the contribution of decentralized financial decision making to quality of financial reporting in KCC.
- ii To establish the contribution of decentralized budgeting and planning to quality of financial reporting in KCC.
- iv To establish the moderating effect of financial regulatory framework and staff competence on the relationship between financial decentralization and quality of financial reporting in KCC.

1.5 Research questions

- i What is the relationship between of financial decentralization and the quality of financial reporting in KCC?

- ii What is the contribution of decentralized financial decision making to the quality of financial reporting in KCC?
- ii What is the contribution of decentralized budgeting and planning to quality of financial reporting in KCC?
- iv To what extent does the financial regulatory framework and staff competences moderated the relationship between financial decentralization and quality of financial reporting in KCC?

1.6 Hypothesis of the study

- i There is a relationship between financial decentralization and quality of financial reporting in KCC.
- ii Decentralized financial decision making contribute to quality of financial reporting in KCC.
- iii Decentralized planning and budgeting contribute to quality of financial reporting in KCC.
- iv There is a moderating effect of financial regulatory framework and staff competence on the relationship between financial decentralization and quality of financial reporting in KCC.

1.7 Significance of the study

- i. The study findings would contribute to the understanding of the contribution of financial decentralization to the quality of financial reporting in KCC in particular and LG in general.

- ii The study findings would assist KCC and divisions in evaluating the contributions of financial decentralization in order to come up with corrective interventions that would improve the quality of financial reporting.
- iii The study findings and recommendations would contribute to body of knowledge in the concerned area and as a requirement for award of a master degree in MMS of Uganda Management Institute.

1.8 Justification of the study

Financial decentralization was considered to have positive contributions to quality of financial reporting in LGs and Urban Authorities but there was no empirical evidence to that effect in KCC. The study therefore, aimed at establishing what the position in KCC is.

1.9 Scope of the study

The scope of the study was categorized into content, geographical and time scope.

1.9.1 Content Scope

The study specifically focused on the relationship and the contributions of financial decentralization to the quality of financial reporting in Kampala City Council.

1.9.2 Geographical Scope

The study concentrated at Kampala District Headquarter and its five city divisions namely; Central, Nakawa, Kawempe, Lubaga and Makindye.

1.9.3 Time Scope

The study analyzed the impact of financial decentralization on quality of financial reporting in KCC between 2005 and 2009. This is the period when the Local Government Act CAP 243 and LGFAR (2007) that regulates the financial reporting in local government and KCC in particular was last amended and revised respectively.

1.10 Operational Definitions

- i) **Urban Authorities**, this will refer to Kampala City Council, city and municipality divisions, Municipalities and Town councils.
- ii) **City divisions**; this refer to Nakawa Division, Kawempe Division, Lubaga Division, Makindye Division and Central Division.
- iii) **Centre**, this refers to the Ministry of Local Government.
- iv) **Act**, this refer to the Local government Act(1997) and all the amendments thereof now referred to as Local government Act CAP 243.
- v) **KCC**; this refer to the Kampala district headquarter and the five city divisions.
- vi) **Legal framework**; this refers to the Local Government Act CAP 243, Local Government Financial and Accounting Regulations (2007) and Chapter eleven of the 1995 Uganda Constitution.
- vii) **The Minister**; this refer to the Minister responsible for Local government in Uganda.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed the theoretical and conceptual literature relevant to objectives and the raised research questions. It also analyzed materials relevant to financial decentralization and quality of financial reporting which were the main variables to the study. The sources of the reviewed literature included text books, Journal articles, government publication, Audit reports, Commission of inquiries reports, previous research, presentations in workshops and seminars, the 1995 Constitution of Uganda, Statutory instrument, Acts of parliament as well as minutes of councils.

2.1 Theoretical Review

The dominance of LGs power by Central Government created by colonial administration was based on theory of central command which accounts for 90% of the ineffectiveness and inefficiencies in financial management of local governments and urban authorities in less developed countries (Wetzel and Dunn, 2001). The theory contend that effective planning, decision making, controlling, supervision and coordinating regional activities, power of command was to be centralized at the headquarter. The legal framework that regulated and guided the functioning of local governments and urban authorities (UAs) in Uganda centralized power of budgeting and planning, decision making, controlling and accounting including other financial activities to central government (CG).

The current financial reforms in local authorities were based on the theory of liberal democracy that advocates for financial decentralization as supported by various governments, donors' international agencies, academicians and citizens of various countries as the ultimate solution to the grave poor service delivery, governance, financial irregularities and mismanagement in local and urban authorities (Cohen and Stephen Peterson, 1999). The theory of transferring power to LLG contends that local people should be empowered and fully participates in decision making that affected their communities (Mutahaba, 1989). It was observed that decentralization checks on negative state interferences, promoted good governance, improved accountability and erodes decayed laws and regulations responsible for poor quality of financial reporting in LGs and UAs (Musumba, 1996).`

It has been pointed out that the local capacity, initiatives and development in financial reporting mechanisms were suffocated and extremely disabled by centralization of financial functions. However, the literature did not explain why the long dominance of centralization in public sector irrespective of its limitations. The local government and (UAs) were left powerless with no capacity to diagnose and remedy the financial reporting difficulties as they were prone to the whims of central government minister responsible for local administration (Karugire, 1980).

2.2 Conceptual framework

The researcher adopted an approach of (Amin, 2005) while presenting the conceptual frame work that required it to be presented in chapter two immediately after the theoretical review; and a many to one method was adopted.

The conceptual framework drew upon the works of (Rondinelli and Cheema, 1983) with modification to suit financial decentralization in Uganda. It depicts a relationship between financial decentralization and quality of financial reporting. Factors like decision making, budgeting, planning, staff competence and regulatory frame work were recognized to influence the quality of financial reporting in KCC.

The study focused on the conceptual framework in figure.1 on the next page in order to provide answers to the raised research questions. The staff competence and the regulatory framework were the moderating variables recognized to work hand in hand with financial decentralization in influencing quality of financial reporting. The dimensions of the dependent variable were categorized into reliability, relevance, comparability and timeliness using the ideas of (Gluatier, 1995) while the independent variable categorized into decentralized decision making, financial planning and budgeting using the ideas of (Dele Olowu, 1993).

Factors including information technology, users of accounting information, goodwill of government, supervision and accounting information system (AIS) were recognized by different academicians to influence quality of financial reporting in LGs but were not considered in the study.

INDEPENDENT VARIABLE

DEPENDENT VARIABLE

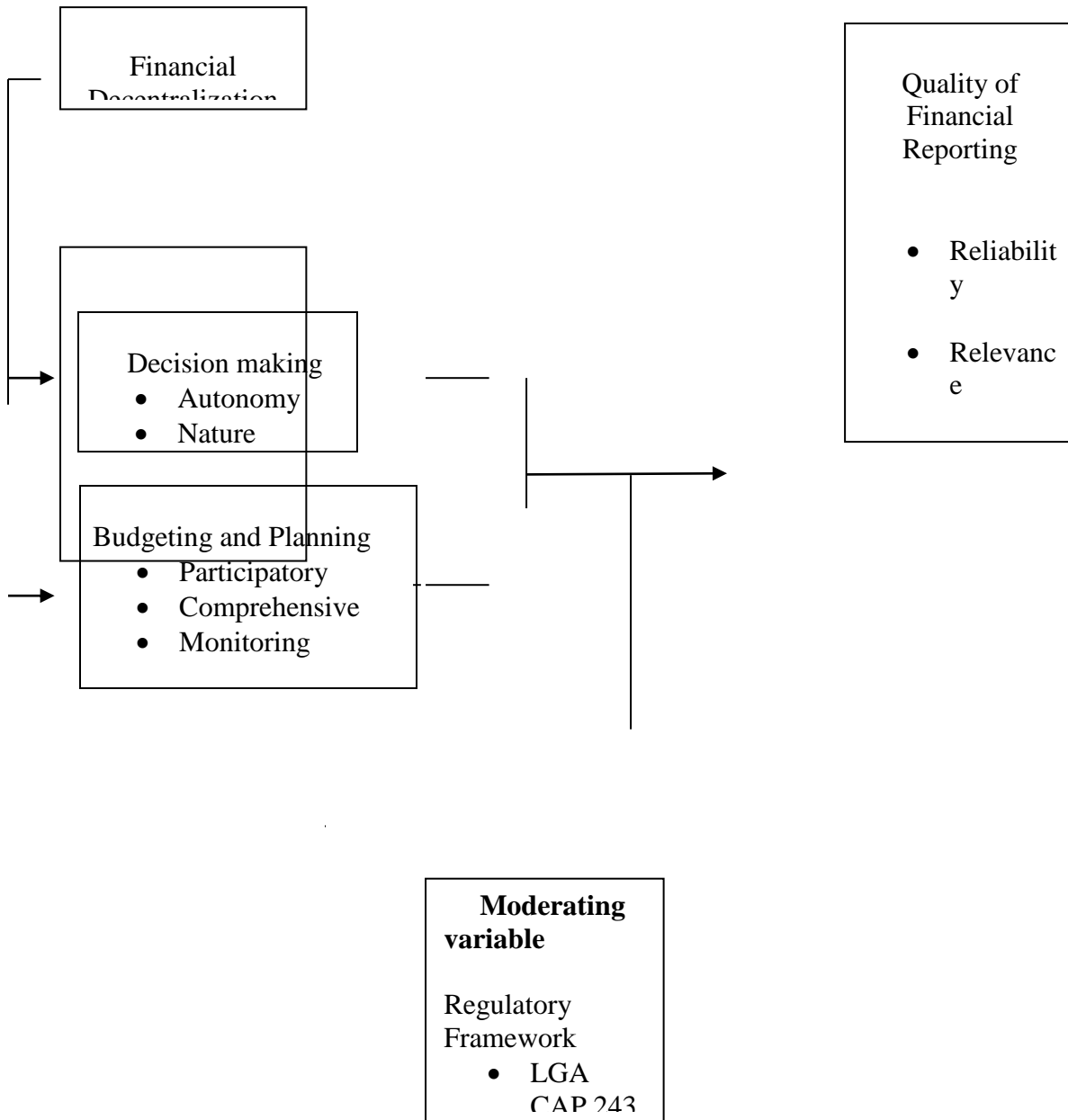


Figure 1: Conceptual Frame Work: (Adopted from Dele Olowu, 1993 and Glutier, 1995)

2.3 Actual literature review

It covered literature relating to financial decentralization, decentralized planning, budgeting, decision making, staff competence and financial regulatory framework as well as qualities of financial reporting.

2.3.1 Financial Decentralization and Quality of financial reporting

The world over, financial decentralization is increasingly becoming one of the key development strategies in the quest to deliver goods and services efficiently and effectively to the citizenry. However, controversy has persistently arisen among scholars and practitioners as to what it means, whether it is a process or a condition. It is believed that financial decentralization embraces a variety of concepts and therefore covers a multitude of process, meaning and consensus regarding its meaning is still a challenge especially among some scholars. It can be defined both in territorial and functional; and according to Rondinelli (1981:137), territorial financial decentralization is the transfer of responsibility for planning, financial management, decision making and the raising of and allocation of resources from the central government and its agencies to field units of central government, or agencies, subordinate units or level of government, semi- autonomous public authorities or corporations, area wide regional or functional authorities. According to Rhodes (1992), functional financial decentralization is the transfer of authority from the central to peripheral organization at the same level. Functional financial decentralization is about redistribution of real division of power (Mawhood.P, 1983: 246). In a simple term, financial decentralization is the transfers decision making powers relating to financial operations and functions from central government to the lower local governments (LLG) which is fully independent of the centre (Manor, 1996).

In the Uganda context, KCC was designed with strong autonomous financial decision making governments (Uganda constitution, 1995 Art.197) and (LGA, 1997) aimed at promoting good governance, and accountability (Rusimbi Mary, 2008). Financial decentralization involves granting LGs more financial discretionary powers to formulate and approve their own budgets according to their priorities while not sacrificing the national standards (Twena, 2006). The concept of financial decentralization exists in three forms namely deconcentration (Conyer, 1990), devolution (Smith, 1985) and delegation (Rondinelli and Cheema, 1983). However, it does not exist in the form of privatization as its relevant agencies are not part of the government's territorial hierarchy (Rhodes, 1992). Empirical evidence and literature did not explain which type was employed in LGs and KCC in particular and why?

The gist of functional decentralization is that it should redistribute real division of power (Mawhood.P, 1983: 246).

2.3.2 General Concepts of Decentralization

According to Conyers (1990:5), defined decentralization as the transfer of financial, legal, administrative and political powers and authorities to plan, make decisions and management of public functions from the central Government to autonomous local governments. The decentralization reforms consist of three components namely political, administrative and financial (Villadsen, 1996). This study focused on financial decentralization. According to Cheema (1996), three forms of financial decentralization were indentified namely; deconcentration (Hyden, 1983), devolution (Smith, 1985) and delegation (Rondinelli and Cheema, 1983). However, (Manor, 1996) commented that though privatization was widely used, it was not considered as a form of decentralization.

2.3.2.1 Deconcentration

It is the weakest form of decentralization and mostly common with unitary system of government. According to Rondinelli (1983), deconcentration involve handing over some of the administrative authority or responsibility to lower levels but with in the central government ministries and agencies. (Rondinelli, 1983) described it as the redistribution of administrative responsibilities within the central government by giving some discretion to its field staff to plan the implementation or adjust central directive to suite local condition but within the guidelines set by central ministry. According to empirical evidence, this type does not exist in KCC.

2.3.2.2 Devolution

In its practical and participatory sense, (Rhodes, 1983) described devolution as a form of government that provide for meaningful participation by the local people in the decision making. According to Smith (1985), looks at it as the exercise of political power/authority by law, primarily elected institutions with in area defined by community characteristics through the legal conferment of power upon formerly constituted local authorities to discharge specified functions.

2.3.2.3 Delegation

According to Rondinelli and Cheema (1983), it involve entrusting decision making and management of authority for specific function to organizations that are not under the direct control of central government ministries. Under this arrangement, agents are public corporations who have broad discretion in executing delegated responsibilities. It does not cover transfer of functions to private sector or NGOs (Cheema, 1983). This type of decentralization does not exist in KCC.

2.3.2.4 Privatization

Controversies in classifying this form of decentralization still exist; several researchers have identified it as a form of decentralization while others still insist not being a form of decentralization. According to Rhodes (1992), assert that privatization is neither a form of delegation nor a form of decentralization as its agencies are not part of the government's territorial hierarchy. Basically, it involves transfer of specific responsibility to a private organization in executing the delegated responsibility. It is further argued that privatization is basically for efficiency of certain function (Rondinelli, 1981). This system however, is very popular in KCC especially in local revenue management through contracting out their collection. Sources of revenue under privatization in KCC include; markets, trading license, car parks, street parking, public conveniences and outdoor advertising. According to the existing literature, privatization contributed negatively on quality of financial reporting in KCC.

2.3.3 Decentralized planning / Budgeting and quality of financial reporting.

While budgeting is a subcomponent of planning process, Planning supersedes controlling. Planning is a process of setting and selecting of goals and determining how to achieve them (Balunywa, 2000). It involves scanning environment for any possible opportunities (Henri Fayol and Stonner, 1925). Henry Gantt established a positive relationship between planning and correct resource utilization one of the objectives of financial decentralization. In local governments of Uganda, Planning and budgeting was done concurrently. A budget is an annual financial plan of an organization, spelling out anticipated income and how such income will be utilized. (Kisembo Hellen, 1997) assert that a budget is a financial plan for implementing various decisions made by the organization management.

According to the Budget Act (2001), the budgeting process and cycle of LGs and KCC was consultative, participatory and bottom-up in nature. It commences with consultation between LGs and CG followed by a budget conference that captures all wishes of stake holders. It ensured that communities were involved. The format and nature of KCC and Divisions budgets were determined at the centre contrary to LGFAR (2007). The reporting framework especially for grants is dictated by the centre contravening section 79 of LGA(1997) that gives a LG, City divisions, Municipal divisions an autonomous status over their financial and planning matter and affairs. The legal frame work that regulates budgets of LGs in Uganda gives it right and obligation to formulate and approve their budgets provided it is balanced Sec. 77 (i) LGA (1997). Article 190 of the 1995 Constitution mandates a District Council to prepare comprehensive and integrated development plan incorporating plans of (LLG). The existing literature showed a relationship between budgeting and quality of financial reporting but it did not explain what type of relationship. In addition, several areas of conflict were cited in the process of planning and budgeting between divisions and KCC but the literature did not explain its impact on the financial reporting and how it can be solved.

2.3.4 Decentralized Decision Making and quality of financial reporting

It involves selection of course of action to deal with a specific problem. It is basically making the best choice (Balunywa, 2003). According to Allison.G (2000), decision making is about committing organization's resources in the process of achieving the identified goal, it can either be programmed or non programmed. In his published research (Dabla Norris, 2004) assert that decision making would be influenced by the mission, objectives, size and nature of management style of the organization that would be best handled when decentralized.

The existing literature pointed out that financial decentralization was introduced in Uganda in order to improve on information flow and planning that influenced decision making, timely reporting, transparency and accountability in LGs. However, the literature failed to explain how long, what type of financial decisions and what environment required in order realizing those objectives.

2.3.5 Staff Competence, Regulatory framework and quality of financial reporting

The moderating variables to the study consisted of financial regulatory framework (FRF) and staff competence that worked hand in hand with (IV) in explaining variations in the (DV).

2.3.5.1 Staff Competence

According to Carnegie Andrew (2000), Organization was not merely factories, trade, transport, money or other physical and financial resources alone but made up of people who were linked together in a formal structure guided by managerial leadership for accomplishment of set goals. In their dissertation, (Landell Mills, 2002) observed that staff competence was vital resource employed in various tasks in offices and organizations that influenced the production and quality of information flow. Different academicians including Braathen *et al* (2005), linked quality of personnel management to critical successes of the organization. In his un published research, Laurence M.C (2005) established that organization performance and quality of information was significantly influenced by staff competence. It was noted that, Correct and timely information guides decisions but personnel make them. Assimwe and Musisi (2004) established that the level of training, degree of motivation and experience obtained by the personnel impact significantly on their ability to influence quality of financial reporting in organizations.

2.3.5.2 Financial regulatory framework

Notwithstanding the responsibility of accounting services in public sector being difficult to identify, recognize and appreciated (Station, 1997), the financial reporting requirement in public sector is wide and challenging (Nsibambi,1993).Organizations and governments perform series of activities in environments which require to be regulated. Each state has its own legal system which varies depending on the social economic and political systems/conditions. In Uganda context, the content, format, frequency and nature of accounting in public sector especially that of LCs are guided and regulated by IPSAS, GAAS, PFA (2001) LGFAR (2007) and Budget Act (2005) and LGA CAP 243.

The empirical evidence have established a relationship between quality of information and existing legal frame work as it regulates its content, format, nature , frequency and the users of such information. The existing literature does not indentify which of these laws/regulations contributes more to the quality of financial information in LGs in Uganda.

2.3.6 Quality of financial reporting

The usefulness of financial reports depends on its quality. According to (Turner Lynn, 2000) four qualitative characteristics were indentified that make financial statements and reports of good quality namely; relevancy, reliability, comparability and timeliness. It was observed that information was relevant if it assisted the recipient to make correct predictive and confirmatory decisions (Glautier and Underdown, 1994). Existing literature noted that to make information relevant was quite challenging because the users' needs are diverse and dynamic in nature. Studies on information management observed that information was reliable when it was comprehensive, dependable; represent able, faithful and verifiable (Sutton, 1997).

In their Annual Journal series 14 of 2005, the Chartered Institute of Public Finance and Accountancy (IPFA), observed that financial reports can be used to evaluate performance of organization if it could be compared with other periods and organizations in the same industry.

2.3.6.1 Relevancy

It was observed that information is relevant if it assists the recipient to make correct predictive and confirmatory decisions (Lewis and Pedril, 1994). According to (Lucey, 1996), to be useful information must be relevant to the decision making needs of its users. The Investment portfolio management argued that information has the quality of relevance when it influences the economic decisions of the users by helping them evaluate past, present and the future events. It was observed by different researchers that to make information relevant was quite challenging as users' needs were dynamic and varsity in nature. However, the existing literature does not clearly demarcate between relevance, completeness and reliability although it exhibit a relationship between relevance and quality of financial reporting. The study sought to establish the type and degree of relationship between relevance and quality of financial reporting.

2.3.6.2 Reliability

Studies conducted on information management by (Turner Lynn, 2000), assert that information is reliable if it is comprehensive, dependable, represent able, faithful and verifiable. It was observe red by Page and Spira (1998), that information has the quality of reliability when it is free from material error and bias. According to Turner (2000), argued that information can be relevant but remain unreliable. The existing literature failed to rank one of the two relevance and reliability is more influential in contributing to quality of

financial reporting. However, the American Accounting Association (AAA) emphasized that to be useful, information has to be reliable. Empirical evidence has shown that reliability is a function of relevance and completeness.

2.3.6.3 Comparability

The ultimate usefulness, relevance and reliability behind the frame work and presentation of financial statements (reports) of an organization is to facilitate the users to identify trends to guide planning and decision making. According to World Bank monitoring report (2003) on fiscal decentralization strategy, decisions over financial position and performance are hampered if the financial statements (reports) cannot be compared over time and between organizations.

It has been observed in their Annual Journal series 14 of 2005 of the Chartered Institute of Public Finance and Accountancy (IPFA), that financial statements (reports) can be used to evaluate performance of organizations if it can be compared with other periods and organizations in same industry. The existing literature commented that comparability should not be confused or mixed with mere uniformity nor used as impediment to the introduction of improved accounting standards. Comen Smith *et al* (1986) contend that it is inappropriate for an organization to maintain its accounting policies unchanged for purposes of comparability even if more relevant and reliable alternatives exist. However, Station (2000) observed that, compliance with international accounting standards (IAS) requires disclosure of the accounting policies used by the enterprise before comparability is achieved.

2.3.6.4 Timeliness

Management needs to balance the relative merits of timely reporting and the provision of reliable information. Empirical evidence asserts that undue delay in the reporting of

information may lose its relevance. (Lucey *et al*, 2000) contend that to provide information on timely basis it is necessary to report before all aspects of a transaction and other events are known. Conclusively, it was argued that timeliness overrides reliability in financial reporting. Recent research findings on financial reporting in public and private organizations observed that in the era of globalization and information technology (IT), timeliness prevail over reliability. It was further urged that once reporting is delayed until all aspects are known, the information would be highly reliable but of little use to users for interim decisions.

The existing literature did not establish the bottom line for achieving a balance between relevance, reliability and timeliness of financial information to users for making economic decisions. Conversely, the tradeoff between benefit, cost, relevance, reliability, comparability and timeliness of financial information is still a paradox.

It was further observed that timeliness overrides reliability because if reporting was delayed until all aspects are known, the information would be highly reliable but of little use to the users for interim decisions. However, the literature did not explain the suitable mix ratio required in achieving a balance between relevance, reliability and timeliness of financial information to users for making economic decisions. It was argued that management needed to balance the relative merits of timely reporting and the provision of reliable information.

Empirical evidence asserts that undue delay in the reporting of information could lose its relevance. Lucey *et al* (2000) contend that provision of information on timely basis was necessary to report before all aspects of a transaction and other events were known.

2.4 Summary of the Literature review

The existing literature supports the proposition that there is a relationship between quality of financial reporting and financial decentralization. It illustrated that planning and budgeting was consultative, bottom- up in approach, closely monitored and community priority driven that greatly enhanced the quality of financial reporting.

However, it did not spell out the area of conflicts, its magnitude and how it can be solved. The literature further revealed that decision making process improve greatly when decentralized but fail give an explanation for the existence of the exceptions. The literature did show that there was a relationship but did not explain the nature and degree of association between the variables. The literature sited that the theory of central command developed by emperor pecos (1725) account for centralization of the budgeting, planning, decision making in LGs in LDCs. However, it emphasized the liberal democracy theory being behind the current reforms and the rebirth of decentralization. The literature over emphasized the rationale of having reliable, relevant, comparability as well as timeliness of financial reports. However, it failed to show which was most important and why.

Conversely, it did not explain the tradeoff between benefit, cost, relevance, reliability, comparability and timeliness of financial information, though described it as still a paradox.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The chapter presents the planning procedures used by the researcher in conducting the study in order to yield the most valid findings (Selltiz, 1981). It therefore presented methods that were used to generate data that answered fully the study questions and achieved the objectives. It was divided into eight sections namely: - the research design; population of the study; the sample size and its selection strategy; data collection methods and procedure; data collection instruments; data reliability and variability; measurement of variables and data analysis.

3.2 Research Design

The study used a quantitative research design which was cross sectional in approach. The quantitative design was used in establishing the relationship between financial decentralization and quality of financial reporting (Sekaran, 2003).

3.3 Study Population

The population to the study consisted of 300 employees and councilors; of which 10 were Auditors, 60 councilors, 5 members of PAC and 225 staff in the finance department both at the district headquarter and the five city divisions obtained from personnel records and sworn in registers as illustrated in table 2 on the next page. This was the population considered directly affected by the problem under investigation and from which the sample used in the study was drawn.

Table 2 Target Population for the study

Strata	Inspectorate	KCC Headquarter	Nakawa Division	Central Division	Makindye Division	Lubaga Division	Kawempa Division	Total
Staff in Finance Department	-	80	25	45	25	25	25	225
Members on Finance & administration committee	-	5	5	5	5	5	5	30
Members on Executive Committee	-	5	5	5	5	5	5	30
Internal Audit	6	-	-	-	-	-	-	6
External Audit	4	-	-	-	-	-	-	4
PAC Kampala	5	-	-	-	-	-	-	5
Total	15	90	35	55	35	35	35	300

(Source: Personnel records and sworn in register)

3.4 Sample size and selection

The required sample size of the study consisted of 213 determined from the population of 300 using Krejcie and Morgan (1970) methods. The researcher first divided the target population into three non over lapping strata namely inspectorate, KCC Headquarter and divisions based on the organization structure and roles before determining the sample size in each stratum using Krejcie and Morgan tables as indicated in the table 3 below.

Table.3 Determination of the sample size for the study

Stratum	Target Population	Sample size	Selection criterion
Inspectorate	15	14	Simple random sampling
KCC Headquarter	90	72	Proportionate Stratified Random Sampling
Divisions	195	127	Proportionate Stratified Random Sampling
Total	300	213	

Source: Primary data

3.5 Sampling techniques and procedure

The researcher employed two methods in selecting members into the study sample namely simple random sampling and proportionate stratified random sampling techniques. Both techniques were probabilistic in nature and therefore ensured equal opportunity for each member of being selected into the sample.

The simple random sampling method was used in drawing 14 out of 15 elements from the inspectorate stratum while a proportionate stratified random sampling technique was used in drawing elements from both KCC headquarter and division strata. The second technique was done by first sub dividing the population in KCC headquarters stratum into three independent subgroups namely finances staff, executive committee as well as finance and administration committee respectively. It was followed by determining members for each subgroup proportionate to its size to the total number of population at KCC headquarters before selecting members from each subgroup using a simple random sampling until the 72 out of 90 members were selected.

Secondly, the division stratum was subdivided into five independent political divisions namely Central, Lubaga, Nakawa, Kawempe and Makindye with population as indicated in Table 2 above. This was followed by determining members for each division proportionate to its size to the total number of the population in all divisions. This was then followed by selecting members in each subgroup using a simple random sampling until the 127 members selected out of 195. The researcher employed the above selection criterion in order to ensure proportionate representation based on the relative size of each stratum in the selected sample (Sekaran, 2000).

3.6 Data Collection Methods

Three methods were used to collect the required data namely observation, questionnaire and interview (Bhattacharyya, 2003).

3.6.1 The questionnaire

The survey questionnaire with five point likert scale was designed and administered to all technical staff in finance department at the district and divisions, members of inspectorate comprised of internal and external auditors; members of PAC Kampala district and councilors on finance and executive committees both at the district and divisions with the help of the services of field researcher assistants. The structured questionnaire with closed question was used so as to have an organized procedure to facilitate good management and control of the scope of the responses within the study objectives and research questions. It also enabled the researcher to consult the respondents in a uniform manner in order to arrive at scientific generalization.

3.6.2 Interview

A face to face interview was conducted on purposively selected executive committee members both at the district and divisions with the help of an interview guide.

3.6.3 Observation

The secondary data on the quality of financial reporting in KCC was obtained through an examination of the financial reports, statements, audit and PAC reports and Commission of inquiry reports both at the district and divisions which were considered relevant to the study.

3.7 Data sources

Both primary and secondary data was collected and used in order to accomplish the study.

3.7.1 Primary Data

The researcher collected primary data from people who were directly affected with the problem under investigation basically those dealing with financial reports by use of a self administered questionnaire.

3.7.2 Secondary Data

The secondary data on the quality of financial reporting in KCC was obtained through examination of financial reports and statements, commission of inquiry, Audit and PAC reports as well as council minutes considered relevant to the main theme of the study.

3.8 Validity and reliability

3.8.1 Validity

The researcher conducted a pre-test run of the questionnaire followed by adjustments before real field collection of the data commences. This ensured consistency in the scores of a single measure, rather than identical scores on two alternate measures and minimized ambiguity, wrong data and reduced on errors as well as consistence in the collected data (Siegel and Hodge, 1968: p.55).

3.8.2 Reliability

The reliability of the instrument was tested using the Cronbach's alpha coefficient and the following results were realized.

Table 4 The Reliability of Questionnaire

Variable	Cronbach's alpha Coefficient
Quality of financial reporting	0.6473
Decentralized decision making	0.8347
Decentralized budgeting and planning	0.6654
Effectiveness of financial regulatory framework	0.6157
Staff competence	0.9692

Source: Primary data

The reliability of the questions used in the study ranged from 0.6157 to 0.9692 far and above the acceptable minimum of 0.5000 and closer to 1, Selltiz *et al* (1976, p 168-69); indicating that the instrument used in data collection was dependable as it could yield similar results whenever used (Sauder Lewis 2000, p.197). This was because there was high internal consistence reliability of the questions in the instrument. Therefore, the results and conclusions of the study would safely be used to make decisions; in addition the instrument could be used in future to conduct further studies in the same field.

3.9 Procedure of Data Collection

The researcher acquired the services of field assistants who helped in administering the prepared questionnaire to the indentified respondents. It was supplemented with a face to face interview with the help of a prepared interviewing guide to the purposively selected respondents before the documents considered relevant to the study was reviewed.

3.10 Data Analysis

Quantitative data with similar characteristics was edited, classified, grouped and coded before being captured using SPSS which tabulate it into table, frequency tables and charts before its analysis and `interpretation using factor analysis, regression analysis and Pearson correlation co-efficient models which established the factor contribution, prediction and correlation between independent and dependent variables respectively.

3.11 Measurement of variables

The independent variable was measured basing on the level of autonomy and effectiveness of decentralized financial decision making , budgeting and planning in improving the quality of financial reporting using a likert scale, Strongly agree, Agree , undecided, disagree and strongly disagree by the respondent.

The dependent variable was measured basing on the degree of reliability, relevance, comparability and timeliness of the financial reports produced and submitted by KCC management to its stakeholders using a likert scale Strongly agree, Agree, Un decided, Disagreed and Strongly disagree with the qualities of good financial reports, while the moderating variables was measured using Gutt man scale for YES for having an effect and NO for having no effect on the relationship between the independent and dependent variable.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF THE RESULTS

4.1 Introduction

This chapter was structured into two sections; the first section presents the characteristics of the unit of inquiry while the second section presents the presentation, analysis and interpretation of the findings of the study in reference to the four research objectives below. The findings was based on the primary data summarized and presented in tables and figures showing frequencies and percentages, factor analysis, Pearson(r) correlation coefficient and Regression model.

- To establish the relationship between financial decentralization and quality of financial reporting in KCC.
- To establish the contribution of decentralised financial decision making to the quality of the financial reporting in KCC.
- To establish the contribution of decentralised planning and budgeting to the quality of the financial reporting in KCC.
- To establish the moderating effect of financial regulatory frame work and staff competence on the relationship between the financial decentralisation and quality of financial reporting in KCC.

4.2 Sample characteristics

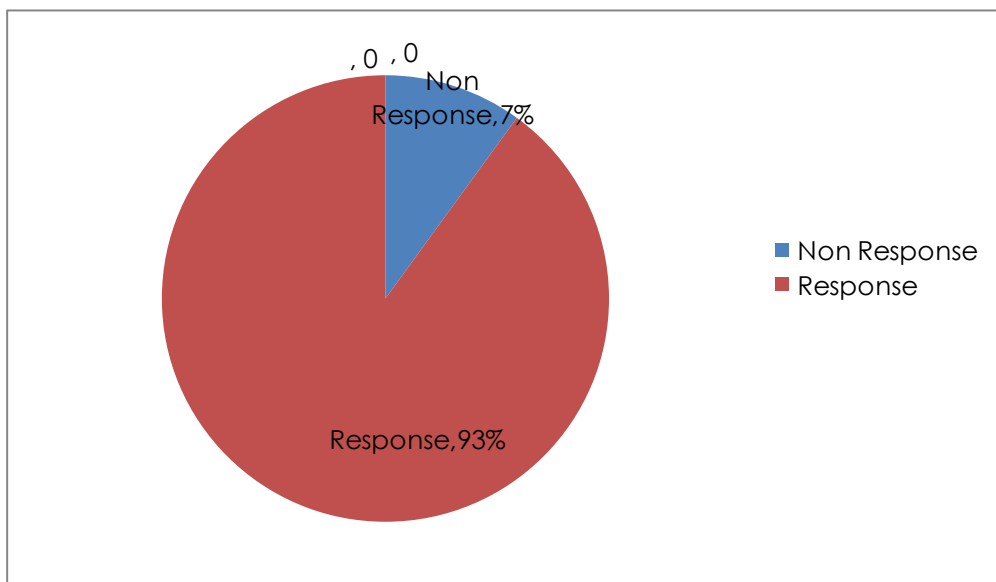
4.2.1 Characteristics of the unit of inquiry

The demographic feature presents the respondents' characteristics including years of service, category, seniority, gender, and location of the respondents that were considered important to the study.

4.2.1.1 Response rate

The researcher collected information from 213 respondents of which 198 registered completed and returned questionnaires posing a response rate of 93% as showed in table 2 below.

Figure .2 Response rate



Source: Primary data

4.2.1.2 Respondents geographical location

Information on respondents from seven different locations of KCC were sought namely: KCC headquarters, the city Divisions of Lubaga, Kawempe, Makindye, Nakawa and central, as well as the inspectorate of local government which comprised of Public accounts committee (PAC), Internal and External Audit.

The results in the table 5 below show the units that participated in the study together with their representative percentages.

Table.5 Respondent's Organisation location

		Frequency	Valid Percent	Cumulative Percent
Valid	KCC headquarters	71	35.9	35.9
	Central Division	36	18.2	54.0
	Lubaga Division	26	13.1	67.2
	Inspectorate	12	6.1	73.2
	Nakawa Division	20	10.1	83.3
	Makindye Division	14	7.1	90.4
	Kawempe Division	19	9.6	100.0
	Total	198	100.0	

Source: Primary Data

The results in the above table showed that the majority of the respondents were from KCC headquarters (36%) while the Inspectorate contributed the least of (6%).

4.2.1.3 Designation of respondents

Apart from councilors, Auditors and members of PAC, different categories of KCC employees were sought as respondents who were directly affected by quality of financial reporting.

The designations of respondents who participated in the study are shown in table 6.

Table 6 Designation of respondents

	Designation	Frequency	Valid Percent	Cumulative Percent
Valid	Senior Executive	4	2.0	2.0
	Executive Member	10	5.1	7.1
	Senior Officer	117	59.1	66.2
	Officer	56	28.3	94.4
	Junior Officer	11	5.6	100.0
	Total	198	100.0	

Source: Primary data

The employees who participated in the study, the senior officer category provided the majority with (59%) while senior executive provided the least with only (2%). Other categories provided as follows Executive Officers (5%), Officers (28%) and junior officers with (6%).

4.2.1.4 Category of Respondents

Responses were sought from different categories of respondents who were directly affected by quality of financial reporting in KCC. The categories of respondents who participated in the study are shown in Table 7 below.

Table 7 Respondent's Category

Category of respondents		Frequency	Valid Percent	Cumulative Percent
Valid	Public Servant	131	66.2	66.2
	Councilor	49	24.7	90.9
	Contractor	1	0.5	91.4
	PAC Member	5	2.5	93.9
	Auditor	12	6.1	100.0
	Total	198	100.0	

Source: Primary Data

From the above table 7, technical staff provided the highest with 66% while service providers contributed the least with 1%. It was noted that councilors contributed with (25%) while auditors had only (3%),

4.2.1.5 Gender of respondents

Respondents of different type of sex in KCC and divisions were sought. Below in table marked 8 and figure 3 shows the gender of respondents who participated in the study.

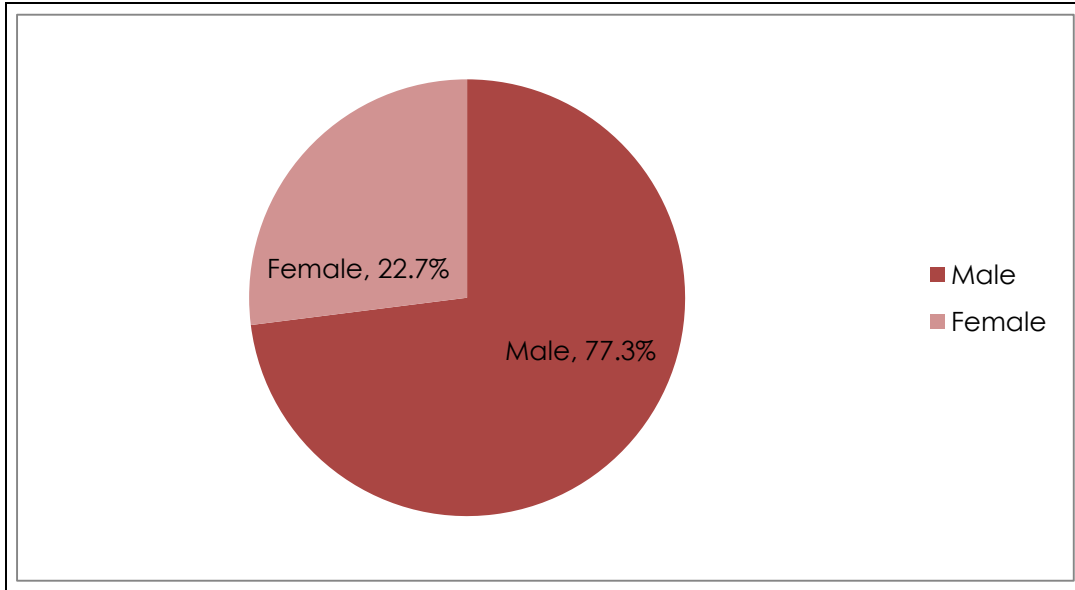
Table 6 Gender of respondents to the study

Gender		Frequency	Valid Percent	Cumulative Percent
Valid	Female	45	22.7	22.7
	Male	153	77.3	100.0
	Total	198	100.0	

Source: Primary data

The category of gender of respondents who participated in the study, 77% were male while 23% were female. The gender of respondents that participated in the study was further presented in the figure marked 3 below.

Figure .3 Genders of Respondents



Source: Primary Data

Both table 6 and figure marked 3 confirmed that the gender of respondents who participated in the study, the majority (77%) were male compared to (23%) female.

4.2.1.6 Years in service of respondents

Different years in service of the respondents participated in the study. The table show the respondent’s years in service.

Table 9: Years in service of the Respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	Less than 5yrs	13	6.6	6.6
	5 - 10 yrs	51	25.3	31.9
	11 - 15 yrs	65	32.3	64.2
	16 - 20 yrs	61	30.3	94.5
	20 - 25 yrs	5	2.5	97.0
	Above 25yrs	3	3.0	100.0
	Total	198	100.0	

Source: Primary Data

The results indicated that the majority of the respondents to the extent of (95%) have been in service between (5-20) years while 7% have been in service less than 5 years. The period in service was important to this study in that it helped the respondents to give answers based on wide range of experience. This therefore, means that the results of the study would not be challenged on ground that the respondents had no adequate experience to effectively assess the quality of financial reporting in KCC.

4.3 Factor analysis of financial decentralization

It is an exploratory statistical tool for analyzing and understanding the contribution of the components of independent variable to the dependent variable. The factor analysis was constructed to analyze the contributions of each dimension of the financial decentralization namely decision making, budgeting and planning as well as the moderating variable to the quality of financial reporting in KCC.

The respective contribution of each dimension of the financial decentralization to the quality of financial reporting in KCC is highlighted in table 8 below of the factor analysis.

Table 10: Contribution of Financial decentralization to quality of financial reporting

Factor analysis results for Financial Decentralization	Decision Making	Planning and Budgeting	Regulatory framework & staff competence
Financial decentralization made decisions making process in KCC more transparent.	0.746		
Financial decisions in KCC are always guided by accurate and relevant information.	0.652		
KCC is absolutely independent while making decisions on the format, contents, type and frequency of financial statements/reports.	0.547		
Financial decentralization effectively made decision making in KCC to be always guided by the organization's mission and objectives.	0.564		
Financial decentralization significantly reduced on conflicting financial decisions in KCC.	0.577		
Financial decentralization has made decision making process in KCC more flexible.	0.697		
KCC is more independent in formulation, approval and implementation of its financial budgets and development plans.		0.609	
Planning in KCC is regularly monitored, evaluated, reported and discussed.		0.669	
In KCC, spending is significantly controlled by budget allocation.		0.591	
In KCC, vote books are more used in budget monitoring and controlling than before the introduction of financial decentralization.		0.612	
Budget monitoring reports in KCC are usually discussed by both technical staff and councilors.		0.548	
The financial framework that produces financial reports in KCC is simple, flexible and user friendly.			0.699
The financial regulatory framework in KCC effectively standardized all aspects of financial reporting.			0.549
The staff competent, qualifications, experience and adequate supervision addressed all financial reporting challenges in KCC			0.561
Eigen value	6.240	2.196	1.663
Variance %	38.207	13.447	10.179
Cumulative %	38.207	51.654	61.833

Source: Primary Data

The results of the factor analysis in table 10 above revealed that Decision making, Budgeting and Planning were crucial components of independent variable as they account for 38% and 14% respectively of the 62% contribution of the financial decentralization when assessing its effect on quality of financial reporting in KCC. It was further established that Regulatory framework and staff competence only contribute 10% of the independent variable. The factor analysis further established that the above three components contribute (62%) of the independent variable in causing improvement in the dependent variable. This therefore, means that to extent of (38%) of the independent variable was contributed by other factors outside the scope of this study.

4.3.1 Decision making

The findings based on the results of the factor analysis revealed that financial decentralization contributed to the quality of financial reporting by making financial decision making process more transparent by a factor of (0.746), guided by accurate and relevant information (0.652), independent regarding format, contents and frequency of the financial reports (0.547), guided by organization's mission and objectives (0.564), minimized conflicting decisions (0.577) and more flexible (0.697).

4.3.2 Budgeting and Planning

From the results of the factor analysis, it was evident that decentralized budgeting and planning significantly contributed to quality of financial reporting in KCC by creating independence in the formulation, approval and implementation of the budgets and development plans by a factor of (0.609); causing regular monitoring of performance, evaluating and reporting of financial performance (0.669); increasing the application of vote books in monitoring expenditure (0.612);

controlling level of expenditure (0.591) and causing budget reports discussed by both technical and councilors (0.548).

4.3.3 Regulatory and staff competence

The results of the factor analysis in table 10 confirmed that staff competence in terms of experience, qualification and adequate supervision were vital factors in causing improvement in quality of financial reporting in KCC (0.561). When staff have adequate experience, technically qualified and well supervised then the books of accounts are well maintained and the financial reports produced are more reliable and timely. It was discovered that the financial regulatory framework such as the LGA CAP 243, LGFAR (2007) among other caused standardization of financial reporting in KCC (0.549) and made the reports much simpler, flexible and user friendly (0.699).

However, in KCC regulatory framework and staff competence weighed least(10%) in contributing to quality of financial reporting as compared to the decentralized budgeting, planning and decision making whose variance was 14% and 38% respectively..

4.4 Correlation between components of financial decentralization and quality of financial reporting

A correlation analysis is a statistical tool for measuring the degree and strength of relationship between independent and dependent variables in the study. In this study, the data was discrete and therefore, a Pearson correlation co-efficient was considered suitable and employed in exploring the relationship between these variables. Below in table 11 were the results at 99% confidence interval (2- tailed).

Table 11: Pearson Correlation Coefficient (r)

	Decision Making	Planning & Budgeting	Regulatory framework & Staff competence	Financial Decentralization	Quality of Financial Reporting
Decision Making	1.000				
Planning & Budgeting	0.309**	1.000			
Regulatory & Staff competence	0.168*	0.426**	1.000		
Financial Decentralization	0.800**	0.642**	0.693**	1.000	
Quality of Financial Reporting	0.579**	0.484**	0.343**	0.654**	1.000
** Correlation is significant at the 0.01 level (2-tailed).					
* Correlation is significant at the 0.05 level (2-tailed).					

Source: Primary data

4.4.1 The relationship between decentralised decision making and quality of the financial reporting in KCC.

The results of Pearson correlation coefficient confirmed that there was a positive relationship which was significant between decentralized financial decision making and quality of financial reporting in KCC ($r = 0.579$, $p < .01$). This means that when decision making was suitable and effective for instance regarding format, content and frequency of the financial reports, and consistent with the organization mission and objectives and guided by correct and relevant information, then the quality of financial reporting is bound to be of good quality and vice versa. Therefore, when KCC management wanted to have improvement in quality of financial reporting, emphasis have to be put on the components of decentralised decision making such as flexibility, correct, timely and relevant information as well as bottom -up in approach if quality of financial reports is to improve.

4.4.2 The relationship between decentralised planning / budgeting and the quality of the financial reporting in KCC

The results of the Pearson correlation co-efficient showed that decentralised planning and budgeting was positively correlated to the quality of the financial reporting in KCC as indicated by ($r = 0.484$, $p < .01$). This implies that if elements of Planning and Budgeting such as monitoring, controlling, evaluating and reporting financial performance were effectively implemented, this was bound to result into improved quality of financial reporting. Therefore, effective implementation of decentralized budgeting and planning would cause improvement in the financial reporting as it would bring about error free, relevant, reliable and timely budget monitoring reports which is part of the statutory financial reporting requirements in KCC..

4.4.3 The relationship between the regulatory framework / staff competence and quality of financial reporting

The Pearson correlation coefficient results indicated that regulatory framework and staff competence had a significant positive relationship with quality of financial reporting ($r = 0.343$). This means that financial regulatory framework such as LGA CAP 243 and LGFAR (2007) as well as staff competence such as qualification, experience and supervision if effectively observed and enforced then, the relationship between financial decentralization and quality of financial reporting will be much stronger and hence better contribution.

4.4.4 The relationship between the financial decentralization and quality of financial reporting

Upon testing the relationship between financial decentralization and quality of financial reporting, the study established that a positive relationship which was significant existed

between Financial decentralization and quality of financial reporting in KCC as indicated by ($r = .654, p < .01$) in table.11 above. This confirms that once decision making, budgeting and planning are effectively decentralized and strict adherence on the regulatory framework and staff competence emphasized, then one is bound to experience an improved quality of financial reporting.

4.5 Prediction model for quality of financial reporting

A regression model is a statistical tool used in predicting variations in the dependent variable based on the independent variable. In this study, the researcher employed a hierarchical regression model because the data used was discrete and independent variable conceptualized into more than one dimension leading to a many to one approach in explaining variations in the dependent variable as indicated in the conceptual framework figure.1.

Below in table 12 were the results.

Table 12: Hierarchical Regression Model of financial decentralization on quality of financial reporting

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.575(a)	0.331	0.327	0.39306	0.331	95.849	1	194	0.000
2	0.660(b)	0.436	0.430	0.36179	0.105	35.985	1	193	0.000
3	0.673(c)	0.453	0.445	0.35715	0.017	6.045	1	192	0.015
a Predictors: (Constant), Decision Making									
b Predictors: (Constant), Decision Making , Planning & Budgeting									
c Predictors: (Constant), Decision Making , Planning & Budgeting , Regulatory framework & staff competence									

Coefficients (a)

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.842	0.061		46.503	.000
	Decision Making +(c)	0.194	0.020	0.575	9.790	.000
2	(Constant)	1.739	0.192		9.044	.000
	Decision Making combined with Planning & budgeting+c	0.159	0.019	0.473	8.334	.000
	Regulatory framework and staff competence	0.311	0.052	0.340	5.999	.000
3	(Constant)	1.713	0.190		9.010	.000
	Decision Making (a)	0.157	0.019	0.466	8.319	.000
	Planning & Budgeting (b)	0.257	0.056	0.280	4.592	.000
	Regulatory framework & staff competence (c)	6.526E-02	00.027	0.145	2.459	.015
a Dependent Variable: Quality of Financial Reporting						

Source: Primary data

The results of the regression showed that the dimensions of financial decentralization namely decision making, planning and budgeting as well as regulatory framework and staff competence predict up to 45% of the quality of financial reporting in KCC (Adjusted R Square = 0.445). In addition, the decentralized decision making (Beta = 0.466) was a better predictor of quality of financial reporting in KCC than decentralized Planning / Budgeting and Regulatory framework/Staff competence whose (Beta = 0.280) and (Beta = 0.145) respectively.

However, when decentralized financial decision making combined with planning and budgeting becomes a better predictor (Beta = 0.575) as compared to (Beta = 0.466) when it is not combined.

Therefore, the hierarchical regression model confirmed that the dimensions of the independent variable would become a better predictor of quality of financial reporting in KCC when combined with moderating variable as evidenced by (Beta= 0.575, 0.473 and 0.340) as compared to when it considered independently (Beta= 0.466, 0.280 and 0.145) respectively.

According to Murray (1989), a regression model is considered valid if (sig. is equal or less than 0.05), hence the above regression model where ($p < 0.01$) was considered significant. Therefore, based on the results of the above regression, it means that if the quality of financial reporting improves by 1000 units, then 445 of these units will be a result of efforts in decision making, budgeting and planning as well as improvement in regulatory framework and staff competence.

4.6 Quality of Financial Reporting in KCC

The respondents were assessed on six aspects considered crucial in influencing quality of financial reporting in order to establish whether the quality of financial reporting improved or not after the adoption and implementation of the financial decentralization in KCC. These were; status of book keeping function, financial operations, autonomy in financial reporting, monitoring and measuring of financial performance, errors and material mis-statements as well as strength of internal controls. These were the indicators in determining whether the financial reports are reliable, relevance, timely and can be used in comparison.

4.6.1 Book keeping functions

The users and inspectors of books of accounting in KCC and divisions were asked if the bookkeeping function improved after the adoption and implementation of financial decentralization; their responses are indicated in table 13 below.

Table 13: Quality of Book Keeping

Category	Strongly Agreed		Agree		Undecided		Disagree		Strongly Disagree	
	Freq	valid%	Freq	valid%	Freq	valid%	Freq	valid%	Freq	valid%
District	24	25.8	27	45.8	3	14.3	8	40.0	2	40.0
Division	46	49.5	19	32.2	11	52.4	7	35.0	1	20.0
Auditors	3	3.2	4	6.8	0	0	1	5.0	0	0
Councilors	20	21.5	9	15.2	7	33.3	4	20.0	2	40.0
Total	93	100	59	100	21	100	20	100	5	100
Total Score	47.0%		29.8%		10.6%		10.1%		2.5%	

Source: primary data

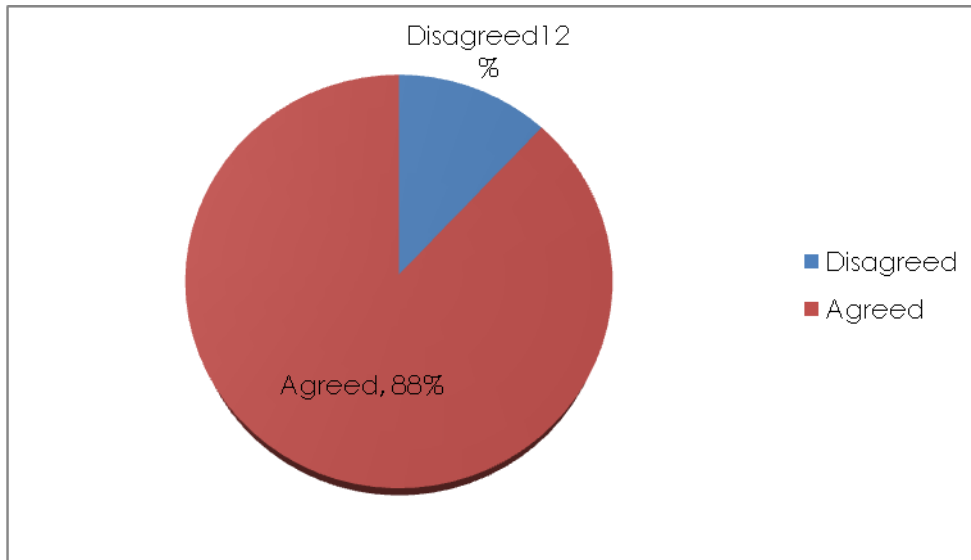
The majority of the respondents to extent to (77%) confirmed that bookkeeping functions in KCC and divisions improved after the inception and adoption of financial decentralization while (13%) refuted the contention.

4.6.2 Financial Operations

When asked if financial decentralization streamlined the financial operations in KCC and divisions, (88%) to (12%) of the respondents assert that KCC and divisions registered a significant improvement and streamlined its financial operations.

The conclusions were hinged on smooth and clear guidelines followed in executing the financial functions as confirmed by the responses illustrated in figure 4 below.

Figure .4 Financial operations streamlined

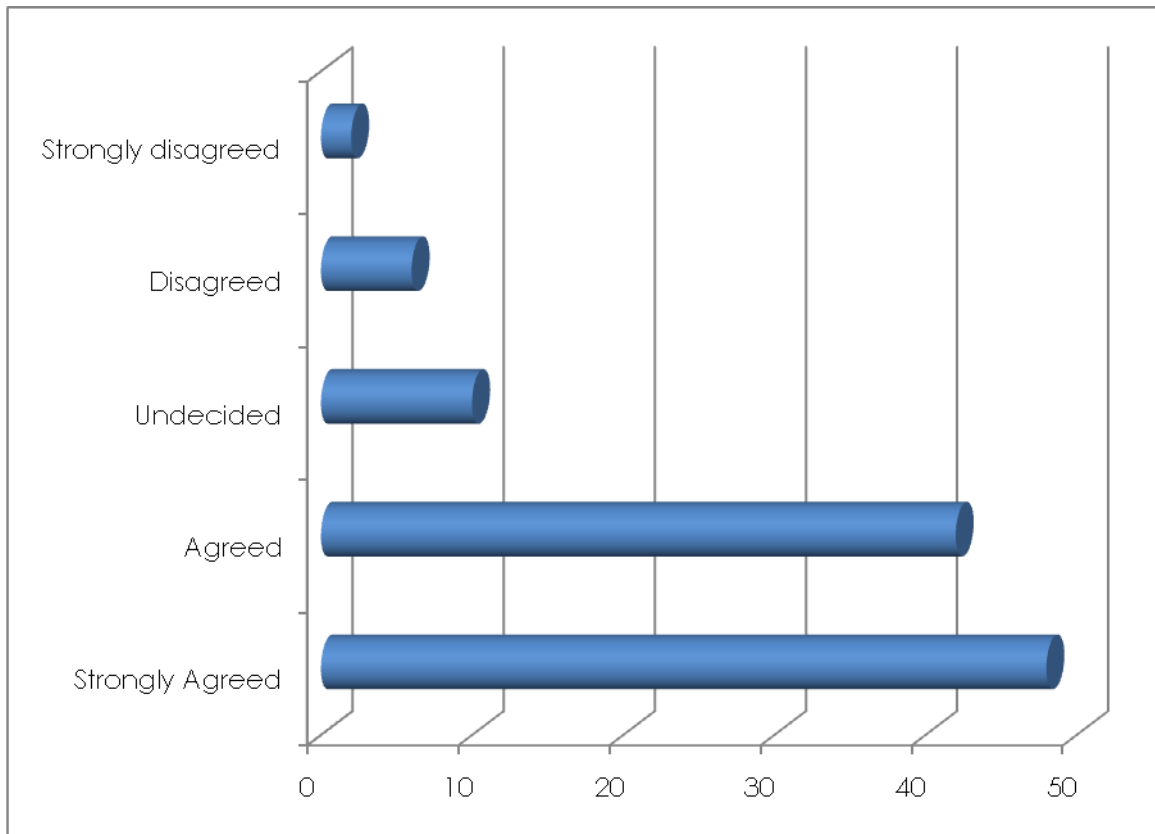


Source: Primary data

4.6.3 Autonomy in financial reporting

When the respondents were asked to make self assessment and comment on if financial decentralization created autonomy in financial reporting in KCC and divisions. The responses collected are shown in figure 5 below.

Figure .5 Autonomy in financial reporting



Source: Primary Data

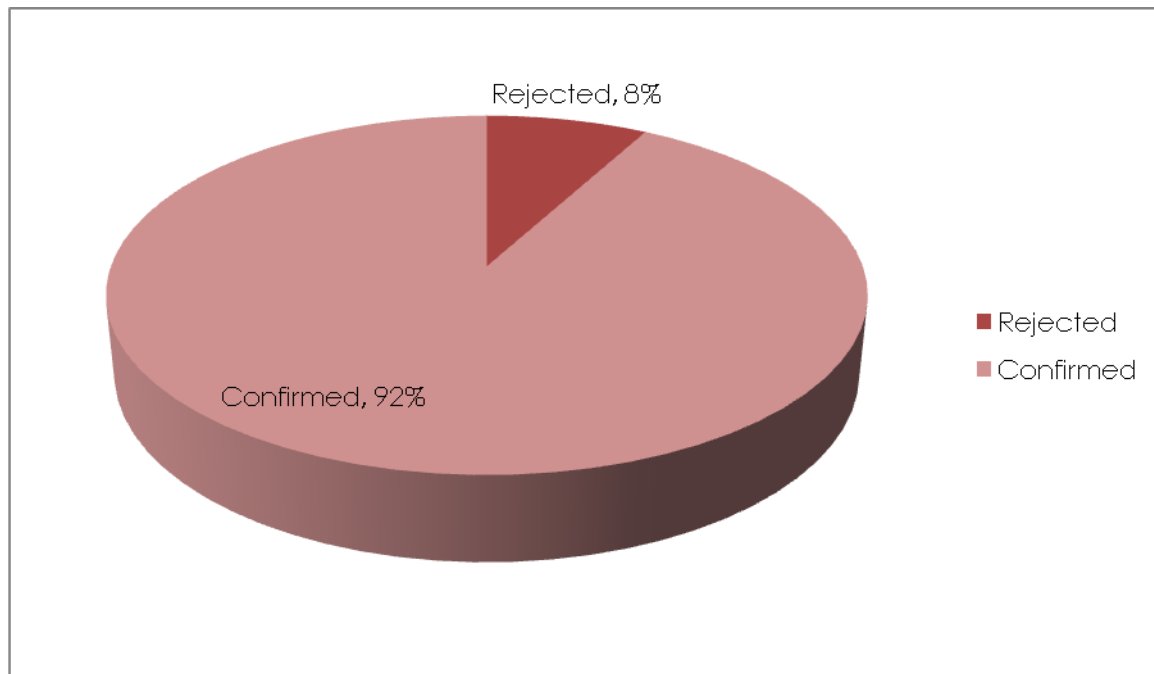
The majority of the respondents to (90%) as indicated in figure 5 above conceded that financial decentralization created autonomy in financial reporting in KCC and divisions.

4.6.4 Monitoring and Measurement of Financial performance

Opinions were sought from respondents on whether financial decentralization enhanced monitoring and measuring of financial performance in KCC and divisions. Of the respondents that participated to the question, the majority to extent of (92%) confirmed that there was improvement in monitoring and measuring of the financial performance in KCC and divisions since the adoption and implementation of financial decentralization as illustrated in the figure 6 below.

Their conclusions were based on the amounts and frequencies of monitoring reports produced by these institutions.

Figure.6 Enhanced monitoring & evaluation of financial performance



Source: Primary Data

4.6.5 Material Mis-statements

Comments were sought from respondents on whether financial decentralization reduced errors, financial losses and fraud in KCC and divisions since its adoption and implementation of financial decentralization. Below in table 14 show the responses.

Table 14 : Material mis-statement

Category of Respondents	Strongly Agreed	Agreed	Undecided	Disagreed	Strongly Disagreed
Technocrats	39	35	7	9	2
Councilors	49	22	-	6	1
Auditors	12	3	-	8	-
Member of Public Accounts Committee	-	1	-	3	1
Total Number	100	61	7	26	4
Percentage	51%	30%	4%	13%	2%

Source: Primary Data

The results as indicated in the table 14 above revealed that the majority of the respondents (81%) believe that financial decentralization reduced on the degree and frequency of material mis-statements in financial statements in KCC and divisions since its inception.

4.6.6 Internal control

In order to establish whether the financial decentralization improved on the quality of financial reporting in KCC and divisions, the respondents were asked to comment on if the internal controls in KCC and divisions were strengthened and streamlined as a result of implementation of financial decentralization. Below in table 15 were the results.

Table 15: Internal Control

Scale	Frequency	Percentage (%)	Cum. Frequency
Strongly Agreed	96	48	48
Agreed	37	19	67
Undecided	9	5	72
Disagree	30	15	87
Strongly Disagree	26	13	100
Total	198	100	

Source: Primary Data

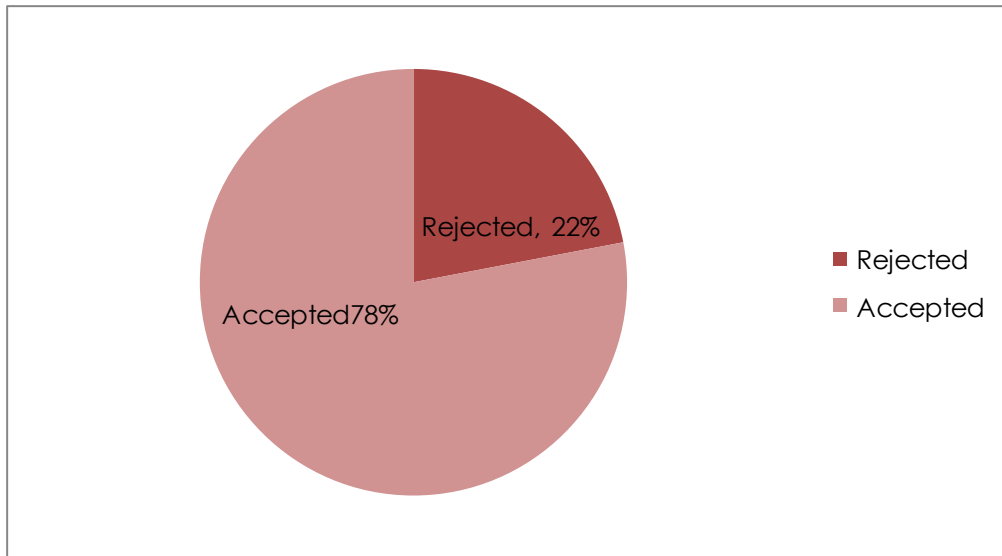
The findings derive red from the individual respondents who participated, (67%) conceded that internal controls were streamlined and strengthened by financial decentralization. However, (28%) of the respondents did not agree with the assertion.

4.6.7 Accountability

Comments were sought from staff, councilors and members of inspectorate in KCC and divisions on whether financial decentralization improved financial accountability in KCC.

Below in figure 7 were the results.

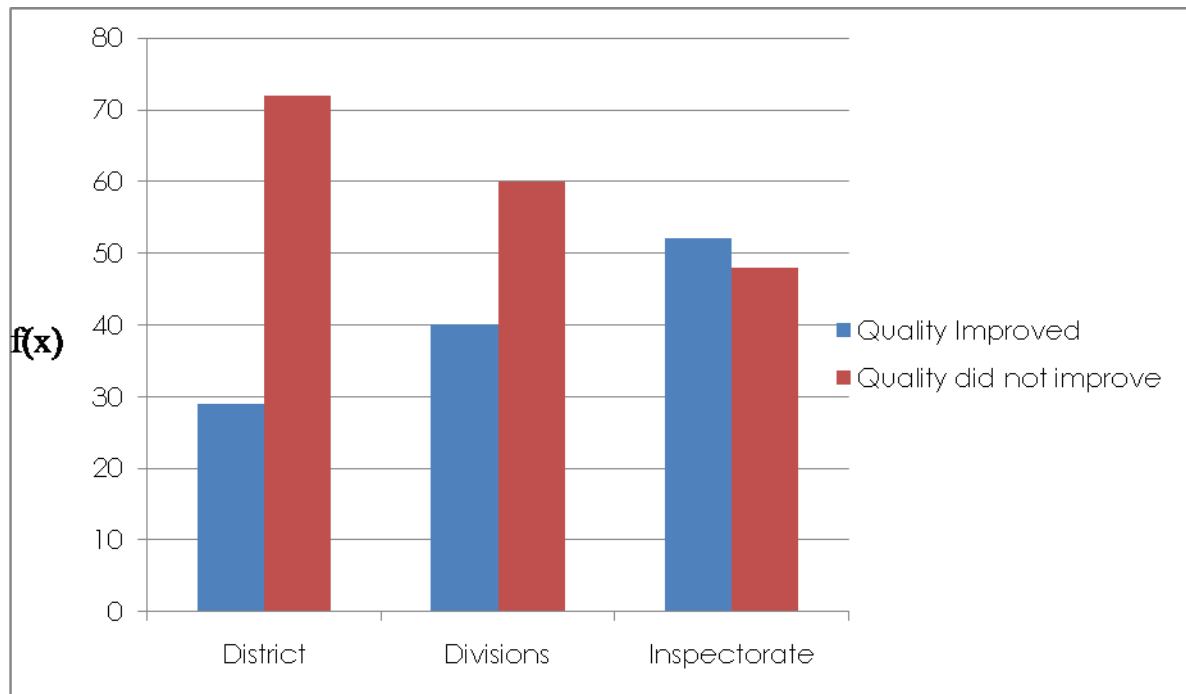
Figure 7 Financial accountability



Source: Primary Data

The majority of the respondents (78%) assert that financial decentralization improved on financial accountability though expressed concern that corruption cases was on the rise.

Figure .8 Quality of Financial Reporting in KCC and division



Source: Primary Data

When asked if quality of financial reporting improved since the inception of financial decentralization in KCC and divisions. The majority of the respondents (72%) confirmed that there was improvement in the quality of financial reporting since the inception.

However, although the same conclusion was made, only 60% of the respondents from the divisions supported it compared to 52% from inspectorate ie Audit and PAC respectively as illustrated in the figure.8.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the discussion, conclusions and recommendations which were derived from the findings of the study in chapter four.

5.2 Summary

The study aimed at establishing the relationship and contribution of financial decentralization to quality of financial reporting in KCC and both quantitative and qualitative design which was cross sectional in approach was used. The data was collected by use of structured questionnaire, interview and observation methods and analyzed using SPSS which tabulated it into factor table, frequency tables and charts. The relationship between components of independent variable and dependent variable was analyzed using factor analysis, hierarchical Regression and Pearson correlation coefficient models. The study discovered that decentralized decision making was the best contributor and therefore a better predictor of quality of financial reporting in KCC than decentralized budgeting/ planning and staff competence. The study also discovered that there was a significant positive relationship between financial decentralization and quality of financial reporting.

The study further established that the dimensions of independent variable namely decision making, budgeting/planning, regulatory frame work and staff competence would predict up to 45% of the quality of financial reporting although accounts for 62% of the independent variable in explaining improvement in the dependent variable. It contributed to quality of financial reporting by improved bookkeeping, streamlined financial operation, created

autonomy in financial reporting, caused regular monitoring and evaluation of financial performance and strengthened internal controls which reduced material mis statements in the financial reports.

5.3 Discussion

The discussions are presented in accordance to the study objectives.

5.3.1 Demographic Features

The sample used in the study was large enough as it represented 71% of the target population and therefore gave a confidence interval of desired width which was effectively used in drawing inferences based on the sample results (Kothari, 1985). The non response rate of 7% was very small and therefore would not cause any significantly impact or change the results of the study.

The study findings was based on the results of the respondents from all the five city divisions and KCC headquarter with the majority coming from KCC headquarter while inspectorate had the least. It was noted that the respondents who participated in the study, the senior officer category provided the majority while the category of senior executive officers provided the least. This pattern of responses reflected a proportionate representation in the study that gave the results ability of generalization, reliability and un biased because in KCC the maintenance of books of accounts and production of financial reports were mostly done by staff in the category of officers and senior officers respectively while executive and senior executive officers were the key users of the extracted financial reports as compared to junior category who had little role and use of the reports produced.

Lastly, the results indicated that the majority of the respondents had been in service between (5-15) years.

The period in service was important to this study because it helped the respondents in giving answers based on wide range of experience in understanding the trend and magnitude of the problem under investigation.

Therefore, the findings of the study would not be challenged on ground that the respondents had no adequate experience to effectively assess the contribution of financial decentralization to the quality of financial reporting.

5.3.2 Relationship between financial decentralization and quality of financial reporting

The relationship between independent and dependent variables was established by use Pearson Correlation coefficient. The regression model was employed in predicting the cause effect of the dimensions of independent variable namely decision making, budgeting and planning, as well as the intervening variable consisting of regulatory framework and staff competence to quality of financial reporting. Below were the specific findings.

5.3.2.1 Budgeting / Planning and quality of financial reporting

The study revealed that there was a significant positive relationship between decentralized budgeting and planning and financial reporting in KCC ($r = 0.484$, $p < 0.1$) at 99% level of significance (2 tailed). This means that when budgeting and planning were effectively implemented, it would result into improved quality of financial reporting. Therefore, if KCC management perfected the budgeting and planning process such as improved monitoring and evaluation, wide consultations during its formulation, budgets reports regularly produced and discussed by both technical and councilors as well as strict adherence to budgetary control guidelines, then quality of financial reporting is bound to improve tremendously. The study findings were in supports of the earlier observations made by (Lock wood, 2005).

The findings of the regression model indicated that decentralized budgeting and planning would predict up to 45% of the quality of financial reporting in KCC (Adjusted R Square = 0.445). This suggested that 55% of the quality of financial reporting in KCC was predicted by something else. Therefore, it is not automatic that whenever there was perfection in the decentralized budgeting and planning process such as monitoring budget performance, KCC will experience improvement in quality of financial reporting.

This revelation explain why the incidence of flouting budget guidelines such as over spending the budget votes in KCC is still rampant as was reported by Auditor General (2005).

5.3.2.2 Decision making and quality of financial reporting

The results of Pearson correlation coefficient portrayed that there was positive relationship which was significant between decentralized decision making and quality of financial reporting in KCC ($r = 0.579$). This suggests that when decisions are relevant, effective, suitable and timely for instance regarding format and content of reports then the quality of financial reports is bound to be of good quality. Secondly, the prediction model showed that decentralized decision making was a better predictor of the quality of financial reporting in KCC (Beta = 0.466) than the decentralized budgeting and planning whose (Beta = 0.280). This mean therefore that, if quality of financial reporting is to improve in KCC, then management should invest more efforts in streamlining decision making such as promoting independence and freedom in decision making, avoiding conflicting decisions, defining clearly what type of decisions are to be made at the district and divisions. Finally, when decision making is guided by accurate, relevant and timely information, quality of financial reporting was bound to improve.

5.3.2.3 Moderating effect of Regulatory framework and Staff competence on the relationship between financial decentralization and quality of financial reporting.

The results of Pearson correlation coefficient revealed that there was a significant positive moderating effect of regulatory framework and staff competence on the relationship between independent and dependent variable though a weak one of ($r = 0.343$).

This means therefore, that the effect of regulatory framework such as the financial regulation 2007 and Local government Act Cap 243 which dictated on the format, contents, types, when and to whom the reports are to be produced and staff competence in term of qualification, experience and supervision which influence amount of material mis-statement, application of the recommended accounting standards and timely production of financial reports do influence the impact of decentralized decision making, planning and budget to quality of financial reporting in KCC. Therefore, when KCC management think of streamlining the decentralized decision making, budgeting and planning in order to improve on the quality of financial reporting, it should not ignore the effects of financial regulatory framework and staff competence which equally influence quality of financial reporting.

Overall, the relationship between financial decentralization and quality of financial reporting in KCC was positive though moderate ($r = 0.654$). This means that efforts that aimed at improving on the quality of financial reporting should be invested in for instance having budgeting and planning consultative, participatory, comprehensive, flexible and effectively monitored evaluated and discussed with all key stake holders. Secondly, all decisions made should be consistent with regulations, supported with accurate and relevant information, be bottom-up in approach and free from biasness and undue influence of any kind..

These would therefore bring about good quality of financial reporting.

5.3.3 Contribution of decentralized decision making to quality of financial reporting

The findings of the factor analysis revealed that the dimensions of financial decentralization namely decentralized decision making and budgeting and planning contribute 62% of the independent variable in explaining improvement in quality of financial reporting in KCC. However, decision making was the most crucial component of the financial decentralization and a better predictor and contributor to quality of financial reporting in KCC than budgeting and planning. This therefore mean that decentralized decision making process in KCC caused financial reports more transparent; guided by accurate, relevant and timely information, consistent with the organization's mission and objectives which led to autonomy and freedom in entire financial reporting process. This study finding was in agreement with (Tanzi and Tsibouris, 2000). The study also confirmed that decision making process in respect to format, nature of reports, content and when to produce the financial reports was determined independently by KCC with little interferences from the MoLG as stipulated in section 77 of LGA CAP 243. This reduced on the incidence of material mis statements and conflicting decisions which made the financial reports more reliable, relevant and timely as it was pointed out by (Page and Spira, 1998).

The study further confirmed that independence and freedom in decision making especially regarding financial matters led to standardization of financial reports in KCC. This significantly improved on comparability of reports which caused performance evaluation simpler. The finding was in support of (Fissman and Gatti, 2000) who observed that decentralizing decision making to local governments would significantly improve on quality of financial reports.

5.3.4 Contribution of decentralized Budgeting and Planning

The results of the factor analysis indicated that decentralized budgeting and planning contributed in number of ways to the quality of financial reporting in KCC. Specifically, it created independence in the formulation, approval, implementation, monitoring and controlling of the budgets which significantly in turn improved on the budget monitoring reports. This finding supported the earlier observations made by (Tanzi, 2000) that decentralizing budgeting and planning to local government would result into better financial reporting. The study also discovered that budget monitoring reports in KCC were regularly produced, discussed by both technical and councilors and it constituted the largest portion of the financial reports of council which was in agreement with the assertion made by (Mutahaba, 1998). However, the study revealed a weak relationship between decentralized budgeting/planning and quality of financial reporting in KCC. This therefore explains why even though budgetary controls were in place, the incidence of flouting of the budget guidelines and fraudulent transactions remained high in KCC as was reported by the Commission of Inquiry of LG in KCC (2005).

5.3.5 Quality of financial reporting

The respondents were assessed on six aspects namely; book keeping functions, financial operations, autonomy in financial reporting, monitoring and measuring of financial performance, errors and material misstatement and internal controls in the process of establishing the quality of financial reporting in KCC .

The study revealed that the quality of financial reporting in KCC and divisions significantly improved after the inception and implementation of the financial decentralization.

This was based on the registered improvement in book keeping functions as a result of being automated as indicated by the results contained in table 13.

The findings concurred with the earlier observations made by Vinod Vyasulu (2007) that financial management especially book keeping at local levels of Governments would greatly improve if financial decentralization is implemented. However, due to lack of competence, experience and inadequate supervision of staff in finance department as revealed by the least contribution of (10.179%) in table 10 of factor analysis and the weak correlation coefficient of (0.343) as indicated in table 11, the quality of financial reporting though improved was still lacking as pointed out in PAC report (2005). The results in figure 4 confirmed that the financial operations in KCC and divisions were streamlined. This was attributed to the financial autonomy created by financial decentralization (results in figure.5) that allowed KCC to decide on the format, contents and frequency of the financial reports. The autonomy helped KCC to produce the financial reports that met the users' needs as regards relevance, reliability, understandability as well as timeliness. The findings supported the earlier assertion of (Tanzi, 2000) who described financial decentralization as one of the intervention that would cause financial reforms and financial reporting challenges in local governments in sub sahara Africa.

The findings of the study based on the results in figure 6 revealed that financial decentralization caused financial activities and functions in KCC and divisions regularly monitored and measured. Monitoring and measuring financial performance helped KCC to produce weekly, monthly, quarterly, half yearly and annual reports. These reports were verified by internal audit before discussed by various standing committees of council.

The results further revealed that there was a reduction in material misstatements in KCC and divisions confirmed an observation made by Braatheen *et al* (2005) that financial decentralization played a significant role in reforming the poor financial reporting experienced by LGs in less developed countries. Therefore, a combination of improved book keeping, monitoring and evaluation of financial performance significantly reduced errors and material mis statement in the financial reports

The results contained in table 15 indicated that internal controls in KCC and city divisions have been streamlined and strengthened after the implementation of financial decentralization. This could be explained basing on the introduction of automated accounting system (IFMS) in 2002, effective functioning of internal audit department coupled with routine monitoring and supervising financial operations.

The above findings were further supported by the results contained in table 14 that revealed that there were reductions in amount of material mis statement and improvement in financial accountability. The of the study finding was in agreement with observations made by Kinalwa (1993) and Tunner (2000) that financial decentralization would greatly streamline and strengthen internal controls as well as cause improvement in financial accountability of local governments.

However, 30% of the respondents who did not subscribe to the assertion that there was reduction in amount of material mis statements and internal controls strengthened after the implementation of the financial decentralization based their argument on the incidence of corruption in KCC as observed in the Commission of inquiry of Local Government report on Kampala city council (2008).

Therefore, basing on the results derive red from the responses on the six areas, it was evident that quality of financial reporting improved after the introduction of financial decentralization.

5.4 CONCLUSION

The study confirmed that after the adoption and implementation of financial decentralization, the reliability of financial reporting increased due to improvement in book keeping functions because of autonomy in decision making regarding financial matters such as deciding on the format, contents and accounting policies applied in producing financial reports as evidenced by the results of factor analysis. Secondly, the financial operations in KCC such as monitoring and measuring financial performance and budgetary controls were streamlined as evidenced by results in figure 4. This in turn improved record keeping and streamlined financial reporting which caused reduction in amount of errors and material mis statements as confirmed by results in table 14. Therefore, the study established that there was a significant positive contribution of financial decentralization to quality of financial reporting in KCC as indicated by the results of factor analysis, regression (Adjusted R Square = 0.445) and Pearson correlation coefficient ($r = 0.654$) respectively. Hence a rejection of alternative hypothesis which stated that there was no contribution of financial decentralization to quality of financial reporting in KCC as the null hypothesis is accepted.

The study established that decentralized financial decision making was the most crucial component of the financial decentralization and therefore a better predictor of quality of financial reporting compared to budgeting and planning; as evidenced by the results of factor analysis and regression in table 10 and 12 respectively. The study also established that decentralized financial decision making process in KCC improved the quality of financial reporting by making financial reports more transparent, became reliable and relevant and

could be used to evaluate the achievement of the organization's mission and objectives due to autonomy and freedom in decision making as evidenced by its contribution in the factor analysis results in table 10 which was in conformity with section 77 of LGA CAP 243. This also reduced on the incidence of material mis statements and conflicting accounting policies because of standardization of financial reports as indicated by results of table 14 and figure 4 respectively. Therefore, the findings of the study established that decentralized financial decision making significantly contributed to quality of financial reporting in KCC and hence acceptance of the null hypothesis (Ho) which stated that decentralized decision making contributed to the quality of financial reporting in KCC as the alternative hypothesis (H1) is rejected.

The results of Pearson correlation coefficient portrayed that there was a significant positive relationship between decentralized budgeting / planning and quality of financial reporting in KCC ($r = 0.484$). This means therefore, that when budgeting and planning became consultative by increasing the stakeholders participation in identifying of priorities, monitoring and evaluation of reports, creating independence in formulation, approval and implementation of budgets and development plans, effective monitoring and controlling financial plans, then this will have a positive effect on the quality of financial reporting in KCC. The study further established that decentralized budgeting and planning caused timely production, submission and discussion of the budget monitoring reports and financial development plans that increased their relevance, reliability, comparability and timeliness.

Therefore, decentralized budgeting and planning in KCC caused improvement in quality of financial reporting and hence a positive relationship as indicated by Pearson correlation coefficient ($r = 0.484$) hence acceptance of null hypothesis (H_0) which stated that there was relationship as alternative hypothesis (H_1) is rejected.

The study established that the legal frame work that regulates the financial operations of LG effectively improved the quality of financial reporting in KCC. Specifically, it made the reports simpler, clear and easily accessible which in turn greatly facilitated its application and enforcement as evidenced by the results of the factor analysis in table 10. However, due to its rigidity, the function of controlling errors and fraud was compromised leading to its failure in controlling and addressing all the financial reporting requirements although it significantly standardized the reporting aspect in KCC and divisions. Secondly, though the records at the human resource office indicated that the staff responsible with preparation and submission of financial reports both at KCC and divisions had the necessary qualifications and experience, the study findings established that the qualifications of staff in finance department were inadequate to meet the quality of financial reporting challenges. This was largely attributed to the big numbers of acting and temporary staff engaged in the preparation and maintenance of the books of accounts both at the district and divisions. It was further established that the staff who were responsible with preparation of books of accounts and production of financial reports both at the district and divisions were junior staff and students on internship who had no adequate and necessary experience which significantly impaired the quality and usefulness of the financial reports. The study also established that staff that was responsible with maintenance of books of accounts and production of financial reports both at the divisions and district was not adequately supervised.

This had a negative impact on the relationship between financial decentralization and quality of financial reporting as evidenced by a weak relationship ($r = 0.343$) and regression (Beta = 0.145). Whereas the records at the human resource office indicated that the staff responsible with preparation and submission of financial reports both at KCC and divisions had the necessary qualifications. However, the study findings have revealed that their qualifications were inadequate to meet the financial reporting challenges of KCC. The study also established that staff that was responsible with maintenance of books of accounts and production of financial reports both at the divisions and district was not adequately supervised. This had a negative impact on the relationship between financial decentralization and quality of financial reporting.

Therefore, the findings of the study both on the financial regulatory framework and staff competence revealed that there was a weak moderating effect on the relationship between financial decentralization and quality of financial reporting leading to rejection of the alternative hypothesis (H1) and acceptance of the null (Ho).

5.5 RECOMMENDATIONS

- (i) Strict adherence on the budgetary control and planning guidelines in the Budget Act (2001) and LGA CAP 243 respectively should be enforced in KCC. This will address the non compliance such as dictation by MoLG and reverse top bottom approach in budgeting. This will cause the budget and planning to be participatory, comprehensive, realistic, effectively monitored and evaluated which will result into timely budget monitoring reports which will improve quality of financial reporting.
- (ii) The KCC management should improve on the budget monitoring through effective and efficient application and utilization of the vote books. This would assist in controlling irregular spending, flouting of budget guidelines and will cause timely production of budget monitoring reports which is still a big problem in KCC. This is anticipated to improve quality of financial reporting in long run.
- (iii) The MoLG and KCC in particular must be seen to take firm and timely action against those who are engaged in corruption. The quality of financial reporting will not be achieved unless an aggressive attitude to all those downplaying the critical success of financial decentralization in KCC are dealt with accordingly and precisely.

- (iv) The KCC should intensify its efforts on designing new strategies and procedures for making decisions that will restrict MoLG from influencing such decisions. This will increase on the contribution of decentralized financial decision making on the quality of financial reporting. It should also ensure that staffs are independent and free while making vital decisions that affect the quality of the financial reports and reporting which at the moment is lacking.
- (v) Effort is needed to have decentralized decision making, budgeting /planning and accountability carried out in accordance with the legal framework. This must be jointly implemented with streamlining the problem of staff in competence if quality of financial reporting in KCC is to be achieved.
- (vi) The quality of financial reporting is dependent on the strength and soundness of the internal control systems. Therefore, KCC must build capacity of the internal audit department that will continuously monitor and police these systems that influence quality of financial reports and reporting generally.

5.6 AREAS OF FURTHER RESEARCH

- (i) The study focused on mainly technocrats, councilors and Auditors to make assessment of the contributions of financial decentralization on quality of financial reporting in LGs. Further research should be carried out focusing on other stakeholders that directly or indirectly are affected by quality of financial reporting for instance Donors, service providers, Member of Parliament, officials of MoLG etc. This will eliminate the question that the conclusions were based on respondents from internally.
- (ii) The study concentrated on KCC and its five city divisions that make up Kampala district and Kampala city which was an urban setting. Therefore, further research need to be carried out in rural local governments that does not double as a district and city. This will assist in drawing concrete conclusions in a comparative manner on the impact of financial decentralization on quality of financial reporting in LGs in Uganda.

The following were critical issues that are the potential areas for further research:

- (iii) The impact of financial decentralization on internal controls in eliminating corruption in local governments in Uganda.
- (iv) The role of decentralized budgeting in controlling expenditure of local government in Uganda.
- (v) The impact of decentralization legal framework and quality of financial accounting in LGs in Uganda.

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APPENDIX. 1

6th April 2010

TO: MR./MS/DR./REV.....

FIELD ASSISTANT

There has been increasing concern among different category of people over the quality of financial reporting in Local Governments in Uganda and KCC in particular after the adoption and implementation of Financial Decentralization in 1997. This has attracted serious concerns including conducting studies in an attempt to indentify suitable remedies to the problems.

In respect to the above, **Bamwira John Richard** who is pursuing a Master Degree in Management Studies (Public Administration and Management) at Uganda Management Institute is conducting a study in KCC in order to contribute to the body of knowledge.

In order to have this study successful, it was discovered that you are interested in the subject in addition having special skills and access to the relevant stakeholders who are to provide required information.

To the above regard, you have been appointed as a field assistant to this study. One of your duties will include administering questionnaires and collecting it from the indentified respondents after it has been filled.

Your Sincerely

BAMWIRA JOHN RICHARD

The Researcher.

Appendix iv

UGANDA MANAGEMENT INSTITUTE

DEPARTMENT OF MANAGEMENT

Questionnaire on Financial Decentralization and Quality of financial reporting in Kampala City Council.

Requests

Dear respondent,

I am carrying out a study on financial decentralization and quality of financial reporting in Local Governments in Uganda with specific reference to Kampala City Council (KCC).

The study will provide current information to different stake holders including policy makers at various levels in understanding the contribution and relationship between financial decentralization and quality of financial reporting in Local governments and Urban Authorities in Uganda and KCC in particular.

Section A: GENERAL INFORMATION

✓ Please tick inside the box that corresponds with your choice

Name of the organization:-

- | | | | |
|----------------------|--------------------------|-----------------------|--------------------------|
| i. K.C.C | <input type="checkbox"/> | v. Nakawa Division | <input type="checkbox"/> |
| ii. Central Division | <input type="checkbox"/> | vi. Makindye Division | <input type="checkbox"/> |
| iii. Lubaga Division | <input type="checkbox"/> | vii. Kawempe Division | <input type="checkbox"/> |
| iv. Audit Department | <input type="checkbox"/> | | |

Category of respondents:-

- | | |
|-----------------------|--------------------------|
| i. Public Servant | <input type="checkbox"/> |
| ii. Councilor | <input type="checkbox"/> |
| iii. Service provider | <input type="checkbox"/> |
| iv. Contractor | <input type="checkbox"/> |
| v. PAC Member | <input type="checkbox"/> |
| vi. Auditor | <input type="checkbox"/> |

Sex:-

Female

Male

Department

- i. Finance
- ii Administration
- ii. Audit
- iii. Statutory bodies

- iv. Engineering
- v. Health
- vi. Gender

Current position

Category of position:

- Senior Executive
- Executive Member
- Senior Officer
- Officer
- Junior Officer

Years in service

- | | | | |
|-------------------|--------------------------|----------------|--------------------------|
| Less than 5 years | <input type="checkbox"/> | Above 25 years | <input type="checkbox"/> |
| 5 – 10 years | <input type="checkbox"/> | | |
| 11- 15 years | <input type="checkbox"/> | 20 - 25 years | <input type="checkbox"/> |
| 16 – 20 years | <input type="checkbox"/> | | |

Section B

(a) FINANCIAL DECENTRALIZATION

Please tick your answer in the box corresponding to your choice to indicate whether you Strongly agree (SA) = 5, Agree (A) = 4, Undecided (UD) = 3, Disagree (DA) = 2 and Strongly disagree (SDA) = 1

(i) Quality of financial reporting

	SA	A	UD	D A	SDA
Financial decentralization in KCC greatly enhanced the financial reports to be easily understood by the users.					
Quality of financial reporting in KCC significantly improved since the inception of financial decentralization.	5	4	3	2	1
Financial decentralization significantly standardized financial reports in KCC.	5	4	3	2	1
The implementation of financial decentralization in KCC greatly streamlined the financial reporting challenges.	5	4	3	2	1
Financial decentralization significantly increased the reliability of the financial reports in KCC.	5	4	3	2	1
The usefulness of the financial reports in KCC significantly improved after the adoption of financial decentralization.	5	4	3	2	1
Financial decentralization significantly simplified financial reporting in KCC.	5	4	3	2	1
Financial decentralization completely created full autonomy in financial reporting in KCC.	5	4	3	2	1
Monitoring of financial performances in KCC greatly improved after the introduction of financial decentralization.	5	4	3	2	1
Supervision of financial operations in KCC greatly improved after the implementation of financial decentralization.	5	4	3	2	1
Intended mistakes in the financial reports in KCC significantly reduced after the introduction of financial decentralization	5	4	3	2	1
Internal controls have been significantly strengthened in KCC as a result of implementing financial decentralization.	5	4	3	2	1
Transparency in financial reporting in KCC significantly improved as a result of implementing financial decentralization.	5	4	3	2	1
Financial decentralization greatly facilitated customizing financial reporting in KCC.	5	4	3	2	1

(ii) Decentralized Decisions making

	S	A	UD	DA	SD
All decisions that influence quality of financial reporting in KCC are completely decentralized.	5	4	3	2	1
Decision making in KCC is always consistent with the existing regulatory framework.	5	4	3	2	1
Financial decisions in KCC are always guided by accurate and relevant information.	5	4	3	2	1
Decentralized decision making has greatly improved quality of financial reporting in KCC.	5	4	3	2	1
KCC staffs are always free and independent while making decisions.	5	4	3	2	1
KCC is absolutely independent while making decisions on the format, contents, type and frequency of financial statements/reports.	5	4	3	2	1
The approach in decisions making in KCC significantly changed after the adoption of financial decentralization.	5	4	3	2	1
Financial decentralization made financial reports in KCC very important in decision making.	5	4	3	2	1
Quality of financial reports in KCC is significantly influenced by decision making process.	5	4	3	2	1
Financial decentralization has effectively spread decision making to all levels of management in KCC.	5	4	3	2	1
The introduction of financial decentralization in KCC has made decision making more effective and appropriate.	5	4	3	2	1
Financial decentralization effectively made decision making in KCC to be always guided by the organization's mission and objectives.	5	4	3	2	1
Financial decentralization in KCC has caused timeliness of information more crucial in decision making.	5	4	3	2	1
Decision making in KCC is always consultative in nature.	5	4	3	2	1
Financial decentralization significantly reduced on conflicting financial decisions in KCC.	5	4	3	2	1
Financial decentralization made decisions making process in KCC more transparent.	5	4	3	2	1
Financial decentralization has made decision making process in KCC more flexible.	5	4	3	2	1

(iii) Decentralized planning and budgeting.

Decentralized budgeting in KCC greatly improved quality of financial reporting.	SA 5	A 4	UD 3	DA 2	SDA 1
KCC is more independent in formulation, approval and implementation of its financial budgets and development plans.	5	4	3	2	1
Decentralized planning in KCC significantly influences quality of financial reporting.	5	4	3	2	1
Budgeting in KCC is regularly monitored, evaluated, reported and discussed.	5	4	3	2	1
Budgeting in KCC always guide the financial activities.	5	4	3	2	1
Budgeting and financial planning in KCC became more flexible after the introduction of financial decentralization.	5	4	3	2	1
Financial decentralization spread budgeting/ planning process to all levels of management in KCC.	5	4	3	2	1
Financial decentralization made budgeting/planning and quality of financial reporting in KCC more linked.	5	4	3	2	1
Budgeting monitoring and evaluation reports contribute the largest portion of the financial reporting in KCC.	5	4	3	2	1
Planning in KCC is regularly monitored, evaluated, reported and discussed.	5	4	3	2	1
In KCC, spending is significantly controlled by budget allocation.	5	4	3	2	1
In KCC, vote books are more used in budget monitoring and controlling than before the introduction of financial decentralization.	5	4	3	2	1
Budget monitoring reports in KCC are usually discussed by both technical staff and councilors.	5	4	3	2	1
Planning and budgeting in KCC became more of wastage of time and resource after the introduction and implementation of financial decentralization.	5	4	3	2	1
Budgeting and Planning functions in KCC were never decentralized completely.	5	4	3	2	1

(iv) Accounting Regulatory framework

The accounting information system that produces financial reports in KCC is simple and user friendly.	5	4	3	2	1
Accounting functions in KCC have greatly improved as a result of being electronically prepared and maintained.	5	4	3	2	1
In KCC, the accounting information system that produces financial reports is very flexible.	5	4	3	2	1
The current accounting information system in KCC significantly controlled the intended errors and mistakes.	5	4	3	2	1
The accounting information system in KCC effectively standardized all aspects of financial reporting.	SA 5	A 4	U D 3	D A 2	SDA 1
The accounting information system in KCC adequately addressed all its financial reporting challenges.	5	4	3	2	1

Customized accounting Information system of KCC allows maximum consultation before financial reports are produced and submitted.	5	4	3	2	1
The accounting information system has significantly improved quality of financial reporting in KCC.	5	4	3	2	1
KCC has greatly benefited from automating its accounting information system.	5	4	3	2	1
.The accounting information system in KCC significantly strengthened its internal controls.	5	4	3	2	1
.Kampala city council effectively operates a decentralized accounting information system.	5	4	3	2	1
The current accounting information system in KCC is largely consistent with decentralized legal frame work.	5	4	3	2	1
Accountability in KCC tremendously improved since council adopted financial decentralization system.	5	4	3	2	1
Improved quality of financial reporting in KCC is mainly due to decentralizing the accountability functions.	5	4	3	2	1
In KCC, accountability is always done in a more transparent and sincere manner.	5	4	3	2	1
Accountability in KCC is highly considered a crucial factor in producing good quality financial reports.	5	4	3	2	1
Accountability in KCC is highly considered a collective responsibility for all the stake holders.	5	4	3	2	1

(b) QUALITY OF FINANCIAL REPORTING

In KCC, Financial reports are usually prepared by technically qualified accountants.	SA 5	A 4	UD 3	DA 2	SDA 1
Information contained in financial reports in KCC is always free from intended errors.	5	4	3	2	1
In KCC, Information contained in financial reports is usually complete and not biased.	5	4	3	2	1
Financial reports in KCC normally are cross checked by a senior officer before they are signed and disseminated.	5	4	3	2	1
Electronically prepared financial reports in KCC have increased its reliability.	5	4	3	2	1
Financial reports in KCC are ever audited before they are used.	5	4	3	2	1
Information contained in the financial reports generally represents all the financial activities of this organization.	5	4	3	2	1
In KCC financial decisions usually are guided by information contained in the financial reports.	SA 5	A 4	UD 3	DA 2	SDA 1
In KCC Information contained in the financial reports is absolutely useful in making sound decisions.	5	4	3	2	1
Information in the financial reports in KCC is very important in monitoring and controlling the organization's activities.	5	4	3	2	1
In KCC, Information in financial reports is significantly useful in ascertaining the financial position.	5	4	3	2	1

Financial decentralization made Information contained in financial reports very useful in predicting KCC economic trends.	5	4	3	2	1
In KCC, financial decentralization made financial reports absolutely useful in forming opinion regarding financial state of affairs.	5	4	3	2	1
Quality of financial reporting in KCC is solely hinged on comparison of the contents in its reports.	5	4	3	2	1
Standardization of financial reports in KCC greatly increased its comparability over periods & between organizations.	5	4	3	2	1
The contents in financial reports in KCC are always used in establishing the level of performance.	5	4	3	2	1
Financial decentralization adequately enhanced comparability of contents in different financial reports.	5	4	3	2	1
Comparing contents of different financial reports in KCC always assisted in ascertaining level of its performance.	5	4	3	2	1
Financial reports in KCC are consistently prepared and submitted periodically as required by financial legal framework.	5	4	3	2	1
In KCC, timely reporting does not compromise the accuracy of the financial reports.	5	4	3	2	1
There is always undue delay in the presentation of financial reports in KCC.	5	4	3	2	1
Timeliness of reports is always considered a crucial factor in financial reporting in KCC.	5	4	3	2	1
Financial decentralization significantly improved timely production of financial reports.	5	4	3	2	1
Financial decentralization significantly improved timely submission of financial reports in KCC.	5	4	3	2	1
Financial decentralization has significantly helped timely discussion of the financial reports in KCC.	5	4	3	2	1

THANK YOU VERY MUCH

Appendix.v

THE INTERVIEW GUIDE

For focused group

Education:

Designation :

Certificate

Diploma

First Degree

Post Graduate Qualification

(a) Background Information

Gender:

a) Male

b) Female

(b) Financial reporting system and practices used in Kampala City Council

- What are the different accounting practices used in financial reporting by KCC?
- What are the types of reports prepared by KCC?
- Internal financial reports (to managers & councilors)
- External financial reports (to rate payers, residents and government)
- How is reporting to the different levels of stakeholders done?
- What kind of information does KCC include in;
Internal financial reports (to managers & councilors)
External financial reports (to rate payers, residents and government).
- What are the internal controls in place to ensure proper reporting systems and practices in KCC?
- Proper and accurate record keeping

APPENDIX V

- Accurate documentation
- Timely reporting
- Regular financial review meetings
- Other
- What are the principles observed by KCC to ensure good financial reporting?
Relevance Comparability Reliability Understandable
- When is financial monitoring done in KCC (and who does it?)
- How often is financial reporting done?

© The relationship between financial decentralization and reporting in KCC

- What level autonomy does KCC have regarding financial decision making?
- What level of autonomy does KCC have regarding planning for grants from government?
- How often does KCC review responsibilities and financial delegated authority among staff?

(d) The impact of financial decentralization on the quality of financial reporting in KCC

- How timely are the financial reports that KCC makes to the different stakeholders?
- Comment on the impact of financial decentralization on the quality of financial reporting in KCC

Appendix.vi

(ii) For key informants

- ✓ What is the level of autonomy given to KCC to plan for and spend funds as granted by central government and from other sources?
- ✓ What types of reports do you receive from KCC?
- ✓ How compliant are the reports to the principles of good financial reporting? (Are they relevant, comparable, reliable and understandable?) *Explain.*
- ✓ How often do you receive the reports mentioned?
- ✓ What is the role of your office in the supervision and monitoring of funds disbursed to / by KCC?
- ✓ What is the relationship between your office and the finance department of KCC?
- ✓ What would you say has been the impact of financial decentralization on the quality of financial reporting in KCC?

Thank you very much

Appendix.V

THE INTERVIEW GUIDE

(I) For focused group

(a) Background Information

Gender:

- a) Male b) Female

Education:

- Certificate
Diploma
First Degree
Post Graduate Qualification

Designation:

(b) Financial reporting system and practices used in Kampala City Council

- What are the different accounting practices used in financial reporting by KCC?

- What are the types of reports prepared by KCC?
- Internal financial reports (to managers & councilors)
- External financial reports (to rate payers, residents and government)

- How is reporting to the different levels of stakeholders done?

- What kind of information does KCC include in;
 - Internal financial reports (to managers & councilors)
 - External financial reports (to rate payers, residents and government)

- What are the internal controls in place to ensure proper reporting systems and practices in KCC?
 - Proper and accurate record keeping
 - Accurate documentation
 - Timely reporting
 - Regular financial review meetings
 - Other

- What are the principles observed by KCC to ensure good financial reporting?
 - Relevance Comparability Reliability Understandable

- When is financial monitoring done in KCC (and who does it?)
- How often is financial reporting done?

© **The relationship between financial decentralization and reporting in KCC**

- What level autonomy does KCC have regarding financial decision making?
- What level of autonomy does KCC have regarding planning for grants from government?

- How often does KCC review responsibilities and financial delegated authority among staff?

(d) The impact of financial decentralization on the quality of financial reporting in KCC

- How timely are the financial reports that KCC makes to the different stakeholders?
- Comment on the impact of financial decentralization on the quality of financial reporting in KCC

(iii) For key informants

- ✓ What is the level of autonomy given to KCC to plan for and spend funds as granted by central government and from other sources?
- ✓ What types of reports do you receive from KCC?
- ✓ How compliant are the reports to the principles of good financial reporting? (Are they relevant, comparable, reliable and understandable?) *Explain.*
- ✓ How often do you receive the reports mentioned?
- ✓ What is the role of your office in the supervision and monitoring of funds disbursed to / by KCC?
- ✓ What is the relationship between your office and the finance department of KCC?
- ✓ What would you say has been the impact of financial decentralization on the quality of financial reporting in KCC?

Thank you very much

