INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF MUNICIPAL URBAN COUNCILS IN NORTHERN UGANDA:
A CASE STUDY OF KITGUM MUNICIPAL URBAN COUNCIL

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SEP15/EMBA/0548U

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILMENT FOR THE REQUIREMENTS FOR THE AWARD OF AN EXECUTIVE MASTER’S DEGREE IN BUSINESS ADMINISTRATION (FINANCIAL MANAGEMENT OPTION) OF UGANDA TECHNOLOGY AND MANAGEMENT UNIVERSITY (UTAMU)

SEPTEMBER 2016
Declaration

I, DICKENS ODONGKARA, do declare that the work herein is presented in its original form and has not been presented to any other university or any other academic institution for any academic award whatsoever.

Sign........................................

Date........................................
Approval
This is to certify that this work has been done under my supervision and has been submitted for examination with my approval.

Signature…………………………………..

Professor Benon. C Basheka (PhD, FCIPS)

Date………………………………………..
Acknowledgements

I wish to acknowledge all those who in one way or the other assisted me to complete this study. The list is too long to allow individual acknowledgement. My special appreciation goes to my Supervisor, Prof. Benon C. Basheka, for his personal effort and commitment to guide me throughout my work. I also acknowledge the contribution of all the other lecturers on the Executive Masters of Business Administration (Financial Management Option) program.

My gratitude is extended to my colleagues at the office at Paloga Sub County for their support and encouragement. Special thanks go to my course mates for their academic inputs and friendship which contributed greatly to the completion of this work.

My gratitude is also extended to my family members Mr. Johnson Oryem, Rose Angee, and my late sister, Beatrice Arach, for the support they gave me during my studies. Staffs of Kitgum Municipal Urban Council and Kitgum District Local Government your contribution towards the success of this study cannot go unmentioned, your cooperation during data collection made this work a success. May God bless them all.
Dedication

I dedicate this work to God the Almighty and my Children, Rooney Toorach, Fortunate Aber, Desmond Ogenrwot, Lakony Rafael Kadim, Ryan Omara and my Lovely Mother, Mrs. Edisa Odida.
TABLE OF CONTENTS

Declaration .................................................................................................................................................. i
Approval ................................................................................................................................................... ii
Acknowledgements .............................................................................................................................. iii
Dedication ................................................................................................................................................ iv
List of Tables and Figures .......................................................................................................................... xi
LIST OF ABBREVIATIONS ....................................................................................................................... xii
ABSTRACT .................................................................................................................................................. xiii

CHAPTER ONE .............................................................................................................................................. 1

INTRODUCTION .......................................................................................................................................... 1
1.1 Introduction .......................................................................................................................................... 1
1.2 Background to the study. ...................................................................................................................... 1
1.2.1 Historical Background ................................................................................................................... 1
1.2.2 Theoretical Background ................................................................................................................ 3
1.2.3 Conceptual Background ................................................................................................................ 5
1.2.4 Contextual Background ................................................................................................................ 7
1.3 Statement of the problem .................................................................................................................... 9
1.4 The purpose of the study .................................................................................................................... 10
1.5 Specific objectives of the study .......................................................................................................... 10
1.6 Research questions ............................................................................................................................ 10
1.7 Hypotheses of the Study ..................................................................................................................... 10
1.8 Conceptual framework ....................................................................................................................... 11
1.8 Figure 1: Conceptual framework ....................................................................................................... 12
1.9 Significance of the study .................................................................................................................... 13
1.10 Justification of the study ................................................................................................................... 13
CHAPTER ONE

1.11 The scope of the study

1.11.1 Geographical scope

1.11.2 Content scope

1.11.3 Time scope

1.12 Operational definitions

1.12.1 Internal control system

1.12.2 Performance

1.12.3 Financial Performance

1.12.4 Public Sector

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

2.2 Theoretical review

2.3 Conceptual review

2.4 Internal control activities

2.4.1 Approval and Authorizations and financial performance

2.4.2 Segregation of duties and financial performance

2.4.3 Council controls and financial performance

2.4.4 Internal audit and financial performance

2.4.5 Determinants of financial performance in Urban Council

2.4.6 Compliance with laws, regulations and policies

2.4.7 Reliable Accountability

2.4.8 Timely Reporting

2.4.9 The relationship between internal control systems and financial performance

2.5 Empirical Studies
2.5.1 Global Empirical Studies ................................................................................................................. 28
2.5.2 African Level ..................................................................................................................................... 29
2.5.3 Ugandan Level .................................................................................................................................... 29
2.6 Synthesis of Literature Review and Gap Analysis .................................................................................. 30

CHAPTER THREE ....................................................................................................................................... 31

METHODOLOGY ......................................................................................................................................... 31

3.1 INTRODUCTION ...................................................................................................................................... 31
3.2 Research design ....................................................................................................................................... 31
3.3 Study population ...................................................................................................................................... 31
3.4 Determination of the Sample size and selection ...................................................................................... 32
3.5 Sampling techniques and procedures ...................................................................................................... 32
3.5.1 Stratified random sampling .................................................................................................................. 33
3.5.2 Purposive sampling ............................................................................................................................... 33
3.6 Data collection methods and techniques .................................................................................................. 33
3.6.1 Questionnaire ........................................................................................................................................ 34
3.6.2 Interviews ............................................................................................................................................ 34
3.6.3 Document revising ............................................................................................................................... 34
3.7 Data collection instruments ...................................................................................................................... 34
3.7.1 Self-administered questionnaire ........................................................................................................... 35
3.7.2 Interview guide ..................................................................................................................................... 35
3.7.3 Document reviewing ............................................................................................................................ 35
3.8 Data Reliability and validity ..................................................................................................................... 35
3.8.1 Reliability of the instruments ............................................................................................................... 35
3.8.2 Validity of the instruments .................................................................................................................... 36
3.9 Procedure of Data Collection .................................................................................................................. 36
3.9.1 Questionnaires ................................................................. 36
3.9.2 Interview ........................................................................... 37
3.9.3 Reviewing Documents ....................................................... 37
3.10 Data Analysis ..................................................................... 37
3.10.1 Analysis of qualitative data .............................................. 37
3.10.2 Quantitative data analysis ................................................. 38
3.11 Measurement of variables ................................................... 38
3.12 Ethical issues ..................................................................... 38

CHAPTER FOUR ............................................................................ 40

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS ......... 40

4.1 INTRODUCTION .................................................................... 40
4.2 Response Rate ..................................................................... 40
4.3 Background information of the respondents .......................... 41
4.3.1 Distribution of respondents by Gender ............................... 42
4.3.2 Distribution of respondents by Age group ........................... 42
4.3.3 Respondent’s years in service ........................................... 43
4.3.4 Respondents’ highest level of education ............................. 43
4.3.5 Respondents’ nature of employment ................................... 43
4.4 Internal Control Systems affecting financial performance ........ 43
4.4.1 Establishment of Internal Control activities in Kitgum Municipal .................................................. 43
4.4.1.1 Testing the influence of the internal control activities on Financial ........................................ 47
4.4.2 The influence of internal control environment and Financial Performance ........................................ 49
4.4.2.1 Testing the influence of internal control environment on Financial ........................................ 51
4.4.3 The influence of audit on financial performance ................... 52
4.4.3.1 Testing the influence of auditing on Financial Performance ................................................... 54
4.4.4 Financial performance in Kitgum Municipal Urban Council ................................. 56

CHAPTER FIVE ................................................................................................................. 57

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS ............. 57

5.1 Introduction .................................................................................................................. 57

5.2 Summary of findings ................................................................................................... 57

5.2.1 The relationship between Internal Control activities and FP in KMUC .......... 57

5.2.2 The relationship between Internal Control environment and Financial ..... 58

5.2.3 The relationship between Internal Audit and Financial Performance in Kitgum 58

5.3 Discussion of the findings .......................................................................................... 59

5.3.1 Internal control activities and finance performance in Kitgum Municipal .. 59

5.3.2 Internal control environment and financial performance in Kitgum Municipal 60

5.3.3 Audit and financial performance in Kitgum Municipal Urban Council (KMUC) 61

5.4 Conclusions ................................................................................................................ 61

5.4.1 Internal control activities and financial performance ........................................ 61

5.4.2 Internal control environment and financial performance ............................... 62

5.4.3 Internal audit and financial performance .......................................................... 62

5.5 Recommendations .................................................................................................... 62

5.5.1 Internal control activities and financial performance at Kitgum Municipal .... 63

5.5.2 Internal control environment and financial performance at Kitgum Municipal 63

5.5.3 Internal Audit and financial performance at Kitgum Municipal Urban Council 64

5.6 Limitations of the study ............................................................................................ 64

5.7 The contribution of the study ................................................................................... 64

5.8 Recommendations for further research ................................................................. 65

REFERENCES .................................................................................................................. 66
<table>
<thead>
<tr>
<th>APPENDIX I: CERTIFICATE OF PROOF THAT DISSERTATION HAS BEENEdited</th>
<th>71</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPENDIX II: Questionnaire</td>
<td>72</td>
</tr>
<tr>
<td>APPENDIX III: Interview Guide</td>
<td>77</td>
</tr>
<tr>
<td>APPENDIX IV: SUMMARY ITEMS STATISTICS FOR THE RELIABILITYCOEFFICIENT</td>
<td>79</td>
</tr>
</tbody>
</table>
List of Tables and Figures

Figure 1: Conceptual framework ........................................................................................................... 12
Table 1: Showing Research respondent by category ............................................................................. 32
Table 2: Reliability ................................................................................................................................ 36
Table 3: Showing response rates of respondents ................................................................................. 40
Table 4: Showing the background information of respondents ............................................................. 41
Table 5: Showing the result of how internal control activities influence Financial Performance. 44
Table 6: Relationship between internal control activities and Financial Performance ...................... 48
Table 7: Correlation coefficient showing the influence of internal control activities on Financial Performance .................................................................................................................. 48
Table 8: Shows results how internal control environment affects Financial Performance of Kitgum Municipal Urban Council. .................................................................................................................. 49
Table 9: Relationship between internal control environment and Financial Performance ............ 51
Table 10: Correlation Coefficient showing the influence of internal control environment on Financial Performance .................................................................................................................. 51
Table 11: Shows results how auditing influence Financial Performance .............................................. 53
Table 12: Relationship between auditing and Financial Performance ................................................. 55
Table 13: Correlation Coefficient showing the influence of auditing on Financial Performance 55
Table 14: The results showing the respondents opinion on Financial Performance ....................... 56
LIST OF ABBREVIATIONS

AA: Accounts Assistant
EMBA: Executive Masters of Business Administration
FP: Financial Performance
GoU: Government of Uganda
IA: Internal Audit
ICS: Internal Control System
KMUC: Kitgum Municipal Urban Council
LGFAR: Local Government Finance and Accounting Regulations
MUC: Municipal Urban Council
NSSF: National Social Security Fund
OAG: Office of Auditor General
OPM: Office of the Prime Minister
SAA: Senior Accounts Assistant
SIA: Senior Internal Auditor
TC: Town Clerk
UTAMU: Uganda Technology and Management University
UTPC: Urban Technical Planning Committee
ABSTRACT

This study investigated the Internal Control System (ICS) that influenced financial performance (FP) in Municipal Urban Councils in northern Uganda: a case of Kitgum Municipal Urban Council (KMUC). The objectives of the study were: to explore the relationship between internal control activities and FP in KMUC; to find out how the internal control environment affects FP in KMUC; and, to assess the impact of auditing on FP in KMUC.

A descriptive research survey design was adopted using both qualitative and quantitative methods. The study targeted 70 respondents but 58 returned the survey questions, indicating a response rate of 83%. Stratified sampling techniques were used to select administrative staff, and purposive sampling used to select political leaders and top-level administrators. Data analysis involved frequencies, percentages and inferential statistics such as correlations, and coefficient of determinations. Findings revealed a moderate positive relationship (0.271*) between internal control activities and FP; significant relationship between internal control environment and FP (0.335*); and moderate positive relationship between audit and FP (0.265*). The study concludes that internal control activities, internal control environment and audit positively affected FP in one way or the other. The study recommends that KMUC should employ professional members of the Institute of Certified Public Accountants of Uganda in the Internal Audit Department since 36.2% of the respondents opposed sufficient staffing of the department which is the custodian of the ICS. The environment for the implementation of ICS should be improved by ensuring that Management is committed to the operation of the system, closely monitoring its implementation and giving feedback to the staff. District Public Accounts Committee capacity should be built and their office properly facilitated to enable them follow up on the internal audit reports so that corrective measures are taken.
CHAPTER ONE

INTRODUCTION

1.1 Introduction

There is a general perception that the enforcement of Internal Control Systems (ICS) will always lead to improved financial performance (FP). Instituted systems of internal control improve the reporting process, thus enhancing the accountability function of management of the (Local Government Finance Commission 2003, p.32). “The likelihood of achievement is, however, affected by limitations inherent in all systems of internal control” (Hayes, 2005, p. 823)

This chapter provides an overview of the background to the Decentralization Policy, background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significance of the study and the conceptual framework.

1.2 Background to the study.

1.2.1 Historical Background

The ICS profession evolved steadily with the progress of management especially at the end of World War II. It is conceptually similar to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying ICS is derived from management consulting and public accounting professions with the implementation in United States of the Sarbanes- Oxley Act (2002, p.773). The profession’s growth accelerated, as many internal auditors acquired the skills required to help companies and public institutions meet the requirements of the tales.(SAS 300). According to Auditing Standard Board, ICS is a measure of checks and balances, a method and procedure instituted by an organization to conduct a systematic approach that management can rely on to achieve its intended goals. However, that was in the US and it was for private entities which may not be
applicable in public entities and many internal auditors may not possess the required skills to help companies and public institutions meet their objectives.

Recent development shows that there is need for public institutions or organizations to have the ability to improve the level of financial performance in order to add value to their activities like development projects and progress of service delivery in their structures. This is contained in Financial Reporting and Auditing Practice (2006, p.206.)

The concept of ICS and FP took a big leap in the twenty-first century. It originally developed in Britain, when a powerful, administratively strong, centralized state emerged. It was probably the most sophisticated state since the Romans (Warren-Hollister, 2009, p.178). The English state, particularly under Henry I (1100 – 1135) and Henry II (1154- 1189), was premised on an efficient, financially strong administrative system. The findings of the Treadway Commission Reports (1987, p, 17) in the United States of America (USA) confirmed that absence of or a weak internal control and poor FP is primarily the cause of many cases of fraudulent acts and compromised standard of work leading to shoddy work, value for money not being realized in public service institutions and other business organization financial reporting. This has been witnessed in Uganda by the various scandals that rock the National Social Security Fund (NSSF) and the Office of the Prime Minister (OPM), the Ministry of Public Service, among others. If internal control systems were strong, such transactions would have been detected and blocked. Therefore, widespread global corporate and institutional scandals that assumed near-epidemic proportions in recent years have created concern which this study is trying to investigate. Notable cases include: Enron and World com, Xerox and recently alleged fraud cases like Lehman and Brothers in the United States of America, Parmalat in Europe, and Chuoaoymama in Asia (Higson, 2012, p.283) In South Africa, cases of accounting scandals were recorded in JCL and
Rand gold and Exploration Companies (Randgold and Exploration Co. Ltd Annual Report (2011, p.18)

In Nigeria, the managing Director and Chief Finance Officer of Cadbury Nigeria Plc. was dismissed in 2006 for inflating the profits of the company for some years before the company’s foreign partners acquired controlling interest (Cadbury Annual Report, 2006, p.3). It is generally believed that properly instituted systems of internal controls improve financial performance but in spite of this, elaborate ICS FP has eluded most entities; and this called for an investigation to the effects of ICS on FP (Michael C. Jensen, 1993, p.852).

Government of Uganda (GoU) has had enormous cases of mismanagement of public funds despite the establishment and existence of ICS. Examples include: UG V ONEG OBEL, Anti-Corruption criminal case No. 153 of 2010, the NSSF scandals in which hundreds of billions of shillings were lost. In the case of David Chandi Jamwa in the NSSF (National Social Security Fund), (Case No. COA-00-CR-0020-2011) employees’ monthly savings worth three billion one million shilling was misappropriated and in the case of Geoffrey Kazinda vs Attorney General Crt. Pet. No.50 of 2012 Prime Minister’s Office funds meant for Northern Uganda Recovery Programme were fraudulently transacted to personal accounts for personal gain. Lots of billions of shillings were diverted; these culprits have been convicted (www.monitor.co.ug).

1.2.2 Theoretical Background

This study was guided by “The Principal Agency theory” as put across by Jensen and Meckling (1976, p.1) and later expanded on by Sarens and Abdolmohammadi (2010, p. 1-20). According to the theory, a company consists of a nexus of contracts between the owners of economic resources and managers who are charged with using and controlling those resources (Jensen and Meckling, 1976. p, 5). Principal Agency theory posits that agents have more information than principals and that this
Information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents. The theory also assumes that principals and agents act rationally and use contracting to maximize their wealth which may lead to moral hazard problem indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals.

As argued by Tanzi (2000, p.445) between their creation and their final implementation, fiscal decisions go through many stages at which mistakes, indifference, passive resistance, implicit opposition and various forms of principal agent problem may distort the outcome. The Uganda Public Finance Management Act 2015 met such indifference and passive resistance which led to its amendment less than a year after its enactment. The Accountants Act 2013 also met such resistance, leading to the recruitment of non-professional members of the institute in Accounts and Audit departments contrary to sec 34(2) of the Act which has affected FP in the MUCs.

Deegan and Unerman (2006, p, 215) noticed that with the agency theory the firm itself is considered to be a “nexus” of contracts. These contracts are used with the intention of ensuring that technocrats who are agents align their own interest with the interest of the council to achieve its objectives. Central government (principal) does not directly promote the achievements of the objectives of the council but uses the municipal structures to do so by setting up the government rules and incentives to align the interest of the technocrats to that of the council.

Internal control as one of the many mechanisms used in business to address the principal agency problem and it has been proven that internal control reduces agency cost. However, these studies may not be applicable in Government entities since it was done on private entities. But for the purpose of this study principal agency theory has been chosen. GoU has put in place a reward system for the best-performing government entities to ensure that the technocrats who are agents in this study are motivated to maximize the value of the entity (Local Government Finance Commission, 2003, p.2).
The theory as put forward may be applicable in other parts of the world but not in Uganda and Kitgum Municipal Urban Council (KMUC) in particular where professionalism is not very important. Despite the enactment of the Accountants Act 2013 Section 34 (2) which states that all heads of Accounts, Finance and Internal audits shall be professional members of the Institute of Certified Public Accountants of Uganda, the municipal council has continued to recruit nonprofessionals in these positions.

According to the Annual Report of the Auditor General (2011,p.Vii), Internal control is a set of systems to ensure that financial and other records are reliable, complete and ensure adherence to the entity management policies, the orderly and efficient conduct of the entity and the proper recording and safeguarding of assets and resources. A process effected by the entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achieving of the objectives in the categories of reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Financial performance is considered in terms of measures like profitability (using absolute and relative measures), liquidity (using ratios current ratio, acid test, the ability of the entity to settle its financial obligations) and accountability (in terms of financial accountability).

1.2.3 Conceptual Background

The key concepts for this study are internal control systems and financial performance. The relationship between ICS and Good financial performance is that ICS is a tool to achieve good financial performance and good financial performance is the ideal output of ICS. ICS in the study is measured using factors such as Control environment, Internal Audit and Control activities. Good financial performance is measured by Timely Accountability, Reliable reporting and Compliance with laws, regulations and guidelines. The ICS in the study was the independent variable and financial performance the dependent variable.
Mwindi (2008, p.134) reports that internal controls are processes designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness, efficiency of operations and compliance with applicable laws and regulations. The Internal control systems are put in place to, among other things, oversee public sectors compliance and adherence to national policies in the implementation of government programs. According to J. Boyle, Cooper and A. Geiger (2004, p.4) Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives for reliable financial statement, effective and efficient operations and compliance with applicable laws and regulations. Internal controls are processes designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Financial performance was considered in terms of measures like profitability (using absolute and relative measures), liquidity (using liquidly ratio like current ratios, acid test ratios, the case with which the entity settles its financial obligations) and accountability (in terms of financial accountability) (ACCA- Managerial Finance paper 8, 1998, p.154).

According to Financial Analysis Conceptual Framework (p, 49) financial performance is the process of measuring the result of a firm’s policies and operations in monetary terms. In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools for measuring financial performance is ratios or index. Ratios can be classified into four broad
groups on the basis of items used: liquidity ratio, capital structure/leverage ratio, profitability ratio and activity ratio, but these are in private settings.

According to Analyzing Local government financial performance, evidence from Brazilian municipalities (2008, p.707) in terms of managing performance, finance is a resource and therefore also very likely to be an end in the performance management framework. There are several ways of assessing local government financial conditions but assets and liabilities, debt reduction and fiscal health of the city in terms of risk of bankruptcy can be used. According to Whitney (2013, p.191) is the result of budgetary mismanagement couple with rising pension and debt cost are the measures of financial performance. In this study, assets and liabilities relate to reporting; Debt reduction makes the municipal liquid; and fiscal health relates to accountability. The core service area of KMUC is service delivery to the public which makes the entity accountable to the public. Internal control system is conceptualized in terms of internal control activities, control environment and internal auditing, whereas financial performance is conceptualized in terms of reliable accountability, timely reporting and compliance with the laws, regulations and guidelines.

1.2.4 Contextual Background

Kitgum is a town and District in Northern Uganda and was recently awarded municipality status in recognition of its strategic status with vote No.784. It is located in the center of Kitgum town, and comprises three divisions, Central, Pager and Pandwong, with 28 cells and 11 parishes The name Kitgum derived from Acoli word “Kit-gum” meaning what a luck.it is located between Longitude 320E, and 340E, Latitude 020N, The district is composed of two counties called Chua and Chua East with nine sub counties and one municipal urban council which is the area under study.
Kitgum district is bordered by Lamwo in the north, the republic of South Sudan in the north east, Kotido district in the east, Agago district in the south east, Pader district in the south and Gulu district in the north west. Kitgum town is located approximately 108 kilometers (67 miles) by road to the north east of Gulu town, the largest city in the sub region. By road Kitgum is located approximately 460 kilometers (290 miles) north of Uganda’s Capital Kampala. Kitgum is the most convenient gateway to kidepo Valley national game park- one of Uganda’s best stocked game parks where visitors dine in close proximity lions, large herds of elephant’s buffaloes and other wild animals. It is estimated that the population of Kitgum is 204,048 as of the 2014 national population and housing census with the population of Kitgum municipality alone estimated at 75,594. Agriculture is the main economic activity in Kitgum district. Crops grown includes millet, sorghum, cassava, potatoes, peas, sim-sim, sunflower, cotton, tobacco, cabbages, tomatoes and ranching practiced in small areas. characterized by many deaths and social disruption resulting from the twenty-year civil war and cattle rustling by the karimojong warriors within the region since the late 1980s. It is administered through politically established and civil service structures. The political wing is headed by the Mayor and the divisions are headed by LC III Chairpersons who head the councils, which are the highest political authorities with both legislative and executive powers. The technical wing is headed by the Town Clerk (TC) and Assistant Town Clerks for the divisions who supervise all civil servants in the urban council and the divisions.

The executives make resolutions which are forwarded to the council for approval, then implementation is done by the TC (Section 63 of the Local government Act).

Internal control system weakness and poor financial performance in Uganda can be seen from the way the government was forced to close banks like International Commercial Bank (ICB),
Greenland Bank, and Cooperative Bank which undermined market discipline in 2002. Subsequently, after the closure of the above banks, the Uganda Commercial Bank Limited was acquired by the Stanbic Group in a privatization arrangement in February 2002.

In KMUC, financial performance has met challenges as seen in the Annual Report of the Auditor General (2011, p.349) where the council got qualified - except for opinion. The report indicated long outstanding advances of UGX 53,733,330 and doubtful expenditures of UGX 21,514,400. According to LGFAR (2007,p.25) Administrative advances to council employees shall be authorized by the Chief Executive (CE) and shall be accounted for within a month, the CE shall not authorize any advance to a council employee who has not accounted for the previous advance. With effective ICS and adherence to the regulations such incidences of unaccounted for funds would not have arisen.

1.3 Statement of the problem

The GoU has put in place the necessary organs to empower ICS in MUC so as to set up financial performance of MUC (Financial and Accounting Regulations, 2007,p.15). KMUC has always had an Internal Audit department to help in compliance with the ICS, regulations and procedures. The Auditor General conducts financial and compliance audit to provide assurance to the legislatures that various sectors of government have managed their finance affairs according to sound financial principles and the legal framework, and achieve their financial objectives (Nitasha, 2004, p.1).

Despite all the above, efforts KMUC still struggles with timely accountability, reliable reports, compliance with laws, regulations and policies, frauds, and misuse of council resources which has been unearthed by the, Annual Report of the Auditor General (2011, p.286). KMUC, one of the oldest in northern Uganda, got qualified except for opinion and one of the reasons for
qualifying the opinion was evaluation of the District Public Accounts Committee (DPAC). Although the Internal auditors have produced the reports for the four quarters, it was noted that they were not reviewed by DPAC (Annual Report of the Auditor General, 2011, p.354). Internal Auditors are the custodians of ICS; so failure to follow up these issues as required under section 16 of the LGFAR (2007, P.17) means ignoring internal controls. This study investigated the persistent poor FP from the perspective of ICS which has hitherto been ignored.

1.4 The purpose of the study

The purpose of the study was to assess the contribution of Internal Control Systems towards enhancement of financial performance in Municipal urban Councils in northern Uganda.

1.5 Specific objectives of the study

1. To explore the relationship between internal control activities and financial performance in Kitgum Municipal Urban Council (KMUC);

2. To find out how internal control environment affect financial performance in KMUC;

3. To assess the impact of auditing on financial performance in KMUC.

1.6 Research questions

1. What are the relationships between internal control activities and financial performance in KMUC?

2. How does control environment affect financial performance in KMUC?

3. What are the impacts of auditing on financial performance in KMUC?

1.7 Hypotheses of the Study

1. There are positive relationships between internal control activities and financial performance in KMUC.

2. There are positive relationships between control environment and financial performance in KMUC.
3. There are positive impacts of auditing on financial performance in KMUC

1.8 Conceptual framework.

Conceptual framework is defined as an interconnected set of ideas or theories about how a particular phenomenon functions or is related to its parts (Svinicki, 2010, p.5). The framework serves as a basis for understanding the casual or correlational patterns among study variables, provide a context for interpreting the study findings and explain observations. It illustrates the relationships between ICS as the independent variable and Financial Performance as the dependent variable in this study.
From the above framework it can be argued that the independent variable which is the internal control system measured by control activities, internal control environment and internal audit is associated with positive correlation with financial performance as measured by timely reporting, reliable accountability and compliance with the laws, regulations and policies. If there are effective, financial performance is likely to improve and the reverse is true. It is therefore
hypothesized that if the ICS are in existence, they are likely to affect financial performance of an entity.

1.9 Significance of the study

According to Kothari (2014, p.5) research provides the basis for nearly all government policies in our economic system. In the case of Kitgum Municipal Urban Council, the study will help in that:

1. The findings of the study will specifically help Kitgum Municipal Urban Council administration to improve on their Internal Control System for better financial performance.
2. The study will also help policy makers to formulate ways to improve the Internal Control System.
3. The study findings will act as a basis of further research in the field of Internal Control System on matters of transparency and accountability.

1.10 Justification of the study

Public sector entities exist to serve the public. This mandate is the filter through which the key characteristics of public sector entities are differentiated from less relevant attributes.

In order to achieve this mandate, public sector entities have been granted powers, rights and responsibilities, including a responsibility for policy development and implementation. The mandate to serve the public over the long term and the granted powers, rights and responsibilities demand public accountability for the actions, decisions and results of a public sector entity. This need for public accountability is the overriding characteristic of public sector entities (Conceptual Framework Consultation, Paper 2, 2012, p.8). The government of Uganda has put in place Audit Committees that shall assist the Accounting Officers in carrying out the oversight
responsibilities relating to financial practices, internal controls, corporate governance issues, compliance with laws, ethics and audit matters (Public Finance Management Act, 2015, p. 48).

The research is deemed necessary because policy makers and practitioners have continued to share concerns about deviations from the policies in Municipal Urban Councils that affect financial performance. The reason for this study is to enable KMUC and all its stakeholders improve Internal Control Systems and financial performance.

1.11 The scope of the study

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

1.11.1 Geographical scope

The study was conducted in KMUC a public institution located at a distance of 452 kilometres North of Kampala, the capital city of the Republic of Uganda.

1.11.2 Content scope

This focuses on three key dimensions; internal control systems, determinants of financial performance and relationship between internal control systems and financial performance as captured in the conceptual framework

1.11.3 Time scope

This study covered a period of five financial years from 2010/2011-2014/2015. This period was considered because it was the period when KMUC experienced challenges in financial performance until 2013-2014 and 2014-2015 when it got unqualified reports (Audit Report of the Auditor General, 2011)
1.12 Operational definitions

1.12.1 Internal control system

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

1.12.2 Performance

The word performance refers to the accomplishment of a given task measured against present standards of accuracy, completeness, cost and speed (Financial performance Analysis conceptual framework, 2012, p. 49)

1.12.3 Financial Performance

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

1.12.4 Public Sector

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

LITERATURE REVIEW

2.1 Introduction

This chapter presents highlights of the reviewed literature regarding internal control systems and financial performance. The chapter is sub-sectioned into theoretical review, actual review and synthesis of the literature review. It shows how this research relates to the existing body of knowledge and identifies the gaps existing in the current body of knowledge as well as lesson learnt.

2.2. Theoretical review

The ideas of agency theory are attributed to Coase (1937, p.3), but they have been applied to the management of institutions since the 1980s, basing on Jensen and Meckling (1976, p.12). Institutions such as Municipal Urban Councils have principals (owners) and then agents (Managers). The theory advocates having governance structures that separates urban governance from managements. The theory suggests the existence of professional managers to manage urban councils on behalf of the owners (Kiel and Nicholson, 2003, p.190). According to Eisenhardt (1989, p.123) through the separation of powers, agency theory analyses and resolves problems that occur in the relationship between principals (owners/ shareholders) and their agents in top management.

The agency theory calls for clear lines of authority between urban governance and the management. It also emphasizes respect for lines of authority. The theory argues that good collaboration among urban leaders has a significant influence on municipal urban council performance. The theory posits that the purpose of corporate governance is to minimize potential for managers to act in a manner that is contrary to the interest of shareholders.
The theory suggests that stakeholders in institutions should have significant powers in the operation of the institutions in order to have an effect in the running of the institutions Mallin, 2001, p.108). This theory applies to the governance of municipal urban councils. In KMUC the stakeholders are represented by the political heads of the council, the Mayor, LC III chairperson and the councilors. The council executives headed by the TC and the bureaucrats who perform the technical and management functions of the council on behalf of the stakeholders.

Bureaucrats act as the representatives of central government and they are the agents in this case. In order for the council to function effectively these representatives of the people (municipal urban councilors) should collaborate well with the bureaucrats (urban managers). The political leaders’ should have significant powers in running the council. Hunger and Wheelan (2010, p.176) put it that governance problems are likely to arise in institutions because agents (urban managers) are not willing to bear responsibility for their decisions unless they own a substantial amount of interest in the institutions. The agency theory also advocates for the setting up of governance rules and incentives to align the behavior of managers to the desires of stakeholders (Kiel & Nicholson, 2003, p.190).

2.3 Conceptual review

Internal control is a term generally used to describe how management ensures that an entity meets its financial and other objectives. Internal control system not only contributes to managerial effectiveness but also important duties of corporate boards of directors (Verschoor, 1999, p.409). The board of directors can be equated to councilors in this study who have an oversight role of policy making and control of resources to improve financial performance.

Ejoh and Ejom (2014, p.134) argue that there are two types of major internal controls associated with management of large firms, particularly diversified firms, which have an important effect
on firm innovations these are, strategic controls and financial controls. Strategic controls entail
the use of long-term and strategically relevant criteria for the evaluation of business-level
managers’ actions and performance. The use of strategic controls requires that corporate
managers have a deep understanding of business-level operations and markets. Such controls
also require a rich information exchange between corporate and divisional managers (ISA UK &
Ireland, 315). Mayors/ LC III chairpersons are both political leaders and municipal managers and
they are empowered to manage the municipality on a day-to-day basis, managing policies and
resources, as well as dealing with political issues; so exchange of information between the mayor
and technocrats/managers will improve financial performance.

According to Conceptual Framework Consultation Paper 2, p.20) FP can be measured using
revenue and expense view model which focus on flow of resources that are applicable to a
particular period. The model would determine annual surplus/deficit based on the definition of
revenue and expense and would include all items not meeting these definitions in the statement
of financial position. Such items would be included in the statement of financial position as
assets and liabilities when appropriate or in new differed inflow and differed outflow elements.

Items recognized in differed categories would be recognized in revenue and expense in some
future period when it would be objectively determined that the items relate to that period. This is
in line with an urban council that deals with revenues received from central government grants,
locally raised revenue and donations from development partners and spends the revenue to
deliver services to the public. Urban councils are authorized to use Accrual basis of accounting
where revenue is recognized when earned and expenditure as incurred irrespective of whether
actual cash has been received or payments has been made thus giving rise to differed revenue
and expenditure (Local Government Financial Accounting Manual, 2007, p.118). However, for
the purpose of this study, timely reporting, reliable accountability and compliance with the laws and regulations are used to measure financial performance.

2.4 Internal control activities
These are controls established by an entity to ensure that valuable resources of an entity do not end up in wrong hands. These activities include approval and authorization, segregation of duties and physical control.

2.4.1 Approval and Authorizations and financial performance
According to Washington State Administrative & Accounting Manual (2008, p.17) the entire transaction in a business environment requires approval and authorization by an appropriate officer and authorization limit be clearly specified. Control activities in this category are designed to provide reasonable assurance that all transactions are within the limit set by policy or that exceptions to policy have been granted by appropriate officials. In a municipal urban council approval and authorization is one of the internal control measures in place, user departments generate request for funds through the head of finance to the chief executive for approval before any transaction takes place. This is to ensure that errors and frauds are detected and prevented, since no single individual controls the transaction from its initiation to completion.

According to the governance of state-owned enterprises and public agencies in the Islamic Republic of Mauritania (2013, p.26), public agencies are required to have a Public Accountant that is appointed by a decree issued by the Ministry of Finance as the sole administrator of cash and advance system, in conformity with the principle of separation of the authorizing and accounting officers, the Accountant may be held to account by the financial chamber of the Supreme Court. This helps to stop the return of cash receipts to the Treasury on the condition that the Treasury is informed of the entity’s monthly movement. However, municipal urban councils in northern Uganda have no public Accountants that can be held accountable despite the
enactment of the Accountants Act 2013 Section 34(2) which states that all heads of Account, Finance and Internal audit in public and private entities with public interest shall be Public Accountants. This has affected financial performance negatively.

2.4.2 Segregation of duties and financial performance

Stoner (2009, p.5) defines segregation of duties as a basic and fundamental element of internal control, that no employees should be in a position both to perpetrate and to conceal error or fraud in the normal course of their duties. According to State Administrative & Accounting Manual (2008, p.18), segregation reduces the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process. He emphases three principles that underlie segregation of duties as: custody of assets, authorization and approval of related transaction affecting those assets and recording or reporting of related transaction. Ironically, no internal control audit standard or accounting pronouncement prescribes specific segregation of duties (SOD) requirements. However, maintaining a system of effective internal control does require appropriate SOD. If internal control is to be effective, there needs to be an adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. In general, the flow of transaction processing and related activities should be designed so that the work of one individual is either independent of, or serves to check on, the work of another. Such arrangements reduce the risk of undetected errors and limit opportunities to misappropriate assets. According to Washington State Administrative & Accounting Manual (2008, p.19), collusion between two or more individuals can result in control failures. Individuals acting collectively often can alter financial data or other management information in a manner that cannot be identified by the control system. The current structure in
local governments regarding segregation of duties is far from the above principle and this therefore calls for a study.

**2.4.3 Council controls and financial performance**

The World Bank Report (2015, p.28) asserts that councils play an important role in the review of Government annual budget submission. There are factors that could make councils’ roles more effective in providing controls to the entities they serve, and could remedy significant shortcoming in council’s review of Government performance, KMUC inclusive, and these include: council committee should have permanent staff resources that provide the committee with the expertise required; time available for council’s review of annual execution report should be increased significantly to permit councils to analyze fully the government’s actual performance for the fiscal year. This analysis is the essence of Government accountability for its stewardship and the efficient and effective use of the fund granted by council.

Sections 14, 18 and 25 (d) and (e) of the Local Government Act permit councilors to get involved in the activities of Local governments as overseers, supervisors and employers. Their involvement in overseeing the activities of the technocrats may lead to good financial performance.

According to Davidson (2014, p.9) one of the boards key responsibilities is to define the mission of the organization. The mission or purpose is the reason the organization exists. The mission informs the organization’s values, objectives, policies and procedures. The board, its committees, staff and members work to achieve the mission while ensuring the organization works with integrity, transparency, efficiency and accountability. In municipal urban councils, the roles of the board are taken up by the councilors who make policies and ensure that the policies are implemented effectively to enhance financial performance.
2.4.4 Internal audit and financial performance

As a result of the increase in accounting scandals in recent years, the internal audit function has received impressive attention as an important contributor to effective corporate governance and financial reporting because high quality internal audit function focused on improving financial reporting through ensuring standard compliance (Prawit, 2008, p.129).

All of government ministries and agencies should improve the effectiveness of internal controls system, internal audit functions and organizational commitment because they improve good governance (Mwindi, 2003, p.18). According to Baltaci and Yilmaj (2006, p.3) establishing ICS and audit practices at the local government level has received little or no attention. And without establishing an effective Internal Control System at local government levels detection and control of misconduct in the local government would not be possible. Therefore implementing and monitoring such effective ICS will ensure compliance with the laws and regulations even in health care section (Amudo and Inanga, 2009, p.380). Meanwhile, it is good for local government to improve the effectiveness of their ICS in order to enhance the effectiveness of internal audit.

According to LGFAR(2007 (p.29), the main responsibility of the internal control system in local government covers ensuring full protection of council’s assets, ensuring proper utilization of council’s resources, proper authorization of revenue and expenditures, proper expenditure monitoring, removal of any misconduct in finance. The Internal Audit Department is the custodian of these ICS to ensure that these measures are adhered to, so as to improve financial performance in municipal urban councils.

According to Academic Journal of Interdisciplinary Studies (2015, p.396) the responsibilities of the internal audit (IA) are increasing with the sophistication of the economy and the business
organizations. From these responsibilities we can list examination of Accounts to determine their accuracy and reliability, review the company’s policies, operations and procedures to agree with expectation and standards, establish and programme adequate accounting system and effective forms of control providing advice to management in respect to the changes in the economy, and supervise the progress of the entity. In municipal urban councils, the sophistication has brought changes such as the integrated financial management system which requires sophistication in determining the accuracy and reliability of these accounts and providing advice to management in respect to the changes to improve financial performance.

2.4.5 Determinants of financial performance in Urban Council

According to Dixon (1990, p.215) appropriate performance measures are those which enable the organization to direct its actions towards achieving its strategic objectives. Kotey and Meredith (1977,p.5) contend that performance is measured by either objective or subjective criteria; argument for subjective measures includes difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

First, models based on the two conceptual views of financial performance are compared and evaluated against accountabilities. Then, a hybrid alternative is compared and evaluated against the accountabilities. Ideally, the model chosen would, help to resolve issues regarding the measurement of financial performance in public sector that gives rise to the project; increase the degree of accountability demonstrated in public sector financial statement through meeting the identified financial statement accountabilities; and increase the clarity of presentation and understanding of financial performance and financial position of a public sector entity.
2.4.6 Compliance with laws, regulations and policies

According to Goddard (2002, p.655) regulatory compliance is an adherence to laws, regulations guidelines and specifications relevant to its business. Compliance is either a state of being in accordance with established guidelines or specifications or the process of becoming so. According to the Sixth Accounting History Conference (2010, p.6), there is an assumption that the local governing rulers or officials are obliged to prepare accounting documents and statements usually imposed by law, thereby highlighting the need for regulated administrative structures where the use of accounting and other financial information is widespread.


2.4.7 Reliable Accountability

According to Sanusi (2015, p.158) accountability is a concept of ethics and governance with several meanings. This concept is similar to responsibility, answerability, blameworthiness, and liability. As an aspect of governance it has been central to discussions related to problems in the public sector. In Uganda, the Auditor General reviews financial statements of all public entities and forwards the report to the Parliamentary Public Accounts Committee for review and enforcement of accountability.
Accountability and transparency needs to be improved at all levels to ensure that all funds collected as local revenue are protected from misuse (Local Government Finance Commission, 2003, p 31). A significant feature aiding accountability and transparency is internal controls. If these are adhered to carefully and according to their spirit, then many aspects of control, accountability and transparency will automatically follow, producing greater trust and as a result improved revenue for the local government as financial performance (LGFC, 2003, p.32)

2.4.8 Timely Reporting

Whittington and Pany (2003, p. 292) talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization.”

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

According to Omounuk (1996, p.14), corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. In GoU and, the financial statement is audited by the Office of the Auditor General (OAG) and an opinion is formed whether they are free and fair. The report of the OAG determines the financial performance of the MUC for that
period and issues raised by the OAG are forwarded to the Parliamentary Public Accounts Committee for enforcement.

2.4.9 The relationship between internal control systems and financial performance.

According to ISA UK & Ireland (315) internal control comprises five components: control environment, the entity’s risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for purpose of this study the research will narrow on three components of internal control systems. These are the control activities, internal audit and control environment.

The statement of Standard Auditing Practices No.6 (SAP 6) defines internal control as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets prevention and detection of fraud and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information”.

It is therefore worth noting from the above that properly instituted internal control will ensure completeness of all transactions undertaken by an entity; that the entity’s assets are safeguarded from theft and misuse; that transactions in the financial statement are stated at the appropriate amount; that all assets in the financial statement do exist; that all the assets in the financial statement of the company are revalued regularly and recoverable amounts stated and transactions are presented according to the Generally Accepted Accounting principles.

Internal controls refer to measures instituted by an organization so as to ensure attainment of the organizations objectives, goals and mission (Ejoh and Ejom, 2014, p.133). In government, such controls are put in place by various legal documents and managed by the internal audit
department to ensure that the objectives of the council are achieved effectively for good financial performance.

On the other hand, financial controls entail objective criteria such as return on investment (ROI) on the evaluation of business level manager’s performance. They are similar to what Eisenhardt (1985, p.134) referred to as outcome controls. Thus top-level managers establish financial targets for each business and measure the business level manager’s performance against these targets. Such an approach can be problematic when the degree of interdependence among business units is high.

Hayes (2005, p.823) notes that “The three major categories of management objectives comprise effective operations, financial reporting and compliance”. Effective operations means safe guarding the assets of the organization, the physical assets, cash and non-physical assets like receivables, important documents and confidential records of the entity must not be misused or accidentally destroyed. The goal of financial records requires accurate information for internal decisions because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with many laws and tax laws and environmental protection laws.

According to Verschoor (1999, p.408), approximately three quarters of the 500 largest publicly held U.S corporations voluntarily make a public assertion of management’s responsibilities for properly reporting financial results and also maintaining an effective system of internal control. He asserts that virtually all these companies report using the same strategies to execute managements internal control responsibilities. These include references to segregation of functions, programs of selection and training of personnel, the result of an internal auditing function, oversight from the audit committee of the board of directors and the work of the
external auditors. This can be equated to the Audit Committee created by the Public Finance Management Act (2015, p.48)

2.5 Empirical Studies

2.5.1 Global Empirical Studies

Muraleetharan (2010, p.13) in his study of internal control and its impact on financial performance of the University of Jaffrian, found that there was a relationship between internal control and financial performance ($R^2=0.818$). The study found that internal control systems explained 81.8% of variance in performance. This study was however, done in university settings which is quite different from urban administrative settings that this study seeks to confirm the findings. The study used a sample of 65% of the 250 fulltime University staff and generally suggested that the most effective internal control systems included risk assessment process, information systems and control activities.

Sanusi and Johari (2015, p.161) in the study of the Effects of Internal control System, Financial Management and accountability of NPOs: The perspective of Mosques in Malaysia, found out that there is correlation between all independent and dependent variables; there are positive relationships between budget participation, internal control, fund usage and accountability on financial management practices ( $r = 0.313, r =0.359, r = 0.504, \text{ and } r =0.279 \text{ at } P< 0.05$) respectively. ICS plays an important role in ensuring the effectiveness of financial management practices. However, the researcher recommends that future studies need to watch some information on bulletin boards regarding annual activities done in mosques because the questionnaires were given to mosques committees that manage the mosque and the accuracy and validity of data depends on their honesty in answering the questionnaire. This study seeks to
clarify on that by looking at the OAG reports and internal audit reports in conjunction with the questionnaires distributed to the staff of the MUC.

2.5.2 African Level

Chukwu (2012, p.60) in the study on the impact of internal control system on the financial management of an organization within the context of the Nigeria Bottling Company found that internal control measures ensured proper use of organization funds and assets. The Z value of 3 degree of freedom and 5% significance for two tailed test was 0.9989 which is less than table value 2.6. The study also found that fraud perpetration and losses of revenue in an organization are not a result of internal control system. Internal control systems are put in place to detect and prevent frauds and losses of revenue and this study seeks to confirm the above findings.

Mwakimasinde, Odhiambo and Byaruhanga (2014, p.73) in the study on the effects of internal control system on financial performance of sugarcane outgrower companies in Kenya found that the regression result of 42.8% of performance of sugarcane outgrower companies can be explained by ICS (squared = 0.428). Based on the findings and conclusions of the study, the following recommendations were made: ICS has been found to have a statistically positive effect on performance of sugarcane out grower companies; hence there is need for the sugar out grower companies to improve their ICS.

2.5.3 Ugandan Level

Mawanda (2008 p.71) in his study of the effects of Internal control system on financial performance in an institution of higher learning in Uganda, a case of Uganda Martyrs University found that there is a relationship between internal control system and financial performance. However, most of these studies were done in universities which may not be the case with urban
councils and this study is being undertaken to confirm or dispel the results of these studies with empirical evidence.

Amudo and Inanga (2009, p.387) carried out an evaluation of ICS on the regional member countries of the African Development Bank, focusing on Uganda in East Africa. The study established that some control components of effective ICS are lacking in these projects which renders current structures ineffective, hence affecting performance negatively.

2.6 Synthesis of Literature Review and Gap Analysis

The literature review has shown a number of historical sources describing internal control systems and financial performance in different cases. The literature available shows that internal control systems have an effect on financial performance of organizations, though it does not show in statistical terms the extent to which financial performance is affected by internal control system.

Therefore it is assumed that lack of proper internal control adversely affects financial performance of government units. Limited control environment leads to low productivity among personnel, and absence of policies affects the quality of services offered. Segregation of duties prevents fraud and errors as it becomes difficult for several employees to connive to defraud the system since transactions are not completed by one person. Physical controls ensure assets and organizations valuables are protected. However, the reviewed literature did not highlight the issues of control systems and financial performance in the context of Local governments in a developing country such as Uganda. This therefore necessitated conducting a study to establish the relationship between internal control systems and financial performance in Kitgum Municipal Urban Council and express it statistically to aid future decision making in the council.
CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter presents the methodology that was used in conducting the research. It explains the research design, study population, sample size and sampling strategies, data collection methods and data collection instruments, data validity and reliability, data collection procedures, data analysis and measurement of variables.

3.2 Research design

This study adopted a cross-sectional survey design, together with a case study design, where both qualitative and quantitative paradigms were considered. Cross-sectional design was used because it allows collecting data at one point in time hence minimizing costs and time, putting into consideration the limited time and resources available (Saunders, 2007, p. 610). A case study was used because it allowed for intensive investigation and focuses on a case or a few cases of a phenomenon. The study took both quantitative and qualitative approaches because quantitative approach helps to describe nature of relationships between the study variables, while qualitative approach is an ideal method when a holistic and in-depth investigation is needed. This called for mixed methods approach or triangulation approach in the study, thus enabling the researcher to compare findings from both paradigms.

3.3 Study population

Kothari (2014, p.153) defines population as the total number of items about which information is desired. The study population comprised all members of the Urban Technical Planning Committee (UTPC), Town Clerk (TC), all accounts Assistants (AA) and Senior Accounts
Assistants (SAAs), all Community development officers (CDOs), members of the Urban Executive Committees, all members of the District Procurement Committees, and all the technical staff in the Internal Audit Department. The above categories of urban staff form the leadership in KMUC and are responsible for internal control systems in the urban Council.

3.4 Determination of the Sample size and selection

Table 1: Showing Research respondent by category

<table>
<thead>
<tr>
<th>S/N</th>
<th>Target population</th>
<th>Accessible population</th>
<th>Sample size</th>
<th>Sampling technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Members of Urban planning committee</td>
<td>17</td>
<td>14</td>
<td>Stratified Sampling</td>
</tr>
<tr>
<td>2</td>
<td>Senior/ Accounts Assistants</td>
<td>05</td>
<td>05</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>3</td>
<td>Engineering staff</td>
<td>02</td>
<td>02</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>4</td>
<td>Community Development officers</td>
<td>02</td>
<td>02</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>5</td>
<td>Urban executive Committee</td>
<td>05</td>
<td>05</td>
<td>Stratified sampling</td>
</tr>
<tr>
<td>6</td>
<td>Administration staff</td>
<td>20</td>
<td>18</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>7</td>
<td>Contract committee</td>
<td>09</td>
<td>09</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>8</td>
<td>Audit Staff</td>
<td>04</td>
<td>04</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>9</td>
<td>Chief administrative officer</td>
<td>01</td>
<td>01</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>10</td>
<td>Members of Public accounts committee</td>
<td>05</td>
<td>03</td>
<td>Stratified sampling</td>
</tr>
<tr>
<td>11</td>
<td>District executive committee</td>
<td>07</td>
<td>07</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>77</td>
<td>70</td>
<td></td>
</tr>
</tbody>
</table>

Adapted and modified from the KMUC five-year development plan F/Y 2014/15, using Krejcie and Morgan’s (1970) approach of sample selection.

3.5 Sampling techniques and procedures

The researcher used both probability and non-probability sampling methods. Probability sampling is one in which every member of a population has a chance of being selected in the sample and the probability can be accurately determined. The combination of both methods limits bias in sample selection. Non-probability sampling is any sampling method where some
element of the population has no chance of being selected or where selection cannot be accurately determined.

3.5.1 Stratified random sampling
Stratified random sampling was used to select members of TPC, Accounts Assistants, Senior Accounts Assistants and Urban Executive Committee of Council. This technique was used to give more respondents in the population a chance to be part of the sample. To arrive at the sample, the researcher used proportional method where the accessible population was divided by the total accessible population of the study, multiplied by the total sample of the study. The total sample size was arrived at using the Krejcie and Morgan table (1970, p.2)

3.5.2 Purposive sampling
Purposive sampling was used as indicated in the above Table 2. This method involved selection of key informants and also the choices of subjects who met predetermined criteria such as convenience to the researcher in terms of proximity, readily available, willingness to be included in the sample and any other criteria that was considered relevant by the researcher.

The target population of the study was 77, and using the Krejcie and Morgan (1970, p.2) the above target needed a total of 70 samples. All samples with 10 and below as target population required all the population to be sampled according to the same table and the researcher used purposive method to reach those samples.

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

3.6.1 Questionnaire
A questionnaire is a set of questions to which respondents’ recorded their answers as administered. This method was appropriate for the research because the filled questionnaires can be used for future reference. Both open and closed ended questionnaires were considered for the interviewees in implementing internal controls and financial performance in KMUC.

3.6.2 Interviews
An oral interview was conducted in order to get direct information from some Chairpersons Urban Council III, Mayor, TC, Senior Accountant/Treasurer, SIA and the OS. Interviews gave the researcher an insight of the feelings, expectations and aspirations of local leaders on how internal controls and financial performance could be improved.

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

3.7 Data collection instruments
Kothari (2014, p.97) defined data collection instruments as the tools to be used to gather data. In order to collect data about internal control systems and financial performance in KMUC, the following instruments were used:
3.7.1 Self-administered questionnaire

Written questions prepared by the researcher about the problems under investigation based on
the research objectives of the study were given to respondents. The questionnaires were both
closed and open ended.

3.7.2 Interview guide

This involved oral administration of an interview guide that involved face-to-face encounters.
This required cooperation from the respondents in order to get accurate and valid data. Oral
interview was used in order to get information from key informants like the local leaders at the
urban councils, TC, ST, SIA and others. This gave in-depth information that may not have been
captured by the questionnaires.

3.7.3 Document reviewing

This involved reviewing various documents with information related to the area of study. It
involved reviewing publications, journals, textbooks and internet information.

3.8 Data Reliability and validity

3.8.1 Reliability of the instruments

Cronbach’s Alpha reliability co-efficient was used to test reliability; this reliability coefficient
measured the internal consistency of a test and was used to build confidence that the data was
appropriate. Content validity ratio was used to calculate content validity index and a content
validity of 0.6, according to Odiya (2009, p.129), qualified the instrument for study.

\[
CVI = \frac{\text{Total number of items rated by all respondents (42 items)}}{\text{Total number of items in the instruments}} = \frac{42}{5} = 8.4
\]

\[
CVI = 0.73
\]
3.8.2 Validity of the instruments

The quality of the data collection instruments was assessed through validity and reliability of the instruments. Validity refers to the extent to which an instrument measures what it purports to measure (Kimberlin and Winterstein, 2008, p.2278). Triangulation was used in this study to ensure validity of the research findings. A pilot study was carried out on a group of staff members who were excluded from the real study so as to ensure that the instruments to be used (questionnaires and interview guides) were clear and not having ambiguity.

Table 2: Reliability

<table>
<thead>
<tr>
<th>Items</th>
<th>Alpha Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal control activities</td>
<td>0.88</td>
</tr>
<tr>
<td>Internal control environment</td>
<td>0.83</td>
</tr>
<tr>
<td>Auditing</td>
<td>0.87</td>
</tr>
<tr>
<td>Financial performance</td>
<td>0.70</td>
</tr>
</tbody>
</table>

The table above reveals that all the variables have alpha values above the 0.6 mark recommended by Odiya. Therefore all the variables in the instruments were deemed reliable.

3.9 Procedure of Data Collection

3.9.1 Questionnaires

A questionnaire is a data collection instrument used to gather data over a large sample or number of respondents. This structured questions was developed following recommended guidelines by various scholars such as (Kothari 2005). The first section of the instruments addressed issues of demographic data; section two addressed internal control activities, section three internal control environments, section four internal audits and section five financial performances. In each section the respondent was given clear instructions on how to complete the items.
3.9.2 Interview

This involved oral administration of an interview guide that involved face-to-face encounter. This required cooperation from the respondents in order to get accurate and valid data. Oral interview was used in order to get information from key informants like local leaders at the Divisions, ST, TC, SIA and others. This gave in-depth information that may not have been captured by the questionnaires.

3.9.3 Reviewing Documents.

Documents with related information to the problem under study were reviewed to get valid data from different scholars and other researchers.

3.10 Data Analysis

A number of closely related operations which are performed with the purpose of summarizing the collected data and organizing these in such a manner that they answer researcher questions (Saunders 2007, p.610) data were analyzed using both qualitative and quantitative techniques.

3.10.1 Analysis of qualitative data.

Data analysis included checking, editing, coding, classification and tabulation of collected data so that they could be analyzed into information. Analysis of data involves using descriptive statistics to enable the researcher derive meaningful description and distribution of scores. Measures of central tendency were used to get the average scores (mean), so as to determine the average number of respondents per item on the questionnaire. Standard deviation was used to measure the validity of scores from the mean in the distribution. Pearson correlation coefficient was used to measure the degree and direction of relations between the dependent variables and independent variables. Values of correlation between +1.0 and -1.0 reflect positive and negative relations. And r = 0 reflects no relationship.
3.10.2 Quantitative data analysis.

The quantitative data analysis consisted of numerical values from which descriptions such as means, standard deviations and correlations were made. In analyzing the quantitative data, the researcher took time to understand the data, checked it to ensure accuracy. The collected data was edited, coded and classified under different themes and sub-themes then analysis using the Statistical Package for Social Sciences (SPSS) programme was used. Summary statistics in form of frequencies and percentages were run and interpretations made. SPSS was used because of its simplicity and comprehensiveness in analyzing quantitative data.

3.11 Measurement of variables

To operationalize the relationship between internal control system and financial performance in a quantitative design, nominal and ordinal measurement were combined. Data on key variables in the questionnaire and interviews (control environment, control activities and internal audit) was measured on ordinal and interval scales of 5 levels (strongly agree, agree, not sure, disagree, and strongly disagree) to interval scale questions set measured parameters and opinion on the construct of variables.

Nominal scale groups data into categories that must be distinct and mutually exclusive respondents such as male or female, education level, duration of service, nature of employment, and age was measured as a nominal scale in section A of the questionnaire. A researcher ranked responses to an issue qualitatively, indicating the strength and degree of response to a particular item.

3.12 Ethical issues

The researcher strictly adhered to the professional ethical conduct of research. The researcher got a letter of introduction from the University Research Coordinator, appointments were made with the respondents through local authorities, and interviews were conducted with utmost secrecy
and confidentiality. The researcher maintained close relationship with the respondents, and data was collected without fabrication for the success of this study.

The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from the research activities (Cooper and Schindler, 2001, p.112).
CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 INTRODUCTION
This chapter presents the analysis and interpretation of the study and its findings arising from the data collected from the field using questionnaires and interview guide. This chapter represents and discusses the findings of the study. The chapter also presents the analysis and interpretation of the results. The presentation is done according to the specific objectives and hypotheses of the study. The first presents the response rates, the second section presents the background information, and the third descriptive and inferential statistical results in line with the three objectives of the study.

4.2 Response Rate
Response rate, also referred to as return rate or completion rate, refers to the number of people who responded to the survey divided by the number of people in the sample, and is normally presented in form of percentages.

According to AAPOR (2015, p.52) a low response rate can give rise to sampling bias if the non-response is unequal among the participants regarding exposure and outcome. In this study the sample size was 70 but the study managed to get 58 members of staff as shown in the table below.

**Table 3: Showing response rates of respondents**

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample Size</th>
<th>Actual Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration Staff</td>
<td>65</td>
<td>53</td>
<td>80%</td>
</tr>
<tr>
<td>Politician/ Governance</td>
<td>5</td>
<td>5</td>
<td>100%</td>
</tr>
</tbody>
</table>
According to Table 2 above, out of the 70 questionnaires administered 58 were returned fully completed, giving a response rate of 83% of which 84.5% comprised civil servants, 6.9% contracted employees and 8.6% politicians. All the 5 respondents targeted for interview were interviewed, giving a response rate of 100%. The overall response rate was 83% and with that high response rate the findings of the study were representative of the actual population and could be generalized as observed by Sekaran (2003, p.10)

**4.3 Background information of the respondents**

This section provides the background characteristics of the respondents which presents their gender distribution, age groups, level of education and their nature of employment. This information was required to ensure that the sample that participated had characteristic distribution similar to the respondents and by extension, to that of the population it was drawn from. This determines accuracy and representativeness of the information drawn from the sample to population.

**Table 4: Showing the background information of respondents**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>37</td>
<td>63.8%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>21</td>
<td>36.2%</td>
</tr>
<tr>
<td>Age</td>
<td>Below 25 years</td>
<td>1</td>
<td>1.7%</td>
</tr>
<tr>
<td></td>
<td>26-35 years</td>
<td>22</td>
<td>37.9%</td>
</tr>
<tr>
<td></td>
<td>36-45 years</td>
<td>21</td>
<td>36.2%</td>
</tr>
<tr>
<td></td>
<td>46-55 years</td>
<td>12</td>
<td>20.7%</td>
</tr>
<tr>
<td></td>
<td>56 years and above</td>
<td>2</td>
<td>3.4%</td>
</tr>
<tr>
<td>Experience</td>
<td>Below five years</td>
<td>27</td>
<td>46.6%</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------</td>
<td>----</td>
<td>-------</td>
</tr>
<tr>
<td></td>
<td>Over five years</td>
<td>31</td>
<td>53.4%</td>
</tr>
<tr>
<td>Level of education</td>
<td>Master Degree</td>
<td>6</td>
<td>10.3%</td>
</tr>
<tr>
<td></td>
<td>Bachelor Degree</td>
<td>27</td>
<td>46.6%</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>21</td>
<td>36.2%</td>
</tr>
<tr>
<td></td>
<td>Certificate</td>
<td>1</td>
<td>1.7%</td>
</tr>
<tr>
<td></td>
<td>Secondary completed</td>
<td>1</td>
<td>1.7%</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>2</td>
<td>3.4%</td>
</tr>
<tr>
<td>Nature of employment</td>
<td>Civil service</td>
<td>49</td>
<td>84.5%</td>
</tr>
<tr>
<td></td>
<td>Contracted employee</td>
<td>4</td>
<td>6.9%</td>
</tr>
<tr>
<td></td>
<td>Politician/governance</td>
<td>5</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Source: Primary data from the field.

4.3.1 Distribution of respondents by Gender

The data was collected from 58 respondents and of these 37 (63.8%) were male compared to 21 (36.2%) who were female.

From the above table and graphical representation, the majority of the respondents were male compared to female which shows exactly the gender distribution in KMUC. The male dominance in local government can contribute to lack of ability to perform as expected of them, leading to poor performance and corruption tendencies which tend to be more associated with male employees.

4.3.2 Distribution of respondents by Age group.

This table and graphical representation indicates that the majority of the respondents were in the age brackets between 26-35 years (37.9%) while 36.2% were in the age bracket of 36-45, while only 21.7% were below 25 years. This showed that most of the staff in KMUC was still in a very active stage and energetic to perform as required but that age bracket was also faced with lots of responsibilities and obligations which might drive them away from effective financial performance.
4.3.3 Respondent’s years in service

Results in table and graphical representation above shows that the majority of the respondents (53.4%) had been in service for over five years and only 46.5% had been in service for less than five years. This showed that the staff of KMUC had attained a reasonable amount of experience and balance which could be sufficient for them to register effective and efficient financial performance.

4.3.4 Respondents’ highest level of education

The above table and graphical representation shows that the majority of the respondents (46.6%) were holders of a Bachelor’s degree, while 36.2% were holders of a Diploma and 10.3% held the Master’s degree.

This showed that most of the staff in KMUC had attained a reasonable level of education which could be sufficient for them to register effective financial performance and adhered to internal control system.

4.3.5 Respondents nature of employment

This table and graphical representation shows that the majority of respondents were civil servants (84.5%), followed by politicians/governance (8.6%) and contracted employee. This showed that the staff was mostly civil servants who were sure of their jobs and there was job security which should enhance their performance to improve FP.

4.4 Internal Control Systems affecting financial performance

4.4.1 Establishment of Internal Control activities in Kitgum Municipal Urban Council.

According to the data collected from the respondents, the researcher found out that 89.4% of the respondents strongly agreed that the internal control system exist in KMUC and 5% agreed, while 2% were not sure and 3.6% disagreed. This implies that the internal control system exists in KMUC and this could lead to improvement in FP.
Table 5: Showing the result of how internal control activities influence Financial Performance.

<table>
<thead>
<tr>
<th>Items</th>
<th>M</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>There exists appropriate approval and authorization mechanism in place in local government</td>
<td>4.1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>34</td>
<td>18 (31.0%)</td>
</tr>
<tr>
<td>Appropriate disciplinary action taken for breach of approval and authorization systems in place</td>
<td>3.6</td>
<td>1</td>
<td>8</td>
<td>13</td>
<td>25</td>
<td>11 (19%)</td>
</tr>
<tr>
<td>Those in authority are aware of their power to approve and authorize transactions</td>
<td>4.2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>31</td>
<td>22 (37.9%)</td>
</tr>
<tr>
<td>Approval and authorization are properly documented and referred to</td>
<td>4.0</td>
<td>0</td>
<td>5</td>
<td>4</td>
<td>34</td>
<td>15 (25.9%)</td>
</tr>
<tr>
<td>There is strict adherence to approval and authorization systems in place</td>
<td>3.8</td>
<td>1</td>
<td>7</td>
<td>10</td>
<td>32</td>
<td>8 (13.8%)</td>
</tr>
<tr>
<td>Unauthorized transactions are not processed</td>
<td>3.7</td>
<td>1</td>
<td>9</td>
<td>12</td>
<td>23</td>
<td>13 (22.4%)</td>
</tr>
<tr>
<td>Delegated staffs have power to authorize</td>
<td>3.6</td>
<td>2</td>
<td>6</td>
<td>10</td>
<td>35</td>
<td>5 (8.6%)</td>
</tr>
<tr>
<td>There is respect for each other’s role and duties in service delivery.</td>
<td>3.5</td>
<td>4</td>
<td>9</td>
<td>9</td>
<td>28</td>
<td>8 (13.8%)</td>
</tr>
<tr>
<td>Controls are in place to avoid over spending.</td>
<td>3.6</td>
<td>2</td>
<td>11</td>
<td>4</td>
<td>32</td>
<td>9 (15.5%)</td>
</tr>
<tr>
<td>There is supervision of junior staffs by senior staffs.</td>
<td>3.8</td>
<td>0</td>
<td>4</td>
<td>13</td>
<td>30</td>
<td>11 (19.0%)</td>
</tr>
<tr>
<td></td>
<td>Mean</td>
<td>0 (0%)</td>
<td>1 (1.7%)</td>
<td>2 (3.4%)</td>
<td>3 (5.2%)</td>
<td>4 (6.9%)</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------</td>
<td>------</td>
<td>--------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Our entity have clear segregation of duties</td>
<td>4.0</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Every employee work, check on the other</td>
<td>3.3</td>
<td>1 (1.7%)</td>
<td>11 (19.0%)</td>
<td>17 (29.3%)</td>
<td>25 (43.1%)</td>
<td>4 (6.9%)</td>
</tr>
<tr>
<td>There is supervision of junior staff by senior staff</td>
<td>3.8</td>
<td>0 (0%)</td>
<td>4 (6.9%)</td>
<td>13 (22.4%)</td>
<td>30 (51.7%)</td>
<td>11 (19.0%)</td>
</tr>
<tr>
<td>Our councilors and committees are independent</td>
<td>3.5</td>
<td>2 (3.4%)</td>
<td>7 (12.1%)</td>
<td>13 (22.4%)</td>
<td>32 (55.2%)</td>
<td>4 (6.9%)</td>
</tr>
<tr>
<td>It is impossible for one staff to have access to valuable information’s without consent of a senior staff</td>
<td>3.6</td>
<td>1 (1.7%)</td>
<td>9 (15.5%)</td>
<td>15 (25.9%)</td>
<td>22 (37.9%)</td>
<td>11 (19%)</td>
</tr>
<tr>
<td>Staffs are in place to allow proper segregation of duty.</td>
<td>3.3</td>
<td>4 (6.9%)</td>
<td>11 (19.0%)</td>
<td>11 (19.0%)</td>
<td>25 (43.1%)</td>
<td>7 (12.1%)</td>
</tr>
<tr>
<td>Duties and roles in Local government are properly segregated</td>
<td>3.8</td>
<td>1 (1.7%)</td>
<td>5 (8.6%)</td>
<td>7 (12.1%)</td>
<td>36 (62.1%)</td>
<td>9 (15.5%)</td>
</tr>
<tr>
<td>There is routine monitoring reports in local government</td>
<td>3.9</td>
<td>1 (1.7%)</td>
<td>7 (12.1%)</td>
<td>3 (5.2%)</td>
<td>33 (56.9%)</td>
<td>14 (24.1%)</td>
</tr>
<tr>
<td>Monitoring is done even if there is no allowance</td>
<td>3.6</td>
<td>2 (3.4%)</td>
<td>9 (15.5%)</td>
<td>7 (12.1%)</td>
<td>33 (56.9%)</td>
<td>7 (12.1%)</td>
</tr>
<tr>
<td>There exist respect for supervisors in place of work in local government</td>
<td>3.6</td>
<td>2 (3.4%)</td>
<td>10 (17.2%)</td>
<td>5 (8.6%)</td>
<td>36 (62.1%)</td>
<td>5 (8.6%)</td>
</tr>
<tr>
<td>Supervisors are aware of their roles in local government</td>
<td>3.8</td>
<td>1 (1.7%)</td>
<td>6 (10.3%)</td>
<td>7 (12.1%)</td>
<td>36 (62.1%)</td>
<td>8 (13.8%)</td>
</tr>
<tr>
<td>Executive are always in office supervising government activities</td>
<td>3.8</td>
<td>0 (0%)</td>
<td>9 (15.5%)</td>
<td>4 (6.9%)</td>
<td>32 (55.2%)</td>
<td>13 (22.4%)</td>
</tr>
<tr>
<td><strong>Average mean</strong></td>
<td>4.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key for interpreting mean** 1.00-2.99=Disagreed, 3.00=Not sure, 3.01-5.00 Agreed

**Source primary data from the field**

To analyze the findings, employees that strongly agreed and those who agreed were combined in one category of those who concurred with the item. In addition, employees who strongly disagreed and those who disagreed were combined in one category of those who opposed the items. Another category of employees were those who neither agree nor disagree not sure with the item. Thus the three categories of employees were compared. Interpretation was then drawn from the comparison of the three categories as shown below.
The study findings in Table 4 show that internal control activities and FP positive (aggregate mean = 4.0)
Comparison of these items shows that the percentage of those who agreed ranged from 6.9% to 62.1%, while those who are not sure ranged from 1.7% to 29.3% and those who opposed ranged from 0% to 19%. From those comparisons it can be seen that the range of percentages of those who agreed is higher than those that were opposed and those that were not sure. The following is the interpretation.
The study respondents noted that there exists an appropriate approval and authorization mechanism in place (mean = 4.1) meaning that approval and authorization works in KMUC. The respondents also agreed that appropriate disciplinary action is taken for breach of approval and authorization (mean = 3.6) implying that breach of approval and authorization is punishable.
“…Un authorized transactions are not processed…” (Oral interview)
The respondents also agreed that those in authority are aware of their power to approve and authorize transactions (mean = 4.2), approval and authorization properly documented and referred to (mean = 4.0) and that there is strict adherence to approval and authorization (mean = 3.7). This means that unauthorized transactions are not processed as stated by one of the key respondents during the interview, though one of the respondent states that, “sometimes authorizations is done top to bottom instead of bottom top approach” which may force some heads of departments to forward some transactions against their will.
According to results in Table 4, the respondents agreed that unauthorized transactions are not processed (mean = 3.7), delegated staff have power to authorize transactions (mean = 3.6) “Delegated staffs have limited amounts of transactions to authorize which delay implementations incase the TC is out of station”, one of the key informants noted during interview. The
respondents also moderately concurred that there is respect for others’ roles and duties (mean = 3.5), controls are in place to avoid over spending (mean = 3.6) and junior staffs are supervised by senior staffs (mean = 3.8). “…Supervision always leads to improved performance in any entity by identifying gaps and making corrections…” (Key informants)

As indicated in Table 4 respondents concurred that there is clear segregation of duties (mean = 4.0), every employees work check on the other (mean = 3.3) councilors and different committees are independent in doing their duties (mean = 3.5). No staff have access to valuable information without consent of a senior staff (mean = 3.6), staffs are in place to allow proper segregation of duty (mean = 3.3) and that duties and roles are properly segregated in the local government (mean = 3.8). This means that each and every employee concentrates on his or her tasks, hence improving FP in KMUC.

According to Table 4, the respondents occurred that there is a routine monitoring report in KMUC (mean = 3.9), monitoring is done even if there is no allowance (mean = 3.6). This means that politicians are doing their oversight roles to ensure that diversion is detected early enough to improve FP. There is respect of supervisors in place of work in KMUC (mean = 3.6), supervisors are also aware of their roles (mean = 3.8) and executives are always in office supervising government activities (mean = 3.8). This means that there is coordination between the technocrats and policy makers since they are always in office, which leads to improved FP in KMUC.

4.4.1.1 Testing the influence of the internal control activities on Financial Performance.

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

**Table 6: Relationship between internal control activities and Financial Performance**

<table>
<thead>
<tr>
<th>Internal Control Activities</th>
<th>Pearson Correlation</th>
<th>Sig-(2-tailed)</th>
<th>Internal control activities</th>
<th>Financial perform</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Fin. Performance</td>
<td>Pearson Correlation</td>
<td>Sig-(2-tailed)</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td></td>
<td>.271*</td>
<td>.039</td>
<td>58</td>
<td>58</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed)

**Source: Primary data**

According to the result in Table 5, internal control activities and FP were found to have a significantly positive relationship (r= 0.271, p< 0.05). Thus the hypothesis which stated that there are positive relationship between internal control activities and FP is partially confirmed. This implies that internal control activities have positive effects on FP of KMUC.

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

**Table 7: Correlation coefficient showing the influence of internal control activities on Financial Performance**

<table>
<thead>
<tr>
<th>R Square= 0.74, P=0.039</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standardized Coefficient</td>
</tr>
<tr>
<td>Beta</td>
</tr>
<tr>
<td>Sig.</td>
</tr>
<tr>
<td>Internal control activities</td>
</tr>
</tbody>
</table>

**Source: Primary data**

According to the result in the table 6 internal control activities significantly affects FP (r=.271). This means that internal control activities are a significant determinant of FP at KMUC. Since the correlation thus implies a casual effect as stated in the objective, the coefficient of determination which is a square of correlation coefficient (r=.74) was computed and expressed as
a percentage to determine the variance in FP in KMUC due to internal Control activities. Thus findings show that internal control activities accounted for 74% variance in FP in KMUC.

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

4.4.2 The influence of internal control environment and Financial Performance of Kitgum Municipal Urban Council.

The second objective of the study was to find out how internal control environment affects FP. The respondents were asked to respond to a number of statements regarding internal control environment the findings are summarized in the table below.

Table 8: Shows results how internal control environment affects Financial Performance of Kitgum Municipal Urban Council.

<table>
<thead>
<tr>
<th>Items</th>
<th>M</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our entity has accounting and financial management system.</td>
<td>3.8</td>
<td>2</td>
<td>7</td>
<td>12.1</td>
<td>6</td>
<td>10.3</td>
</tr>
<tr>
<td>Management is committed to the operation of the system.</td>
<td>3.8</td>
<td>2</td>
<td>5</td>
<td>8.6</td>
<td>4</td>
<td>6.9</td>
</tr>
<tr>
<td>Appropriate means is taken to correct mistakes in operation of our accounting and financial management system.</td>
<td>3.8</td>
<td>0</td>
<td>9</td>
<td>15.5</td>
<td>4</td>
<td>6.9</td>
</tr>
<tr>
<td>Ethical values are upheld in all management decisions.</td>
<td>3.5</td>
<td>2</td>
<td>7</td>
<td>12.1</td>
<td>12</td>
<td>20.7</td>
</tr>
<tr>
<td>Our entity has an objective, independent and active public accounts committee.</td>
<td>3.4</td>
<td>2</td>
<td>12</td>
<td>20.7</td>
<td>15</td>
<td>25.9</td>
</tr>
<tr>
<td>Managements provide feedback to the junior officers about the operation of the system.</td>
<td>3.6</td>
<td>0</td>
<td>8</td>
<td>13.8</td>
<td>16</td>
<td>27.6</td>
</tr>
<tr>
<td>Management closely monitors the implementation of internal control system</td>
<td>3.6</td>
<td>2</td>
<td>6</td>
<td>10.3</td>
<td>13</td>
<td>22.4</td>
</tr>
<tr>
<td><strong>Average mean</strong></td>
<td><strong>4.0</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data from the field.
The study findings in the above table show that the internal control environment in KMUC is moderately positive (aggregate mean = 4.0). A comparison of these items shows that the percentage of respondents that opposed ranged from 0% to 20.7%; the percentage of those who were not sure ranged from 6.9% to 27.6%, while percentage of those who concurred ranged from 3.4% to 72%. From these comparisons it can be seen that the range of percentages of those who concurred and those who are not sure are lower compared to those who opposed. Thus from this analysis the following is the interpretation.

The results in the table above shows that KMUC has accounting and financial management system (mean = 3.8), management is committed to the operation of the system (mean = 3.8). This means the environment in which internal control system is implemented is conducive to improved FP. Appropriate means is taken to correct mistakes in the operation of the accounting and financial management system in KMUC (mean = 3.8), ethical values are upheld in all management decisions (mean = 3.5). The above findings mean that corrections can be made where the council gets it wrong and ethical values are upheld which can improve financial performance KMUC.

The study respondents also proved that there is an objective, independent and active public accounts committee in place (mean = 3.4). This means internal audit reports are reviewed quarterly and corrective measures are taken to improve FP in KMUC. Management also provide feedback to junior officers about the operation of the system (mean = 3.6) and management closely monitors the implementation of ICS (mean = 3.6). This means that work well done is appreciated and weaknesses are pointed out for improvement which eventually leads to improved FP in KMUC.
4.4.2.1 Testing the influence of internal control environment on Financial Performance of Kitgum Municipal Urban Council.

In order to determine the influence of internal control environment on FP of KMUC, correlation and regression analysis was conducted the results are summarized in the tables below.

Table 9: Relationship between internal control environment and Financial Performance

<table>
<thead>
<tr>
<th>Internal Control environment</th>
<th>Pearson Correlation</th>
<th>Sig.- (2-tailed)</th>
<th>N</th>
<th>Internal control environment</th>
<th>Fin. Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>.335*</td>
<td>.010</td>
<td>58</td>
<td>.335*</td>
<td>1</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed)

Source: Primary data

According to the result table above, internal control environment was found to have positive relationship (r=0.335 p<0.05). Thus the hypothesis that stated that there is a positive relationship between internal control environment and FP in KMUC is accepted. This means that internal control environment has a positive effect on FP of KMUC. This practically implies that FP in KMUC improves with better internal control environment.

In order to determine the extent to which internal control environment influences FP, a regression analysis was carried out. The results are summarized in the table below.

Table 10: Correlation Coefficient showing the influence of internal control environment on Financial Performance

<table>
<thead>
<tr>
<th>R Square= 0.112</th>
<th>Standardized Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
</tr>
<tr>
<td></td>
<td>Sig.</td>
</tr>
<tr>
<td>Internal control activities</td>
<td>0.335</td>
</tr>
</tbody>
</table>

Source: Primary data
According to the result in the summarized Table 9, findings show that internal control environment significantly affects FP (r = 0.335). This means that internal control environment is a significant determinant of FP in KMUC. Correlation just implies a casual effect, coefficient of determination which is a square of correlation coefficient (r² = 0.112) was computed and expressed as a percentage to determine the variance of FP in KMUC as a result of internal control environment. Thus findings show that internal control environment accounted for 11.2% variance in FP in KMUC.

Test of significance (p) was also carried out and it shows that the significance of correlation (p = 0.335) which is more than the recommended significance at 0.05. This means that internal control environment has a significant positive effect on Finance performance. In practice, this means FP improves with improvement of internal control environment.

4.4.3 The influence of audit on financial performance

The third objective of this study was to assess the impact of auditing on FP of KMUC. The respondents were asked to respond to a number of statements regarding audit. The findings are summarized in the table below.
Table 11: Shows results how auditing influence Financial Performance

<table>
<thead>
<tr>
<th>Items</th>
<th>mean</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our entity has an internal audit department</td>
<td>3.9</td>
<td>3</td>
<td>(5.2%)</td>
<td>6</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>Our internal audit department is sufficiently staffed</td>
<td>3.7</td>
<td>0</td>
<td>(0%)</td>
<td>12</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Internal audit reports are produced regularly.</td>
<td>3.6</td>
<td>1</td>
<td>(1.7%)</td>
<td>11</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Internal audit reports address weaknesses in our internal control system.</td>
<td>3.8</td>
<td>3</td>
<td>(5.2%)</td>
<td>2</td>
<td>8</td>
<td>34</td>
</tr>
<tr>
<td>Internal audit conducts regular audit activities in our entity.</td>
<td>3.8</td>
<td>3</td>
<td>(5.2%)</td>
<td>1</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td>Internal audit makes appropriate recommendations for management to improve.</td>
<td>3.8</td>
<td>2</td>
<td>(3.4%)</td>
<td>2</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td>Our internal audit has qualified accountants.</td>
<td>3.8</td>
<td>1</td>
<td>(1.7%)</td>
<td>3</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Staff are aware of internal audit function and their implications</td>
<td>3.7</td>
<td>0</td>
<td>(0%)</td>
<td>7</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Internal control system in place ensure that the Council achieve its desired performance level</td>
<td>3.8</td>
<td>0</td>
<td>(0%)</td>
<td>4</td>
<td>8</td>
<td>42</td>
</tr>
<tr>
<td>Staff have the necessary skills to enable them achieve the targets set</td>
<td>3.9</td>
<td>0</td>
<td>(0%)</td>
<td>5</td>
<td>6</td>
<td>39</td>
</tr>
<tr>
<td><strong>Average mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>4.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Primary data from the field.*

The study findings above show that auditing in KMUC has a significantly positive relation (aggregate mean= 4.0). A comparison on these items shows that the percentage of employees that opposed ranged from 0% to 20.7%, while the percentage of those who are not sure ranged from 8.1% to 20.7% and those who concurred ranged from 37% to 72.4% From these comparisons, it can be seen that the range of percentage of those who opposed and those that
were not sure is lower compared to those who concurred. Thus from this analysis the following is the interpretation.

The results in the above table show that respondents acknowledged having internal audit department (mean = 3.9), internal audit department is sufficiently staffed (mean = 3.7). Internal audit is the custodian of the ICS, so having the department in place with sufficient staff improved FP. The respondents also agreed that internal audit reports are produced regularly (mean = 3.6), internal audit report addresses weaknesses in ICS (mean = 3.8), internal audit conducts regular audit activities (mean = 3.8) this means timely reporting and accountability can be achieved.

The respondents also agreed that internal audit department makes appropriate recommendations for management to improve (mean = 3.8), qualified accountants are employed in the audit department (mean = 3.8) “None of the staff in the audit department is a qualified member of the institute of certified public accountant of Uganda” (Key respondent). Professional members of the institute are guided by the codes of ethics which ensures financial discipline. They also agreed that staff are aware of internal audit functions and their implications (mean =3.7), internal control in place ensures that the council achieves its desired performance level (mean = 3.8) and staff have necessary skills to enable them achieve the target set (mean = 3.9). This means that internal audit department is in place and well-staffed to ensure that ICS are in place and errors made are corrected in time to improve FP.

4.4.3.1. Testing the influence of auditing on Financial Performance

In order to determine the influence of auditing on FP in KMUC correlation and regression analysis were conducted. The results are summarized in the tables below;
According to the results in the table above, auditing and FP have significant relationship (r= 0.265 p< 0.05). Thus the hypothesis that stated that there is a positive relationship between auditing and FP is partially accepted. This means that auditing has moderate influence on FP at KMUC. This practically implies that auditing has slightly affected FP of KMUC. In order to determine the magnitude of the influence of auditing on FP regression analysis was conducted. The results are summarized in the table below:

**Table 13: Correlation Coefficient showing the influence of auditing on Financial Performance**

<table>
<thead>
<tr>
<th></th>
<th>Standardized Coefficient</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Internal control activities</td>
<td>0.265</td>
<td>0.149</td>
</tr>
</tbody>
</table>

Source: Primary data

According to the summarized results in Table 12, findings show that Auditing affects FP (r=0.265), which means that auditing is one of the determinants of FP in KNUC. The coefficient of determination r2 for auditing is 0.22. This means that 22% of variation in FP is explained by auditing. Test of significance (p) was also carried out and it showed that a significance of correlation p=0.149 which is more than the recommended significance at 0.05. This means that Auditing has a positive effect on FP In practice this means FP improved regular auditing.
4.4.4 Financial performance in Kitgum Municipal Urban Council

This sub section presents the respondents opinion on FP of KMUC. The results are summarized in the table below.

**Table 14: The results showing the respondents opinion on Financial Performance**

<table>
<thead>
<tr>
<th>Items</th>
<th>M</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our entity’s accounting system adequately identifies the receipt and expenditure of grants.</td>
<td>3.8</td>
<td>0</td>
<td>4</td>
<td>7</td>
<td>41</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0%)</td>
<td>(6.9%)</td>
<td>(12.1%)</td>
<td>(70.7%)</td>
<td>(10.3%)</td>
</tr>
<tr>
<td>There is timely submission of activity reports in local governments.</td>
<td>3.6</td>
<td>2</td>
<td>7</td>
<td>11</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.4%)</td>
<td>(12.1%)</td>
<td>(19.0%)</td>
<td>(58.6%)</td>
<td>(6.9%)</td>
</tr>
<tr>
<td>Our entity comply with all the rules and regulations.</td>
<td>3.3</td>
<td>2</td>
<td>12</td>
<td>14</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.4%)</td>
<td>(20.7%)</td>
<td>(24.1%)</td>
<td>(43.1%)</td>
<td>(8.6%)</td>
</tr>
<tr>
<td>Taxes collected by our entity are enough to cover operational costs.</td>
<td>2.6</td>
<td>7</td>
<td>25</td>
<td>12</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(12.1%)</td>
<td>(43.1%)</td>
<td>(20.7%)</td>
<td>(22.4%)</td>
<td>(1.7%)</td>
</tr>
<tr>
<td>All taxes are duly collected.</td>
<td>2.4</td>
<td>9</td>
<td>31</td>
<td>6</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(15.5%)</td>
<td>(53.4%)</td>
<td>(10.3%)</td>
<td>(17.2%)</td>
<td>(3.4%)</td>
</tr>
<tr>
<td>Revenue collected is not spent at source.</td>
<td>2.7</td>
<td>3</td>
<td>28</td>
<td>12</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(5.2%)</td>
<td>(48.3%)</td>
<td>(20.7%)</td>
<td>(22.4%)</td>
<td>(3.4%)</td>
</tr>
<tr>
<td><strong>Average mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Primary data from the field.*

According to Table 14, the study respondents noted that their accounting and finance management system adequately identifies the receipts and expenditures of grants (mean = 3.8), there is timely submission of reports in their entity (mean = 3.6); comply with all the rules and regulations (mean = 3.3). This shows that financial performance in KMUC is good.

The study respondents also noted that taxes collected by their entity is enough to cover their operational cost (mean = 2.6), All taxes are duly collected (mean = 2.4) and revenue collected is not spent at source (mean = 2.7). This means that FP in KMUC is generally good.
CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
The study examined the ICS that affects FP of KMUC. The study specifically set out to explore the relationship between internal control activities and FP in KMUC, find out how internal control environment affects FP in KMUC and to assess the impact of auditing on FP in KMUC. This chapter comprises four areas of concern as provided for in sections to be presented as summary of findings, discussion, conclusion drawn from the study, recommendation and area for future research.

5.2 Summary of findings

5.2.1 The relationship between Internal Control activities and FP in KMUC
The study tested the first hypothesis; “Internal control activities has positive effects on FP” and it was accepted. This is because there was a positive relationship (r= 0.271*) between internal control activities and FP, whereby internal control activities lead to improved FP.

Findings got indicate that internal control activities when fully adhered to by the employees of KMUC can minimized fraudulent activities and create efficiency and effectiveness in the financial performance of the Municipal Council. The majority of the respondents agreed that most provisions in the internal control activities had relationship with those provided for in the financial performance, which implies that improvement and strengthening of internal control activities in public institutions improves FP. Similarly, a decline in adherence or weak internal control system can lead or translates into a decline in the financial performance.
5.2.2 The relationship between Internal Control environment and Financial Performance in Kitgum Municipal Urban Council.

The study tested the second objective “To find out how internal control environment affects FP in KMUC” and it was accepted. This was because there was a significant positive relationship \((r= 0.335^*)\) between internal control environment and FP in KMUC, whereby an improvement in internal control environment translates into improvement in FP and enable adherence to strong ICS. The study respondent accepted that the environment in which ICS is implemented is conducive. The study respondents agreed that KMUC has accounting and financial management system, it was accepted that management is also committed to the operation of the system. It was established that KMUC has an active and independent public accounts committees, management provides feedback to junior staff on important issues relating to the implementation of the ICS. According to the study respondents, management closely monitors implementation of ICS, ethical values are upheld in decision makings and appropriate means is taken to correct mistakes in implementation of the ICS in KMUC. Therefore internal control environment and FP were found to have moderate positive relationship.

5.2.3 The relationship between Internal Audit and Financial Performance in Kitgum Municipal Urban Council

The study tested the third hypothesis, “There is positive impact of auditing on financial performance in KMUC” and it was accepted. This is because there was moderate relationship \((r= 0.265^*)\) between internal audit and financial performance, whereby strengthening internal audit department improves FP.
According to the study respondent, audit accounted for 22% variance in FP in KMUC. This implies that auditing has effects on FP in KMUC. The study respondent agreed that internal audit department exists in KMUC and it is sufficiently staffed. Internal audit department staff have the necessary skills to enable them achieve the council’s target. Respondents also concurred with the fact that internal audit makes appropriate recommendations for management to improve, Staff are aware of internal audit functions and their implications.

The study found that there is a relationship between internal audit and FP in KMUC. This means that internal audit departments have effects on FP in KMUC.

5.3 Discussion of the findings
In this section the researcher discusses the findings according to the variable in the conceptual framework and compares it with the reviewed literature.

5.3.1 Internal control activities and finance performance in Kitgum Municipal Urban Council

The Internal Control system a component of control activities, control environment and auditing relates to the financial performance a component of timely accountability, reporting and compliance with laws, regulations and policies.

The researcher’s findings showed that control activities have a significant positive relationship with financial performance. Control activities component includes policies and procedures designed to ensure that management directives are effectively implemented and these policies/procedures provide guidance for timely responses, and thus aid in achieving the entity’s objectives (Boyle, Cooper and Geiger, 2004, p.5)

The study findings are in agreement with the World Bank Report (2015, p.28) asserted that council control plays an important role in the review of government Annual Budget submission and performance; there are factors that could make councils roles more effective in proving
controls to the entities they serve; and could remedy significant shortcoming in council’s review of government performance.

The study findings are in agreement with the study done in Kenya on the effects of internal control system on financial performance of sugar cane outgrowers which has been found to have statistically positive effects on financial performance and that the regression result of 42.8% can be explained by internal control system. Sanusi and Johari in the study of the effects of internal control system and financial management and accountability of NPOs: The prospect of mosques in Malaysia, found that there is correlation between all independent and dependent variables: Internal control, fund usage and accountability (r=0.313, r=0.359, r=0.279) at p <0.05.

5.3.2 Internal control environment and financial performance in Kitgum Municipal Urban Council

The research findings that control environment has significant positive influence on FP in KMUC is confirmed by Boyle, Cooper and Geiger (2004, p.9) SAS No.78 which reveals that while control environment attributes were considered relevant to quality of clients, slightly over fifty per cent of auditors indicated that no alteration would be made to the audit plan as a result of unfavorable control environment conditions.

Whiting and Panny (2003, p.227) who noted that the control environment sets the tone of the organization by influencing the control conciseness of people in order to effectively achieve the control measures, put in place factors which included integrity, honestly, fairness and ethical values of personnel responsible for creating, administering and monitoring the control where reviewed. The commitment and competence of persons performing assigned duties, public accounts committees, the executives, and the extent of their independence from management,
Public accounts committees review internal audit reports and their independence from the management creates a good environment for ICS to improve FP.

5.3.3 Audit and financial performance in Kitgum Municipal Urban Council (KMUC)

The study found a positive relationship between internal auditing and FP in KMUC which means that internal audit can improve FP in government entities. This could be because employees in KMUC are aware of internal auditing functions their implications and make appropriate recommendations for management to improve. The study finding is in line with Whittington and Panny (2003, p.227), who found that among the most important category of auditors are auditors of financial statements to verify their accuracy, compliance audit to ensure the consistency of organizational behavior with legal standard and operational audit which study a unit of organization to measure both effectiveness and efficiency in meeting its goals and objectives.

5.4 Conclusions

5.4.1 Internal control activities and financial performance

The study concluded that internal control activities according to the hypothesis tested has significant effect on FP in KMUC and the majority of the respondents strongly agreed that when there is well formulated ICS and working, there will be improved level of financial performance. However there were still elements of financial mismanagement when KMUC failed to account for about UGX 49 million during financial year 2012/2013, a result obtained from the Auditor General’s Report for the period under review. Spending at source, loss of counterfeit receipts, and failure of the DPAC to review internal audit reports are some of the few cases affecting FP in KMUC.

The relationship between internal control activities and financial performance in KMUC was studied and the result showed that internal control system indeed significantly impacted on
financial performance. This was evident when KMUC had an unqualified report/clean opinion from the Auditor General Report financial year 2013/2014 to date after recruiting SIA who oversees the implementation of ICS in the council.

5.4.2 Internal control environment and financial performance

The study also concluded that there is a moderate positive relationship between internal control environment and FP in KMUC. The environment in which ICS operates contributes a lot to the success of the system and that was proven by Boyle, Cooper and Geiger (2004, p.9) control environment is accepted as a tangible component of a strong system of internal control which can have a substantive impact on the nature and extent of the audit. However, direct research and guidance to link control environment characteristics to audit procedures is still needed.

5.4.3 Internal audit and financial performance

Based on the findings of the study and the hypothesis tested, it is concluded that internal audit has a significance impact on FP and the majority of the respondents agreed that a well instituted and staffed internal audit department with qualified accountants improves FP in KMUC. The study concluded that all transactions of the council are initiated by the user departments and there is clear segregation of duties in the council’s finance and accounts department and that superior officers in the council supervise regularly work done by their subordinates.’

5.5 Recommendations

The following recommendations were made by the researcher in relation to the findings and conclusions thereof.
5.5.1 Internal control activities and financial performance at Kitgum Municipal Urban Council

The administration of KMUC should ensure that there exists effective and strong internal control activities and good financial policies, the right number of employees to enable segregation of duties, professional Accountants in audit and Finance departments to uphold ethical values in managing finances of the council.

The council should also establish strong and effective internal control procedures as provided for in the Local Government Financial and Accounting Regulations 2007 and Public Finance Management Act 2015 that can help to minimize risk. Clear procedures that can prevent misstatement in the financial statement before they occur are preferable, and these can only be enforced through strict adherence to control system that are put in place to improve financial performance and this can be achieved by employing professional members of the institute of certified public Accountants of Uganda as stipulated in the Accountants Act 2013.

5.5.2 Internal control environment and financial performance at Kitgum Municipal Urban Council

ICS needs a conducive environment for efficient implementation to minimize fraud; efficient and effectiveness of performance including management integrity and ethics are emphasized and strongly adhered to as they determine the strength of control environment and improved financial performance in public institutions. Appropriate means are always adopted to correct mistakes in operations of the accounting systems and feedback is provided to junior officers about the operations of the system. This can be achieved by close monitoring of the implementation of internal control systems.
5.5.3 Internal Audit and financial performance at Kitgum Municipal Urban Council

Internal auditors are the custodians of the ICS and they always provide appropriate recommendations to the management to improve on the control systems. For the success of ICS, the internal audit department should be sufficiently staffed with qualified accountants and made independent to avoid impairing their independence.

Management should make sure staffs are aware of internal audit functions and their implications; internal audit reports address weaknesses in ICS and be regularly produced. DPAC capacity should be built and their office well facilitated to enable them reviews the internal audit report regularly and corrective measures taken.

5.6 Limitations of the study

There were some shortcomings experienced by the researcher as follows;

The research was carefully prepared but could not be extended beyond KMUC simply because the cost of operation was so high and could not allow the research to be conducted in other MUCs other than KMUC where the researcher is a resident. The researcher found difficulty in meeting audit staff in their offices since most of their work is done in the field.

The researcher was constrained by time as a resource and other logistical challenges owing to the fact that it is part of the final examination for the semester and travelling to Kampala to meet the research supervisor from time to time was a very difficult thing to do considering the distance from Kitgum to Kampala.

5.7 The contribution of the study

The study contributed to the awareness that strong and effective internal control system can lead to improved financial performance in public institutions. The management of KMUC will be able to improve ICS implementation which will help in achieving the council’s objectives.
The study will contribute to improved policies and direction that public institutions can take with regard to financial performance.

Conceptually all the dimensions of the independent variable and dependent variable were adapted, indicating that the study labored to link related concepts for internal control system against financial performance in public institutions.

5.8 Recommendations for further research

The study focused on only ICS that affects FP yet there are other factors that affect FP like government policies, political interference, qualifications of Accountants and internal audit staff. Further study can be done on political interference and financial performance since there were traces of political interference in financial performance. Further study can also be carried out on internal audit effectiveness and financial performance in the public sector.
REFERENCES


Flick, S. (2010), “Policies and Procedure for Internal Controls Success!” *Accounting & Internal Control*


CERTIFICATE OF PROOF THAT DISSERTATION HAS BEEN EDITED

This is to certify that the Master’s Degree dissertation entitled, *Internal Control Systems and Financial Performance of Municipal Urban Councils in Northern Uganda: A Case Study of Kitgum Municipal Urban Council by Dickens Odongkara*, has been reviewed and corrected in order to ensure clarity of expression and consistency regarding key style aspects like general grammar, sentence structure to ensure logical flow and effectiveness of meaning, word use and meaning, all-round punctuation, use of articles, subject-object agreement, citation and referencing.

Mukotani Rugyendo
Professional Editor
APPENDIX II: Questionnaire

I am pursuing an Executive Masters of Business Administration at Uganda Technology and Management University Kampala. This study aims to establish the relationship between internal control systems and financial performance a case study of KMUC and is considered for partial fulfillment of the award of this Masters. Your contribution to this research is very vital. I therefore request you to spare sometime and fill this questionnaire. This is purely academic research and your response will be held in strict confidence.

Section A

General information

1. Gender

1) Male 2) Female

2. Age: (1) Below 25 years; (2) 26-35; (3) 36-45 (4) 46-55 (5) 56 and above

3. For how long have you worked for Kitgum Municipal Urban Council

1) Below five years 2) over five years

3. Level of education

1) Master degree; 2) Bachelor degree 3) Diploma; 4) Certificate,

5) Secondary completed; 6) others


1) Civil service 2) Contracted employee 3) Politician (Governance)
5. Section B: internal control system in Kitgum Municipal Urban Council

The question below enquires about the existence, conformance and performance of internal control systems in KMUC

Please tick the most appropriate response number for you in respect to the questions on the left hand side using the scale below.

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<thead>
<tr>
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<th>5</th>
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<tr>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Not sure</td>
<td>Disagree</td>
<td>Strongly disagree</td>
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Your perception on internal control systems.

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<td><strong>Internal control activities</strong></td>
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<tr>
<td>6. There exists appropriate approval and authorization mechanism in place in local government</td>
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<tr>
<td>7. Appropriate disciplinary action taken for breach of approval and authorization systems in place</td>
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<tr>
<td>8. Those in authority are aware of their power to approve and authorize transactions</td>
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<tr>
<td>9. Approval and authorization are properly documented and referred to</td>
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<tr>
<td>10. There is strict adherence to approval and authorization systems in place</td>
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<tr>
<td>11. Unauthorized transactions are not processed</td>
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<tr>
<td>12. Delegated staffs have power to authorize</td>
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<td>13</td>
<td>There is respect for each other’s role and duties in service delivery.</td>
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<td>Controls are in place to avoid over spending.</td>
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<td>15</td>
<td>There is supervision of junior staffs by senior staffs.</td>
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<td>17</td>
<td>Every employee work, check on the other</td>
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<td>There is supervision of junior staff by senior staff</td>
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<tr>
<td>19</td>
<td>Our councilors and committees are independent</td>
<td></td>
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<tr>
<td>20</td>
<td>It is impossible for one staff to have access to valuable information’s without consent of a senior staff</td>
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<td>21</td>
<td>Staffs are in place to allow proper segregation of duty.</td>
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<td>22</td>
<td>Duties and roles in Local government are properly segregated</td>
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<td>23</td>
<td>There is routine monitoring reports in local government</td>
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<td>24</td>
<td>Monitoring is done even if there is no allowance</td>
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<td>25</td>
<td>There exist respect for supervisors in place of work in local government</td>
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<td>26</td>
<td>Supervisors are aware of their roles in local government</td>
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<tr>
<td>27</td>
<td>Executive are always in office supervising government activities</td>
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<table>
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<tr>
<th>Internal Control environment</th>
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<tbody>
<tr>
<td>28</td>
<td>Our entity has accounting and financial management system.</td>
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<p>| | | | | | |</p>
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<tbody>
<tr>
<td>29</td>
<td>Management is committed to the operation of the system.</td>
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<tr>
<td>30</td>
<td>Appropriate means is taken to correct mistakes in operation of our accounting and financial management system.</td>
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<td>31</td>
<td>Ethical values are upheld in all management decisions.</td>
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<tr>
<td>32</td>
<td>Our entity has an objective, independent and active public accounts committee.</td>
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<tr>
<td>33</td>
<td>Managements provide feedback to the junior officers about the operation of the system.</td>
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<td>34</td>
<td>Management closely monitors the implementation of internal control system</td>
<td>Internal Audit</td>
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<td>35</td>
<td>Our entity has an internal audit department</td>
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<tr>
<td>36</td>
<td>Our internal audit department is sufficiently staffed</td>
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<td>37</td>
<td>Internal audit reports are produced regularly.</td>
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<td>38</td>
<td>Internal audit reports address weaknesses in our internal control system.</td>
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<tr>
<td>39</td>
<td>Internal audit conducts regular audit activities in our entity.</td>
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<td>40</td>
<td>Internal audit makes appropriate recommendations for management to improve.</td>
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<tr>
<td>41</td>
<td>Our internal audit has qualified accountants.</td>
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<td>42</td>
<td>Staff are aware of internal audit function and their implications</td>
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<tr>
<td>43</td>
<td>Internal control system in place ensure that the Council achieve its desired performance level</td>
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<tr>
<td>44</td>
<td>Staff have the necessary skills to enable them achieve the targets set</td>
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75
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<tr>
<th>Financial performance.</th>
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<th>2</th>
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<tbody>
<tr>
<td>45 Our entity’s accounting system adequately identifies the receipt and expenditure of grants.</td>
<td></td>
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<tr>
<td>46 There is timely submission of activity reports in local governments.</td>
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<tr>
<td>47 Our entity comply with all the rules and regulations.</td>
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<tr>
<td>48 Taxes collected by our entity are enough to cover operational costs.</td>
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<tr>
<td>49 All taxes are duly collected.</td>
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<tr>
<td>50 Revenue collected is not spent at source.</td>
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<tr>
<td>51 Outstanding taxes are collected.</td>
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<tr>
<td>52 Our entity’s assets are revalued frequently.</td>
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</tbody>
</table>

The relationship between internal control systems and financial performance.

In your opinion do you think there is a relationship between internal control system and financial performance in your entity?

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Dear respondent.

My name is Dickens Odongkara. I am currently carrying out a research for writing a dissertation as a partial requirement for the award of an executive master of business administration of Uganda Technology and Management University. Due to your position in the organization you have been selected to participate in this study. The information you are going to provide will be treated with utmost confidentiality and will be used for the purpose of this study only. Kindly respond to these questions.

1-What is your position in the urban council?

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

3-In your opinion does the urban council operates internal control system? If so how your role does supports it?

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

5-In your opinion what would you consider the main measure of financial performance in urban councils?

6-In your opinion do you think the accountability process in the urban council adequate? Give reasons for your answer.

7- How would you rate the reporting process in your council?
8- In your opinion do you think timely accountability is the best measures of financial performance?

9-Does Compliance with laws, regulations and procedures measures financial performance of an urban council?

10-What other measure would you consider?

Thanks for your time.

Dickens Odongkara
## APPENDIX IV: SUMMARY ITEMS STATISTICS FOR THE RELIABILITY COEFFICIENT

<table>
<thead>
<tr>
<th>Items</th>
<th>Mean</th>
<th>Std. Deviation</th>
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<tr>
<td>There exists appropriate approval and authorization mechanism in place in local government</td>
<td>4.10</td>
<td>.892</td>
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<tr>
<td>Appropriate disciplinary action taken for breach of approval and authorization systems in place</td>
<td>3.64</td>
<td>1.003</td>
<td>58</td>
</tr>
<tr>
<td>Those in authority are aware of their power to approve and authorize transactions</td>
<td>4.19</td>
<td>.907</td>
<td>58</td>
</tr>
<tr>
<td>Approval and authorization are properly documented and referred to</td>
<td>4.02</td>
<td>.827</td>
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<td>There is strict adherence to approval and authorization systems in place</td>
<td>3.67</td>
<td>.925</td>
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<td>Unauthorized transactions are not processed</td>
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<td>1.052</td>
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<td>Delegated staffs have power to authorize.</td>
<td>3.60</td>
<td>.917</td>
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<td>There is respect for each other’s role and duties in service delivery.</td>
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<td>1.127</td>
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<td>Controls are in place to avoid over spending.</td>
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<td>1.075</td>
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<td>There is supervision of junior staffs by senior staffs.</td>
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<td>.819</td>
<td>58</td>
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<td>Our entity have clear segregation of duties</td>
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<td>.838</td>
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<td>Every employee work, check on the other</td>
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<td>There is supervision of junior staff by senior staff</td>
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<td>Our councilors and committees are independent</td>
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<td>It is impossible for one staff to have access to valuable information’s without consent of a senior staff</td>
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<td>Duties and roles in Local government are properly segregated</td>
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<td>.968</td>
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<td>There is routine monitoring reports in local government</td>
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<td>Score</td>
<td>Confidence</td>
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<td>Monitoring is done even if there is no allowance</td>
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<td>There exist respect for supervisors in place of work in local government</td>
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<td>.885</td>
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<td>Supervisors are aware of their roles in local government</td>
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<td>.951</td>
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<td>Executive are always in office supervising government activities</td>
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<td>Our entity has accounting and financial management system.</td>
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<td>Management is committed to the operation of the system.</td>
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<td>Appropriate means is taken to correct mistakes in operation of our accounting and financial management system.</td>
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<td>Ethical values are upheld in all management decisions.</td>
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<td>Our entity has an objective, independent and active public accounts committee.</td>
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<td>Managements provide feedback to the junior officers about the operation of the system.</td>
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<td>Management closely monitors the implementation of internal control system</td>
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<td>Our entity has an internal audit department</td>
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<td>Our internal audit department is sufficiently staffed.</td>
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<td>Internal audit reports are produced regularly.</td>
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<td>Internal audit reports address weaknesses in our internal control system.</td>
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<td>Internal audit conducts regular audit activities in our entity.</td>
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<td>.894</td>
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<td>Internal audit makes appropriate recommendations for management to improve.</td>
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<td>.847</td>
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<td>Our internal audit has qualified accountants.</td>
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<td>Staff are aware of internal audit function and their implications</td>
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<td>.669</td>
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<td>Internal control system in place ensure that the Council achieve its desired performance level</td>
<td>3.86</td>
<td>.760</td>
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<tr>
<td>Staff have the necessary skills to enable them achieve the targets set.</td>
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<td>.669</td>
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<td>Description</td>
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<td>Our entity’s accounting system adequately identifies the receipt and expenditure of grants.</td>
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<td>There is timely submission of activity reports in local governments.</td>
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<td>Our entity comply with all the rules and regulations.</td>
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<td>1.027</td>
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<td>Taxes collected by our entity are enough to cover operational costs.</td>
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<td>1.059</td>
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<td>All taxes are duly collected.</td>
<td>2.71</td>
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