

**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE. A CASE STUDY  
OF KABALE MUNICIPAL COUNCIL, KABALE DISTRICT**

**BY**


**MWESIGWA BERNARD KABWEINE  
2019/A/MBA/046/W**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS  
FOR THE AWARD OF A MASTER'S DEGREE IN BUSINESS ADMINISTRATION OF  
KABALE UNIVERSITY**

**MAY, 2022**

## DECLARATION

I, Mwesigwa Bernard Kabweine (Reg. No 2019/A/MBA/046/W) declare that this dissertation entitled “**Internal Control Systems and Financial Performance: A case study of Kabale Municipal Council, Kabale District**” is my own original work and has not been presented to any other institution for any academic award. Where other people’s work has been used, this has been duly acknowledged.

Signature:.......... Date: 9/5/2022.....

**MWESIGWA BERNARD KABWEINE**

**Reg. No 2019/A/MBA/046/W**

## APPROVAL

We, the undersigned, certify that this dissertation entitled, “**Internal Control Systems and Financial Performance. A case study of Kabale Municipal Council, Kabale District**” is work by Mwesigwa Bernard Kabweine (Reg. No 2019/A/MBA/046/W). It has been compiled under our supervision, and we hereby approve it for examination leading to award of a Degree of Master’s in Business Administration of Kabale University.

Signed:.....

Date: .....

**DR. ARTHUR SUNDAY**

**1<sup>st</sup> SUPERVISOR**

Signed:.....

Date: .....

**DR. MARUS ETOM**

**2<sup>nd</sup> SUPERVISOR**

## **DEDICATION**

To my dearest wife Nayebare Sarah and Children; Kabweine Beatrice, Kabweine Blessings and Kabweine Bethany for the unending support, and efforts in supporting my education. You have been my momentous power as I pursued this study.

## **ACKNOWLEDGEMENT**

This dissertation is a tangible end station of my academic journey at Kabale University. Foremost, I thank the Almighty God for His endless grace that has lifted me this far. Throughout this long journey, I was supported by a number of academics, practitioners and friends. Few must be mentioned.

I am extremely indebted to Dr. Marus Eton and Dr. Arthur Sunday, my supervisors for the intellectual guidance and mentorship at each step in this study. Your comments were so insightful. I am indeed grateful to all MBA lecturers from whose wells of knowledge I drew in the two (2) years of academic and professional nourishment at Kabale University.

To all staff and Administration of Kabale Municipal Council, especially Nahabwe Hilda and other respondents contacted, I am grateful for information provided. I also appreciate Mr. Davis Byaruhanga for assisting in printing and gathering of data. May your efforts and support be rewarded by God. Also, to my family for a great education foundation stone well laid for me.

Finally, to the assertive MBA colleagues of the year, especially Pamela, Hilda and Lillian at Kabale University for your unending support, sharing and interaction. Your company enriched my thoughts as I put together this dissertation, and cannot be underestimated. May God's favor be upon you ALL.

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>Error! Bookmark not defined.</b>
<b>APPROVAL .....</b>	<b>Error! Bookmark not defined.</b>
<b>DEDICATION .....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>iv</b>
<b>LIST OF TABLES .....</b>	<b>viii</b>
<b>LIST OF FIGURES .....</b>	<b>ix</b>
<b>LIST OF ABBREVIATIONS AND ACRONYMS .....</b>	<b>x</b>
<b>ABSTRACT.....</b>	<b>xi</b>
<b>CHAPTER ONE:INTRODUCTION .....</b>	<b>1</b>
1.1 Introduction .....	1
1.2 Background to the study.....	1
1.3 Statement of the problem .....	7
1.4 Purpose for the study.....	8
1.5 Specific Objectives .....	8
1.6 Hypotheses .....	8
1.7 Scope of the study.....	9
1.8 Conceptual framework .....	10
1.9 Significance of the study .....	11
1.10 Justification of the Study.....	11
1.11 Operational definition of key terms .....	12
<b>CHAPTER TWO:LITERATURE REVIEW.....</b>	<b>13</b>
2.1 Introduction .....	13
2.2 Theoretical Review .....	13
2.3 Conceptual Review .....	15
2.4 Empirical review of related literature .....	19
2.5 Summary of Literature .....	27
<b>CHAPTER THREE:METHODOLOGY .....</b>	<b>29</b>
3.1 Introduction .....	29
3.2 Research Approach .....	29
3.3 Research Design .....	29
3.4 Area of study .....	30

3.5	Population of the study.....	30
3.6	Sample size and Sample Procedure .....	31
3.7	Data Collection Source.....	32
3.8	Data collection methods .....	33
3.9	Data Collection Instruments .....	33
3.10	Data Quality Control.....	34
3.11	Data Collection Procedure.....	36
3.12	Method of Data Analysis.....	36
3.13	Ethical Considerations .....	37
3.14	Limitations.....	38
<b>CHAPTER FOUR:DATA PRESENTATION AND ANALYSIS.....</b>		<b>39</b>
4.1	Introduction .....	39
4.2	Bio data information .....	39
4.3	Descriptive analysis .....	41
4.4	Inferential Analysis .....	46
4.5	Chapter Summary .....	46
<b>CHAPTER FIVE:DISCUSSION OF RESULTS .....</b>		<b>51</b>
5.1	Introduction .....	51
5.2	Effect of risk assessment on financial performance .....	51
5.3	Effect control activities on financial performance.....	52
5.4	Effect of control environment on financial performance .....	54
5.5	Effect between monitoring on financial performance.....	55
<b>CHAPTER SIX:SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS .....</b>		<b>57</b>
6.1	Introduction .....	57
6.2	Summary of findings.....	57
6.3	Conclusion.....	58
6.4	Recommendations.....	59
6.5	Areas for future research .....	60
<b>REFERENCES .....</b>		<b>61</b>

APPENDICES.....	78
APPENDIX I: PARTICIPANTS’ LETTER OF CONSENT .....	66
APPENDIX II:QUESTIONNAIRE FOR STAFF AT KABALE MUNICIPAL COUNCIL .....	67
APPENDIX III:QUESTIONNAIRE FOR BENEFICIARIES [PUBLIC] TO SERVICES OF KABALE MUNICIPAL COUNCIL .....	72
APPENDIX IV: INTERVIEW GUIDE FOR HEAD OF DEPARTMENTS.....	75
APPENDIX V: KREJCIE AND MORGAN TABLE .....	76



## LIST OF TABLES

Table 1: Study population .....	30
Table 2: Sample size and selection .....	31
Table 3: Reliability Statistics.....	35
Table 4: Biodata of respondents .....	39
Table 5: Internal control systems .....	41
Table 6: Financial performance .....	44
Table 7: Correlation tests .....	46
Table 8: Coefficients.....	56
Table 9: Decision strategy.....	59

## LIST OF FIGURES

Figure 1: Conceptual framework showing effect of internal control system on financial performance.	
.....	10

## **LIST OF ABBREVIATIONS AND ACRONYMS**

COSO	Committee of Sponsoring Organizations of the Tread Way Commission
CPA	Certified Public Accountants
CVI	Content Validity Index
FMIS	Financial Management Information Systems
ICPAU	Institute of Certified Public Accountants of Uganda
ICS	Internal Control System
ICT	Information and Communication Technology
KDLG	Kabale District Local Government
KFPIS	Key financial Performance Indicators
KMC	Kabale Municipal Council
SPSS	Statistical Package for Social Scientists
UK	United Kingdom
USA	United States of America

## **ABSTRACT**

The study aimed at assessing the relationship between Internal Control System and financial performance of Kabale Municipal Council, Kabale District. Specific objectives were: to examine the effect of risk assessment on financial performance of Kabale Municipal Council; to determine the effect control activities on financial performance of Kabale Municipal Council; to examine the effect of control environment on financial performance of Kabale Municipal Council; and to examine the effect between monitoring on financial performance of Kabale Municipal Council. The study used a descriptive research design, specifically focusing on correlation analysis of study data. A sample size of 169 was estimated from a population of 300 study units. Data was collected through questionnaires and interviews, and analyzed with the aid of SPSS. The study found that risk management has a significant statistical effect of financial performance (Beta =.349; sig. <.05) and so is control environment's effect on financial performance (Beta = .201; sig. <.05). On the other hand, control activities did not have a significant effect on financial performance (Beta = .103; sig >.05), likewise monitoring did not have significant effect on financial performance (Beta = .192; sig. >.05). Generally, internal control system accounted for 50.7 percentage change in the financial performance of Kabale Municipal Council. It was concluded that internal control systems significantly affect financial performance of local governments. Therefore, Local government officials especially those entrusted with the mandate of financial control, should strictly uphold internal control system for better financial outcomes. This study can be used by both public and private organizations to improve their internal controls for high financial performance.

## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.1 Introduction**

The study explored Internal Control System (ICS) and financial Performance in a local government setting. As expressed by Bongani (2013), a proper ICS is critical for a firm's performance. While many public firms have an internal control system, a few have succeeded in attaining desirable financial performance. At Kabale Municipal Council (KMC), incidences of poor financial performance continue to manifest, regardless of prevailing the ICS. It is on this basis that the researcher sought to explore effect of ICS on financial performance at Kabale Municipal Council. This chapter introduces the background to the study and presents its statement of the problem. The study objectives, hypotheses and conceptual framework, scope and significance of the study are also presented.

#### **1.2 Background to the study**

The background is presented in the historical, conceptual, theoretical and contextual perspectives.

##### **1.2.1 Historical perspective**

Public sector finance has been a subject of scholarly work for many centuries, and its focus has increased with the quest for value-for-money and quality public services (Amudo & Inanga, 2019). Managerial emphasis on financial performance became pronounced in the post-World War I (Vichet, 2020). Public sector financial performance has since continued to widen basing on financial reports, accountability and transparency of officers-in-charge of implementing this mandate. By 1940s, financial performance had gained a central position in public finance in USA, UK, Asia and Latin America, and later became a universal target (Burlton, 2010; Elliott & Elliott, 2009). As expressed by Gosnik (2019), financial performance gained prominence in Africa and Latin America in the 20<sup>th</sup> century, especially with the evolution of business performance models like the Balanced Scorecard (Kaplan & Norton, 2001). In spite of this modest increase in financial performance focus, several African countries still experience financial performance shortfalls to date despite being fast growing African economies like in

South Africa, Nigeria and Egypt (Hayes, 2012). In these economies, financial performance has been prioritized; attention is directed on profitability, accountability, and transparency.

In Uganda, the Institute of Certified Public Accountants of Uganda (ICPAU), where financial controllers get their skills regarding finance management, guided by the Accountability Act continue to support public sector financial managers to realize desired financial performance (Komuhangi, 2005). In spite of this, Ugandan municipalities' Kabale Municipality inclusive continues to experience constrained financial performance (Namiri & Stojanovic, 2018). As a result, a number of Municipality Administrators prioritise internal control system to steer financial accountability, reporting, and transparency in their mandate.

Modern practice of the internal control systems (ICS) in organizations became widely pronounced in Egypt and China (Papadatou, 2015), though it had its earliest roots in USA and UK in early 1940s (Petrovits, Shakespeare & Shih, 2011). ICS was first officially defined in 1949, as a tool for enhancing financial reporting and performance (Petrovits et al., 2011). Since the early 1950s, USA supported strengthening of ICS for public finance management (Bongani, 2013), a practice later adapted in UK and Australia to safeguard business assets and reduce irregularities and errors (Ndifon & Ejomk, 2015; Hayes, 2012; Spira & Gowthorpe, 2018). This preference for ICS in 1900s especially in regards to risk assessment, control environment, monitoring and control activities has been central focus in several Africa' public sector entities (Amudo & Inanga, 2019). In the 21<sup>st</sup> century, public entities consider ICS as a 'watchdog' function (Eton et al. 2018) and in other instances, as a fully-fledged managerial department in their organizations (Rafindadi & Olanrewaju, 2019). In the African context, Aïhounhin *et.al.* (2016) argued that ICS has remained key for public financial management and performance. This is evident in several African countries like Nigeria, South Africa, Malawi and Zambia (Ayom, 2013). In East Africa, financial mismanagement cases have continued to emerge depicting financial performance gaps, regardless of ICS in several municipalities, those in Uganda inclusive (Nyandoro, 2016). This attracted need for an empirical study to explore them.

To date, Uganda Municipalities and Cities are expected to uphold a functional ICS as a tool for financial performance. Prioritization of public sector financial performance in Uganda has gained prominence over years, strengthened by the Finance and Accountability Act in Uganda (Republic of Uganda, 2003). This is often part of the financial accountability mechanisms

emphasised by earlier studies (Eton et al, 2019). On the contrary, a few municipalities routinely realise their financial performance targets regardless of having an internal control system. Kabale Municipal Council has also been prone to financial performance shortfalls, which has been persistent in the last five years (Kabale District Local Government, KDLG, 2020). This motivated the researcher to conduct this study focusing on ICS and financial performance at Kabale Municipality.

### **1.2.2 Conceptual perspective**

The function of Internal Control System (ICS), has attracted several scholarly descriptions. Kinyua et al. (2015) relates ICS to regulations that support organizations to protect their assets in a trusted way. However, the author does not detail procedures and policies, private and public alike. Mutensigensi (2018) simplified these procedures as actions taken by an organisation to enhance achievement of financial objectives through a proper and well managed control environment, risk assessments, monitoring and supervision and control activities. Relatedly, Younas & Kassim (2019), describes ICS as a whole systems that involves control of physical and financial resources of a business entity. These definitions give description of ICS as an entire process that guides administration in operating the business procedurally, compliantly and harmoniously. ICS help organizations to utilize their resources within set guidelines to prevent wastage, loss and fraud (Committee of Sponsoring Organizations of the Tread Way Commission, COSO, 2013). This study benchmarked on ICS attributes of: risk assessment, control activities, control environment, and monitoring to explore the ICS status at Kabale Municipal council.

In exploring these ICS components, risk assessment at KMC was examined on the staff's ability to forecast, identify and analyse risks, while control activities were looked at on basis of physical controls, performance reviews and segregation of duties in ICS process. Control environment, on the other hand was explored basing on managerial abilities to uphold organisational ethical values, delegation of authority and responsibilities, and commitment to competences in course of implementing ICS activities. Meanwhile, monitoring focused on supervision, external audit and evaluations done at council. These ICS attributes were examined in regard to financial performance of KMC in Kabale District.

Financial performance was the dependent variable in this study. Several descriptions have been put forth to explain financial performance. In the study by Namiri & Stojanovic (2018), financial performance is defined as a set of financial outcomes a firm obtains after undertaking its activities. Relatedly, Dwivedi (2016) stated that financial performance is the state of an organizational realized goals described by its reporting mechanisms, assets and liabilities. However, Dwivedi (2016)'s focus was on financial institutions not public sector entities. According to Mwakimasinde, Odhiambo and Byaruhanga (2014), financial performance is the overall outcome the firm generates as profits, but is also able to provide detailed scope of how it has used its resources to meet set budgets and investment goals. In this study, financial performance was explored in the context of a public sector, delimiting scope to key financial performance indicators of- reporting, transparency and accountability as evidenced at Kabale Municipal Council (KMC), Kabale District.

### **1.2.3 Theoretical perspective**

The Agency and Contingency theories were based on to underpin this study.

The Agency theory draws significantly on the relationship between actors in management of resources, to realize results in an organisation (Jensen & Mekling, 1977; Sarens & Abdolmohammadi, 2010). The theory hypothesizes that organizations base on interactions between resource owners-principals (the government/public) and officials in charge of handling these resources (managers and employees). The nexus between principal and agents in controlling resources of firm remain vital for organization's overall performance (Sarens & Abdolmohammadi, 2010). The Agency theory describes, predicts and explains ICS and its functions in public institutions' setting (Cowgill, 2014).

Given the current study, the internal control system provides solutions to the principal-agency problems, which the Agency theory underpins. Principally, ICS minimizes agency problems (Mitnick, 2015), by lessening occurrence of conflicts between principals and agents while regulating the environment and executing activities in finance and overall performance of the institution (Van Puyveldeet.al. 2012). Applying the theory to municipal councils, this study observed that municipal administrators (Agents), who act in the interest of the public (Principals) have the constitutional mandate to use public resources well, guided by the ICS to satisfy the needs of the public. With ICS in place, municipal councils always strive to meet the needs of the



public. Besides meeting interests of the general public, effective implementation of ICS promotes smooth running of municipal councils. On the contrary, the agency theory is associated with some few weaknesses including that it does not provide how the role of resources in the realization of goals and targets by either the agent and/or principal. Therefore, realization of the goals may not be reached even when the duo (principal and agent) are done their mandate in absence of required contingencies (resources). Thus, the principal and agent may not realise the expected outcome without a clear defined contingent of resources. Indeed, how managers access, account and report on the contingent of resources and situations is paramount for their structural and operational environment and performance. This however is not well covered in the Agency theory. As a result, this study complemented the agency theory, with the contingency theory.

The Contingency theory describe how an organization's ICS enhances financial reporting, and performance basing on specific situations. Not all situations and resources, fit in all organization's activities (Wang & Hooper, 2017). The theory assumes that it's the way, managers steer effectiveness in managing behaviours, actions, and processes of the organisation depending on contingent of circumstances, at play that support its financial performance. Financial performance in itself is a function of the organizational structure and dependant on a contingency of several factors. The underlying assumption of the contingency theory is that organizations differ greatly in function and structure, which makes it hard to have a universalized organizational structure. Organizations perform depending on how they match the structural environment with the system. The underlying question raised by the theory is: How does the structure of the organization promote reliable information flow? In regard to this study, contingency theory explains more on how circumstances in ICS, should be given due attention by managers, since they can be contingent factors for its financial performance in both short and long run. However, the contingency theory does not show the actors, their roles and relationships in realizing desired financial performance. This calls for the need to adapt the agency theory as well. Coined together, the two theories were based on to explain the effect of ICS on financial performance at KMC in Kabale District.

#### **1.2.4 Contextual perspective**

Public sector performance is one of the key ingredients in social economic development in Uganda, especially at local government levels. To achieve and support public sector performance, there is need for effective financial performance, with outstanding levels of accountability, transparency and reliable financial performance outcomes. Studies however

continue to show that there has been a low level of success in several public entities due to inappropriate financial performance (Eyaa & Ntayi, 2010; Eton et al., 2019). Administrators in various municipalities are encouraged to uphold reliable financial performance, and consequently use ICS to realise this target (Nyandoro, 2016). This is event in many Ugandan, municipalities including Kabale Municipality. Organizations that implement ICS protect their assets against fraud, manage liabilities, and ensure quality reporting. The Government of Uganda has put in place necessary organs to empower ICS in municipal councils so as to set up financial performance of Municipal councils

The Financial and Accounting Regulations (2007) empowers municipal councils in Uganda to institute ICS to monitor financial performance. In spite of these efforts, Kabale Municipal Council (KMC) still grapples with financial performance challenges. If reports are not delayed, the level and scope of financial accountability and transparency is significantly below the expectations. Most often Kabale Municipal Council, does not properly perform as to the budget, with several budget shortfalls and unmet expenditure (Kabale Municipal Council, KMC annual report, 2019).

To minimize these financial performance shortfalls, the administration of KMC has not only prioritized undertaking of an internal control system, but also instituted it as a fully-fledged unit of administration. Through the Audit section, ICS is put into effect, focusing on risk assessment, control activities, ensuring routine control environment, monitoring and supervision of financial controllers. Despite the prevailing ICS in place, Kabale Municipal Council (KMC) still experience financial challenges and its financial performance has remained below set target in the last five (5) years. It can be noted that KMC has encountered liquidity problems, presented untimely financial reports and still grapples with a decline in revenue collections, and transparency flaws among some of its staff (KMC Annual report, 2019). This was evident also in 2017, and 2018, and seemed to have worsened in COVI9-19 era (KMC Annual report, 2020). These widening instances of financial performance challenges have affected reputation of the organization. This study contributes empirical data to underpin the importance of ICS in improving financial performance in Kabale Municipal council, Uganda.

### **1.3 Statement of the problem**

Performance of organizations in government entities including municipalities is predominantly explained by financial performance effectiveness. To realise this effectiveness, these entities including Kabale Municipal Council, focus on having a fully-fledged and functional internal control system [ICS] (Kabale Municipal Council, KMC Annual report, 2019). As expressed by Mwakimasinde et al. (2014), compliance to ICS is relevant for not only attainment of transparency in financial performance but for steering reliable accountability and reporting financial performance. Therefore, in line with Mwakimasinde et al. (2014) and KMC's Budget framework, KMC' council set its financial performance target at 100% for the years the 2018 to 2020. This was to be supported by adherence to processes and procedures in internal control system (KMC Budget framework papers, 2020). With an internal control system in place, KMC expected to realize these set financial performance targets.

However, for the last five years to date, KMC has not realized its financial performance targets. The council still struggles with unrealized financial targets. While KMC had set to realise 100% financial performance to target, only 45% was realized in 2017, 62.5% for 2018, while 55.9% was realized in 2019, and only 30.9% was achieved in 2020. A persistent below financial performance target of averagely at 48.6% has been reported in the last four years (Annual Report of the Auditor General, 2020; KMC Annual Performance report, 2019). This persistent unrealized financial performance targets at KMC have further increased numbers of incomplete projects and liquidity problems. It has also been characterised with untimely financial reports, delayed accountability and cases of financial mismanagement among financial controllers (KMC Annual Performance report, 2020).

Irrespective of this persistent below-target financial performance, there was no recent study that had been done to explore the effect of internal control system's processes on this attained financial performance. While a few studies and reports, (Auditor General report, 2020; Eton et al., 2018; Eton, 2019) reflect on the aspects of ICS, financial accountability and some describe financial performance of public entities including Kabale District, they had not specifically focused on KMC in the period between 2016 and 2020. Indeed, the scope and effect of ICS's attributes of risk assessment, control environment, control activities and monitoring activities on financial performance at Kabale Municipal council had not been extensively explored. This presented an information/knowledge gap. If this gap remained unfilled by researched empirical

information, the financial status of KMC was more likely to deteriorate, and also its public services, image and resource utilisation worsened. Motivated to complete this knowledge gap, and provide information to KMC regarding its internal control system and financial performance, the researcher conducted this study.

#### **1.4 Purpose for the study**

To assess the relationship between Internal Control System and financial performance of Kabale Municipal Council, Kabale District.

#### **1.5 Specific Objectives**

The study was guided by the following specific objectives:

- i. To examine the effect of risk assessment on financial performance of Kabale Municipal Council.
- ii. To determine the effect control activities on financial performance of Kabale Municipal Council.
- iii. To examine the effect of control environment on financial performance of Kabale Municipal Council.
- iv. To examine the effect of monitoring on financial performance of Kabale Municipal Council.

#### **1.6 Hypotheses**

Ho<sub>1</sub>. Risk assessment has a significant positive effect on financial performance of Kabale Municipal Council

Ho<sub>2</sub>. Control activities has a significant positive effect on financial performance of Kabale Municipal Council

Ho<sub>3</sub>. Control environment has a significant positive effect on financial performance of Kabale Municipal Council

Ho<sub>4</sub>. Monitoring has a significant positive effect on financial performance of Kabale Municipal Council.

## **1.7 Scope of the study**

### **1.7.1 Content scope**

The study assessed the effect of internal control on financial performance. Specifically, the study explored constructs of internal control system that is control activities, risk assessment, control environment and monitoring. Additionally, financial performance was explored basing on its Key financial Performance Indicators (KFPIs) at the entity. Specifically, accountability, financial transparency, effectiveness and reliability of financial reports of KMC were explored at KMC.

### **1.7.2 Geographical scope**

The study was carried out at Kabale Municipal Council, Kabale district south Western Uganda. It was undertaken in three (3) divisions- Central, Northern and Southern Divisions of Kabale Municipality. KMC divisions lie along 1.2542° S, 29.9885°E co-ordinates. The municipality borders with Rukiga and Rubanda Districts, as well as Ndorwa County (Kabale District Local Government Map, 2020). Choice of Kabale Municipality and all divisions was grounded on the persistent financial performance lags since 2015 to date (2021) as noted in (KMC Annual Performance report, 2020). The prevalence of this below target performance, in spite of routine ICS practiced, remained unexplored, motivating this study.

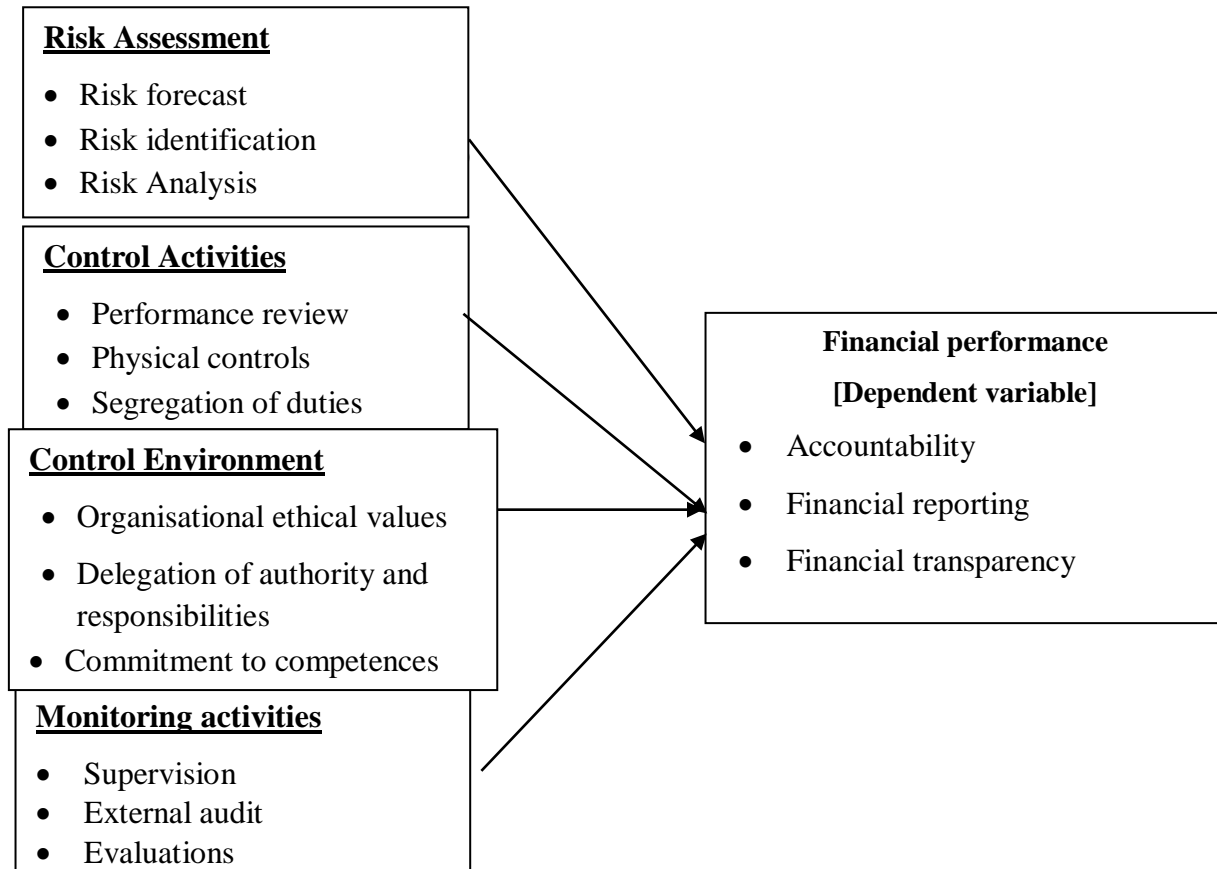
### **1.7.3 Time scope**

This research was conducted to explore information that falls within period of 2017 - 2021. It is within this period (2017 to 2021) that KMC had strengthened its ICS, and also experienced worrying trends of financial performance. This enabled the researcher to gather adequate and up-to-date information for the study. The study activities run from January to December, 2021.

## 1.8 Conceptual framework

The conceptual framework shows a relationship between variables in the study (Bryman, 2018). This study explored Internal Controls System and financial performance variables. This study's conceptual framework is illustrated further in figure 1.

### Internal control System [Independent Variable]



**Figure 1:** Conceptual framework showing effect of internal control system on financial performance.

**Source:** Adopted from COSO, 2013 and modified by the researcher

The framework suggests that financial performance is influenced by internal control system (ICS), and portrays a linkage of possible relationships between these two constructs. The ICS and its components have been widely referred to by several studies including (COSO, 2013; Whittington & Pany, 2016). Specifically, risk assessment covered- risks forecast, identification and analysis. Additionally, control activities such as routine and follow-ups on KMC's performance review, physical controls of assets and segregation of duties were explored. Indeed, exploring the aspects of the control environment, especially managerial abilities to uphold organisational ethical values, delegation of authority and responsibilities, and commitment to

competences in course of implementing ICS activities, formed part of this study. Finally, monitoring activities was assessed on basis of supervisory, external audit and evaluation roles of ICS at Kabale Municipal Council. Meanwhile, financial performance- the dependent variable was measured basing on its financial reporting, accountability and transparency as exhibited in its performance reports over the last five years (2017-2021). Primary opinions were sought from both staff and beneficiaries in regard to these financial indicators at Kabale Municipality.

### **1.9 Significance of the study**

The study adds more knowledge relating to internal controls and financial performance. This is beneficial to Government of Uganda and other stakeholders to achieve development objectives and continue to provide accountability to the principal (public) on the utilization of resources.

It also helps policy makers and regulators in the development of financial regulations in ensuring improved management of public funds, while ensuring improved performance for effective service delivery.

The study is also helpful to financial managers and administrators in their day to day operations at the organization. Moreover, the study is relevant to other researchers and students, by exposing to them the effect of internal control systems on financial performance of public entities.

### **1.10 Justification of the Study**

Studies have shown the relationship between internal control system and financial performance in developed countries (Bongani, 2013). However, such studies are sparse in developing countries, especially, Uganda. Government made tremendous improvement in coming up with strong internal controls in local governance. Various research studies have been conducted in improving financial performance in local governments in Uganda, but none has been done on internal control system and financial performance in Kabale Municipal Council. This study was, therefore, relevant to Uganda and more or so to KMC, Kabale district, south Western Uganda, which was faced with a challenge of poor operational performance and the continuous demand of accountability for public funds by various stakeholders and implementation of public financial management reforms.

### 1.11 Operational definition of key terms

- **Control activities:** These are policies and procedures that help ensure management directives are carried out. Specifically in this study, control activities were explored in terms of performance review, physical controls and segregation of duties at the council.
- **Control environment:** This is the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. In this study, control environment were explored on basis of managerial abilities to steer employees to uphold, organizational ethical values, their delegation of authority and responsibilities and commitment to competences.
- **Financial Performance:** The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. It includes variables such service delivery, sales revenue and accountability. In this study, financial performance were considered, measured on its accountability, financial reporting and transparency levels of staff.
- **Internal Controls System:** The Institute of Chartered Accountants of England and Wales (ICAEW), defined internal control as the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible, the completeness and accuracy of the records.
- **Monitoring:** This is a process that assesses the quality of the system's performance over time. In this paper, monitoring activities of supervision, external audit and evaluations of financial activities were considered for study.
- **Risk assessment:** Risk assessment is a prerequisite for determining how the risks should be managed. In this study, risk assessment focused on the ability of financial controllers to forecast, identify and analysis risk potential to financial practice of Kabale Municipal Council.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter includes the review of literature relating to the relationship between internal control system and financial performance. This chapter presents the theoretical, conceptual and empirical review of related studies that explore internal control system and financial performance concepts. The review further focused on the contextual and methodological gaps that existed in these studies, presented in line with study objectives. Specifically, the literature is arranged as: theoretical review of theories pinning the study, conceptual review, and a review of related studies about the relationship between: risk assessment, control activities, control environment, as well as monitoring aspects of the ICS and financial performance.

#### **2.2 Theoretical Review**

The study was guided by the Agency theory and contingency theories.

##### **2.2.1 The Principal Agency theory**

The Agency theory draws significantly on the relationship between various actors in management of resources to realize results (Jensen & Mekling, 1977; Sarens & Abdolmohammadi, 2010). The Agency theory postulated relationship challenges between principals and agents of principals. Agents assign full powers and responsibilities to principals to act in their interest. The principal serve the interest of agent and perform to the fulfillment of the agent's goals. The Agency theory explains that an agent performs services and makes decisions for and on behalf the principal (Hull & Dawar, 2014).

This theory holds several assumptions including the view that: both parties keep and execute their roles as defined by relationship to maximize good of organisation; each has interests, but interests of firm supersede, each party's interests. This shapes formal relationships like- budget management, control of staff and implementation of pre-set procedures like ICS in a firm. According to the agency theory, information is a commodity that must be given a monetary value and must be bought. The formal systems such as budgeting, management by objectives and boards of directors in this relation of the principal-agent, act as informal systems such as managerial supervision. The implication is that organization can invest in systems in order to

control agent opportunism. Informal institutions such as board of directors in organizations enhance managerial supervision.

Given the current study, public at large, empower management and administration at local governments to provide goods and services for common good. Local governments must institute control mechanisms to avert fraud and resource misappropriation, which would be used for the production of goods and services for the public. However, local governments fail to monitor public resources, diverting them to personal gains and interests beyond the public. The theory proposes that control mechanisms, can minimize resource misuse by local governments, which solve the agent-principal problems. When the principal has full information on the performance of the entity, agency problems are likely to be reduced (Shapiro, 2005). Related studies have also used the Agency theory and found it aligning with their organisational performance (Gomes-Mejia, Larraza – Kintana & Makri, 2003; Schulze, Lubatkin & Dino, 2013). This has made it one of the widely used theory in exploring business performance, where there is a delegatory role in managing resources like as it is for this study, where the public delegate their role to financial controllers to implement the needs of the ICS. The theory however, have attracted some criticisms for instance, the desired outcomes may not necessarily be realized in absence of desired resources as defined structural and operational environment. More so, it may not always be possible to attain a cordial relationship, without exploration of the situations and circumstances in which these actors operate. Hence, the agency theory does not give detail on these aspects, yet vital for exploring the effect of ICS on financial performance. Thus, this study complemented agency theory with the contingency theory.

### **2.2.2 Contingency theory**

The contingency theory is an organizational theory proposed by Fiedler in 1960, and this was propagated in line with the process of making financial decision making. The contingency theory proposes that organisational behaviour which finally defines its performance is driven by contingency factors, and how these factors are managed. These contingent factors include technology, culture, management, functions of the organization, and matching roles between employees, organizational structure and its information system (Wang & Hooper, 2017). The contingency theory assumes that different organizations have different types of organizational structure. The theory assumes that it's the way, managers steer effectiveness in managing behaviours, actions, and processes of organisation depending on contingent of circumstances, at

play. Financial performance in itself is a function of organizational structure and dependent on a contingency of several factors. Therefore, organizations should rightly apply different organizational structure variables to organizational effectiveness to realize performance outputs (Cowgill, 2014).

Contingency theory is used to describe relationships between the context and structure of internal control effectiveness and organizational performance and as such vital for defining the financial performance and reporting standards. Empirical study suggests that Auditors and financial controllers are specialized and higher in control environment ability will achieve ICS' effectiveness. The firm benefits from the organizational effectiveness via internal control mechanism efficiency (Cadez & Guilding, 2008). In regard to this study, contingency theory explains more on how circumstances in the ICS, should be given due attention by managers, since they can be contingent factors for its financial performance in both short and long run. However, the contingency theory does not show the actors, their roles and relationships in realizing the desired financial performance. This call for the need to adapt the agency theory as well. Internal control system can also be well described in the context of Agency and contingency theories. Several attributes such as control activities, risk assessment, control environment, and other ICS aspect and how these can be contingent in influencing financial performance are well covered by these two theories. In light of the above description, it is appropriate to refer to these theories in exploring the effect of ICS on performance. Coined together, the two theories explain the effect of ICS on financial performance at Kabale Municipal Council, Kabale District.

## **2.3 Conceptual Review**

### **2.3.1 Risk assessment**

Risk assessment remains one of the key activities in the ICS, and how the company deals with this is critical for its effectiveness in its functions and operations (COSO, 2013). Several scholars have defined risk assessment in forecasting, identifying and analysis the possible risks that may occur to company (COSO, 2013; Ndifon & Ejom, 2015). Indeed, proper risk assessment is a prerequisite for achieving the right scope of managing physical and financial resources. Often studies concur that appropriate risk assessment critically evaluates the risks, makes it possible for

the company meets its goals (Petrovits et al. 2011; Rafindadi et al. 2019). These aspects are underscored in line with managerial decisions and control of resources.

Relatedly, Chan, Chen and Liu (2020) noted that risks threaten the accomplishment of objectives and when not well assessed, can affect performance of organization especially in its finances. At whatever levels, management must not only identify, but also control and regulate risks to meet study objectives. Additionally, Mohammed and Aksoy (2020) also revealed that organizations must analyze such circumstances likely to increase the occurrence risk. However, both Chan et al (2020), and Mohammed & Aksoy (2020), did not focus on the public sector. Earlier, Bett and Memba (2017) had also agreed that risk Assessment minimizes the impact of a risk; however, their findings could not address it in public sector context. This made it vital to base on these descriptions to explore risk assessment in ICS and how it influences financial performance of the organization, from the public sector perspective.

### **2.3.2 Control activities**

The COSO framework (2013); Mwanda (2008); and Mohammed & Aksoy (2020) described control activities as the policies and procedures that help ensure management directives are carried out. These studies continue to show clearly that control activities are key ICS in addressing risks, and prompting financial controllers to explore firm's entity objectives. However, Mohammed and Aksoy (2020), showed that control activities are instrumental in functioning of the organization as a whole.

Rafindadi et al (2019) and Weickgenannt, Hermanson and Sharma (2021) recounted that proper control activities are those which steer up not only financial effectiveness but also performance of the company in physical and financial resources. These studies, Rafindadi et al. (2019) and later Weickgenannt et al. (2021), agreed that proper implementation of control activities is key for ICS and could also be pronounced contingent factors for effective financial performance. This however had not been explored especially for Kabale Municipality, and attracted attention for the researcher in this study. Specifically, the researcher explored employee performance review, physical controls and segregation of duties at KMC as part of ICS, and this was vital for enhancing financial performance of the entity.

### **2.3.3 Control environment**

Control environment is unavoidable practice, and one of the leading pillars in describing internal control systems in any organisations. Expressing this, Younas and Kassim (2019) noted that control environment is a key for steering financial performance. Ndifon and Ejom (2015) and Petrovits et al. (2011) also expressed the perspective that control environment is core ICS aspect that explores that scope, effectiveness and abilities to enhance a company's competence, ethical values, integrity, and morale of organization's people in course of undertaking internal control system's mandate. In a study by Eton et al. (2018), Control environment is explained as a core function which organizations cannot do without if they are to harmonize their ICS to fit in organization structure and accountability relationships that prevails among financial control Actors.

Meanwhile, are key factors in the control environment, focuses on demonstrating the extent to which managers and staff are committed to integrity and ethical values while doing their mandate (Kinyua, Gakure, Gekara & Orwa, 2015). Control environment is the control conscience of an organisation in which people conducts their activities and carries out their control responsibilities (Millichamp, 2008). It is an environment set in place for competent people to understand their responsibilities and set limits to their authority. Control environment embodies people that are knowledgeable, mindful and committed to doing what is right and doing it right way (CPA Study Kit, 2016). As expressed by Kinyua et al. (2015), internal control environment supports management to keep to the principal of exercising oversight responsibility; ensuring that established management are able to delegate their authority and responsibility top juniors, management and staff demonstrate a high level of commitment to competence and accountability of their mandate (Younas & Kassim, 2019).

### **2.3.4 Monitoring**

Monitoring activities assess quality and performance of an organization. Proper monitoring activities facilitate the process and act as notes for reference when providing accountability for the resources at their display (Ishungisa, 2013; Sunil & Binsheng, 2017; Visser & Erasmus, 2018). Monitoring of ICS activities is vital in not only guiding employees, but also shaping their company's operations. Monitoring is key for supporting supervisory role of management, steering external audit, and prompting evaluations for effective achievement of a firm's financial

objectives. ICS directs activities, and performance of staff members to enhance organizational financial performance.

Relatedly, Chandra (2016) considers that monitoring is a critical mechanism for keeping staff at guard in ensuring that all physical and financial resources are effectively monitored, and how it steers financial performance. Studies on ICS, has considered that monitoring is an iterant function of the management, which streamlines of performance of employees and company at large. In this study, monitoring of ICS focused on supervision, external audit and evaluations of activities of KMC, and how these affect its financial performance.

### **2.3.5 Financial performance**

Financial performance is the extent to which a business maintains a stable staff within a stable financial state over. In other words, it brings out the ability of the staff to maintain a stable business over time (Mayne & Zapico-Goni, 2007). However, Visser and Erasmus (2018) noted that financial performance varies between profit and non-profit organizations. Financial performance is critical, and often a prime measure of a firm's performance (Sontag-Padilla, Staplefoote & Gonzalez, 2012). Studies continue to show that financial performance is critical in shaping an ethical imperative for local government, as well as a key feature of the giving landscape (Sontag-Padilla et al. 2012; Mayne & Zapico-Goni, 2007; Visse & Erasmus, 2018). In this context, financial performance was explored on perspectives of: accountability, transparency and reporting exhibited in their performance.

In local government organizations such as KMC, financial performance is an engine to demonstrate accountability potentials of financial controllers, and value-for-money by the entity. Indeed, financial performance often depicted in financial reporting, accounting for financial resources allocated to different service and administrative units. Relatedly, Sarens and De Beelde (2016) revealed that financial performance is key in shaping the resources management of the company. Pina, Bachiller and Ripoll (2020) shows that organizations must ensure they have adequate resources to fund their business motives continually. A recent study by Duncan (2020) showed that financial performance is vital for supporting overall performance of the organisation as it develops its short-term and long term goals. This study explored the effect of ICS on financial performance of Kabale Municipal Council.

## **2.4 Empirical review of related literature**

### **2.4.1 Risk assessment and financial performance**

Risk assessment helps an organization to eliminate sources that may potentially harm operations of the company and save the danger of uncontrolled risk-taking (COSO, 2013). A related study by Chandra (2016) showed that risk assessment in any business to eliminate any risks, is a key aspect of a sound ICS. Ntongo (2012) had earlier in her study revealed that risk assessment is critical for financial performance as it shapes extent to which employees respond to risk; transfer, tolerance, treatment and termination. Related studies especially Sarens & De Beelde (2016), further showed that proper risk assessment is vital for financial performance although they explored the private and not public sector. This provided room for the researcher to explore these aspects at Kabale Municipal Council in Kabale District.

A study by Kinyua et al. (2015) noted that risk assessment helps organizations to identify risks that might otherwise prevent firms from operating outside acceptable standards (Kipkemboi, Ayuma & Terer, 2016). Besides use of systematic procedures to identify and analyse relevant risk and management of risks, is core in shaping financial performance activities in any organisation (Inusah et al. 2015). Additionally, Magara (2013) noted that risk assessment regulates the occurrence of credit fraud an organization. These findings show that risk assessment as part of the ICS are key for financial performance of an organisation, but do not give a direct reflection of the Ugandan perspective, which this current study addresses from the context of Kabale Municipal Council, in Kabale District.

Schulze et al (2013) revealed risk assessment is a key in identifying, evaluating and mitigating risks. Most organizations operate amidst scarce resource. These can be protected from waste with full implementation of risk assessment (Ntongo, 2012; Magara, 2013). Relatedly, studies on financial performance further showed that risk assessment is key for reducing risks, controlling failure and harnessing financial performance (Sarens & De Beelde, 2016; Morgan, 2016). More so, Verstegen (2010) noted the importance of risk assessment in defining the methodology adopted for any audit function influenced financial performance levels. However, these studies did not give the scope of public sector firms especially in a Ugandan setting. Similarly, Magara (2013) revealed that risk assessment shapes organizational financial performance, by controlling uncertainties and meeting its audit activities.

COSO recommends that once a risk has been identified, performing a complete analysis is needed to prioritize the risk. A complete analysis in this case, estimates potential impact of the risk and its likelihood to occur (Anh et al. 2020). It was therefore important to prioritize the risk to allow for its management in case it has occurred, control of its effects from spilling over. In addition, also included is the determination of how to manage risk. Setting priorities is one of the ways that enable organization to focus on risks with reasonable likelihood of occurrence and higher effects (Sharma & Senan, 2019). Regardless of the size of the organization and extent of risk assessment, all organizations need control activities in their functions.

Risk materials should be reorganized continually before they affect company's goals. Management must ensure that the materials that serve as basis for assessing the risk cover the entire organization (Bayyoud, Mohammed & Sayyad, 2015). Relatedly, Schulze et al. (2013) noted that risk assessment is one of the key arenas for shaping financial performance of the company, in the short and long run. The COSO framework (2013), also showed that risk assessment through its risk identification and analysis is vital for shaping the company's way of progress. While several of these studies especially Schulze et al. (2013), risk assessment is a key aspect of ICS for purposes of managing proper resources, procedures and policies, and how these have a bearing on the operations of the organization.

On the contrary, some studies have not directly supported the argument that risk assessment can single handedly steer financial performance. For instance Grondys, Slusarczyk, Husain and Androniceanu (2021), revealed that some risks can be outbreaks and not easy to predict, and while Schulze et al. (2013), had also revealed that risks are possible to mitigate, when the firm has the right staff. Additionally, the study of Onsongo, Muathe and Mwangi (2020) also revealed that depending on risks, some risks taken may have positive results, while others plunge the firm into negative outcomes. As a result, and premising on above studies, it's not that all firms that uphold risk assessment directly attain commendable financial performance results. Nonetheless, earlier studies including (Anh et al. 2020; Sarens & De Beelde, 2016 and Sharma & Senan, 2019), continue to provide an affirmative perspective as regards effect of risk assessment on financial performance. This presents a two-fold perspective of risk assessments' effect on financial performance. It's this divide in describing the effect of risk assessment on financial performance that this study sought to close, by exploring risk assessment activities at KMC, in Kabale District.



### **2.4.2 Control activities and financial performance**

Just like risk assessment, control activities are important at all levels of any organization. A study by Petrovits et al. (2011), noted that control activities involves procedures, policies, programmes, strategies and instructions that guide management to achieve their organizational objectives. Relatedly, as cited by Schulze et al. (2013), control activities being procedures direct management on course of action, and often is key for streamlining financial performance. A recent study by Rafindadi and Olanrewaju (2019) revealed that control activities yield better, timely and well managed risk assessments, consequently shaping financial performance. Similar studies especially Whittington & Pany (2016), shows that better control activities especially through performance reviews, forecasts, period performance, physical controls and segregation of duties influence financial performance of the company. This points out a strong positive link between control activities and financial performance of a firm. However, when not well adhered to, they cease to become routine activities, but measures upon which prompt resource utilisation can be checked (Katushabe, 2016). Indeed, Henk (2020) later revealed that out of institutional embeddedness, internal control activities may not be adhered unto by all staff in the organisation. Some officials take advantage of their positions to flaws in adherence to control activities by utilizing loopholes in the system or their due influence on low staff in the firm. Whenever, this occurs, it affects financial performance negatively. In general, these studies show a mixed inference as regards control activities and its effect on financial performance, which this current study sought to examine basing on Kabale Municipal Council.

According to Papadatou (2015), especially when the control activities engage use of the ICT, provides organisational and functional performance levels. Control activities help management in verification of records, and safeguarding of organisational assets. A related study by Visser & Erasmus (2018) showed that depending on the type of control activity done, scope and level of financial performance tend to vary positively. Muraleetharan (2013) also reported that control activities within ICS, is core for shaping financial performance achievements in the organisation. A significant link between internal control activities and financial performance is also expressed in several other studies (Kibati *et al.* 2015; Mawanda, 2008). However, these studies did not focus on the public sector but dominantly in financial and education institutions. To further explore this perspective at length, this study focused on control activities, and their effects on financial performance at Kabale municipality in Kabale District.

Tunji (2013) opines that physical security of physical and non-physical property is very important. The use of passwords to enforce information security should be implemented to minimize unauthorized logins. Relatedly, Bukenya and Kinatta (2012) noted that proper physical control improves financial performance by safeguarding vulnerable assets while Chiezey and Agbo (2013) and Katnic (2011) show that control activities eliminate the occurrence of fraud in the organization. Most of these studies focused on private firms, did not specifically address it to financial performance. Besides the scope of KMC was not explored, this motivated the researcher to carry out this study. Chukwu (2012) later established that internal control system supports financial management, especially through proper instituting proper checks and balances over the organization's funds and assets (Bukenya & Kinatta, 2012). However, these studies especially Bukenya & Kinatta (2012), and Chukwu (2012), did not relate their observations to financial performance and the scope of Kabale Municipal Council had not been explored. This motivated the researcher to explore more the effect of control activities on financial performance from the context of Kabale municipality in Kabale District, South-western Uganda.

#### **2.4.3 Control environment and financial performance**

Control environment is a component of ICS that has been extensively covered in several empirical studies, often simply put as a control conscience of an organisation (Millichamp, 2008). In the study of Abuya (2017), internal control environment sets a working atmosphere under which activities and responsibilities are affected by different employees in organisation. Millichamp resonated that an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful and committed to doing what is right and doing it the right way (Millichamp, 2008). These two studies agree that control environment is critical for organization's ICS, and its several activities including steering financial performance. However, these studies did not draw their experiences from Uganda, which motivated this current study.

A study by Inusah and Abdulai (2015) showed that control environment includes management's philosophy and operating style, integrity ethical values, assignment of authority and responsibility (accountability), human resource practices (training, performance appraisal, remuneration, compensation and employee counseling), audit committee and internal audit.

These constituted and complemented the effectiveness of an ICS of a firm, from which it based to improve its operations. Delimiting it to financial performance, Magara revealed that the internal control environment streamline financial roles and activities and specifically sets in a clear description of budgetary controls, an effective audit of staff activities and also parameters of financial excellence (Magara, 2013). This study indirectly showed that internal control environment has an effect on financial performance. However, not all organisations realize this perspective held by Magara (2013), and this motivated the researcher to undertake this current study.

Control environment is in some cases observed intrinsically as part of the overall organization's management structure, and so may have little effect on financial performance as an independent entity (Muraleetharan, 2013). Relatedly, in a study done in Kenya, Muhunyo (2018) revealed that in some cases especially in public institutions of learning the control environment especially where human resources policies and authority are not well controlled and exercised respectively. Like it would be the case of KMC, while the entity is independent, some of its control environment is shaped by the central government's policies, and as a result their implementation in the local context may have worrying negative outcomes on the overall ICS and financial performance at large. Focusing on control environment as a single element of ICS in steering financial performance may also have negative outcomes to the performance of the organisation and management (Abuya, 2017). However, their findings may also not be conclusive for all firms and entities. As a result, the researcher was motivated to explore the same perspectives regarding control environment from the context of Kabale Municipal Council, in Kabale District.

According to Ntongo (2012), Control environment sets the tone for organization, influencing consciousness of its people. It is the foundation for components of ICS and consciousness of the organization/members to conduct their activities and responsibilities as per laid down objectives (Ntongo, 2012). Relatedly, Millichamp (2008) revealed that an effective control environment in an organisation is a mechanism for the management to support and put in place competent people who understand their responsibilities, authority and are knowledgeable, mindful and committed to doing what is right and doing it in a right way, is industrious for effective financial achievements. Complementary to Ntongo and Millichamp, are views from Kinyua et al; (2015) that control environment and financial performance are associated. These works emphasize that for better financial performance, firms must enrich their internal control environments. Needless

to say, however, is that they did not draw this conclusive standpoint from the context of Kabale Municipality, which this study addressed.

According to Whittington & Pany (2016) internal control environment sets tone of organization linking professionalism to integrity, ensuring that people do only that expected from them and are committed to following an organization's policies and procedures. Staff is expected to perform their assigned duties competently, and within the organisational structure commitments (Inusah & Abdulai, 2015), also use this to generate credible financial outcomes by strengthening commitment, providing feedback to junior officers and reducing fraud and flaws (Abuya, 2017).

A study done by Kamau (2014), revealed that control environment helps to ascertain a great degree of integrity in roles execution, and upholding ethical values in management decisions. In the financial perspective, control environment directs and prevents financial performance flaws (Ntongo, 2012). However, these significant findings were not directly drawn from public sector financial related activities, and more specifically those of KMC. This left an information gap. Often, control environment is connected to adherence to ethical and behavioural standards (COSO, 2013). All these subsequently influence, financial outcomes and helps managers to put in place control alternatives to financial challenges. COSO (2013) hence redefines effect of internal control environment on financial performance as that part of an ICS element that pursues integrity, ethical values, oversight responsibilities and how management uses this structure to define assignments, authority and responsibility.

According to Mwakimasinde et al. (2015), a control environment is set of standards, processes, and structures that provide basis for carrying out internal control systems. This value of control environment in ensuring ethical financial conduct and hence better financial performance. Complementarily, are aspects of ethical values in practices, conflict of interest, and code of conduct, tone at the top and fairness of management dealings (Kinyua et al. 2015). Almost related with Ali (2013), is the view that there is a relationship between control environment and financial performance held by Muraleetharan (2013)'s study. These studies' finding further point to a relationship between control environment and financial performance, though they did not extensively cover the public sector and specifically KMC. This was one of the reasons for the researcher to undertake this study, drawing from the context of Kabale Municipality.

#### **2.4.4 Monitoring and financial performance**

A study by Katushabe (2016) explored the aspect of monitoring in ICS and revealed that appropriate supervision, and well-done monitoring during a financial year, is key for financial performance. Relatedly, Rafindadi & Olanrewaju (2019) reported that monitoring the activities, utilisation of resources and capacity of staff in financial matters is key for steering financial performance of the organization. Appropriate mechanism of monitoring is critical in supporting financial performance levels (Ssebakumba, 2013). These studies show that monitoring helps the organization to determine whether the resources are well utilised and steer financial performance. However, they did not provide substantial evidence from the public sector entities like municipalities. Therefore, this current study premised on these studies to explore the effects of monitoring on financial performance for municipalities, specifically at Kabale Municipality.

According to John and Morris (2011), monitoring affects financial performance by checking the quality of performance of a junior officer. In this case the senior staff by monitoring, acts as a watchdog for the organisation, in regard to the conduct of the junior staff. To John and Morris (2011), monitoring is a gate keeper to financial accountability and professionalism of financial controllers. According to Hayes (2012), proper monitoring and supervision within the ICS allows for clear demarcation of responsibilities and task performance. However, Hayes (2012) did not focus on the Ugandan context, and neither were, John and Morris (2011). Later, Wang & Hooper (2017) added that proper monitoring in ensuring accuracy, punctuality, and attitudes and skills of employees and how they use these to support the organization in achieving its financial objectives. Wang and Hooper (2017) also did not conclude this in context of Kabale Municipality. This left an information gap, as regards to the opinions held in these studies from the local-context of Kabale municipality, later explored in this current study.

Relatedly, Ssebakumba (2013) revealed that managerial monitoring is key in shaping financial performance especially supporting employees to do their duties and responsibilities. However, these studies were not carried out in a financial institution. Sharma and Senan (2019) examined the performance of the internal control officer. They revealed that monitoring activities improves officers' knowledge, skills and competencies. Monitoring cash collections, issuance and utilization enhances financial performance (Musya, 2014). One of the importance of monitoring control activities is assessing independence of operations. Due to monitoring of operations, management can ensure timely and frequent delivery of financial reports (Ishungisa, 2013).

While regular monitoring of activities might be performed informally, Sarens and DeBeelde (2016) show that it enhances immediate response to inaccurate reporting. However, the studies were outside Uganda, and may not directly be applicable to the Ugandan perspective. Studies have confirmed that internal control environment in Non-Governmental organizations improves operational effectiveness (Ayom, 2013), but this has not detailed the same for public entities like municipalities, which was considered vital for examination in this study.

On the contrary, a number of studies, point out the negative effects flawed monitoring and supervision may have on financial performance (Katushabe, 2016; Muhunyo, 2018; Wang & Hooper, 2017). These studies point out a close link between monitoring and supervision with financial performance, where staff is trained, supported and assess in their accuracy, punctuality, attitudes and skills to translate goals to outcomes. Unfortunately, these study bases on the positive scope of monitoring, and conclude that laxity in scope of monitoring can lead to huge losses to the organisation. However, this was pointed out from the private sector operations circles, and need to be proved from the public entities like local governments and municipalities.

Later, Avortri and colleagues, re affirm that supportive and well done monitoring leaders to better performance, as it ensures effectiveness in scope of work, advice and guidance over processes and activities (Avortri, Nabukalu & Nabyonga-Orem, 2019). From their perspective, Avortri et al (2019), emphasizes supportive supervision, a reflection that monitoring alone without support may not yield desired performance. However, this is not conclusive, and draws from the health sector, not local government setting. Whereas this may be the case, several scholars continue to reflect significant positive effects of monitoring and supervision on financial performance (Rafindadi & Olanrewaju 2019; Sharma & Senan, 2019; Wang & Hooper (2017), which presents a two-fold scope of monitoring's effect on financial performance, and seemed to vary between organisations. As a result, the researcher through this study focused on exploring these studies' perspectives from the public sector domain, a case of reference being Kabale municipality in Kabale District.

#### **2.4.5 Internal Control System and Financial performance**

Hussaini and Muhammed (2018) found lasting effects of internal control on performance. However, this was mainly done in a quantitative approach, and in banks. While their findings were significant, they did not reflect other variables and public sector setting. In an earlier study,

Chukwu (2012) found that financial fraud was often associated with a weak ICS. Internal control systems fraudulent practices in revenue departments. This study was undertaken in Nigeria, and not specifically on financial performance, the context of Uganda is not covered. This motivated undertaking a study that can extensively explore these aspects from a Ugandan setting.

Later, Buthayna *et al.* (2016) also examined the effect of ICS on Organizational Effectiveness. Specific reference was in the Jordan firms, through a quantitative approach. The study found that internal control system improves financial performance. This study did not directly explore ICS with financial performance but organisational effectiveness of which financial performance is a constituent. Institutions that regularly conduct internal audits are likely to excel in financial allocations. In particular, departments that exercise segregation of duties prevent unauthorized access to funds (Kisanyanya, 2018). However, these studies did not focus on public sector entities.

In another study by Lagat and Okelo (2016), ICS and financial management were found related based on operations of the Baringo County government in Kenya. This study, unlike Kisanyanya (2018), focused on public sector entities. Lagat and Okelo (2016), revealed that ICS and its components are vital for financial and performance management. A proper ICS ensures assurance in financial operations, transparency and accountability in firms. Relatedly, Buthayna *et al.* (2016), added that proper ICS is key and significant in predicting changes in financial management. The findings are of significance to public sector entities as well, but present no reflections from the local government entities like Municipalities. This left an information gap about municipalities, which the current study sought to close by examining the effect of internal control systems to enhance accountability and financial performance in Kabale municipality, Kabale District.

## **2.5 Summary of Literature**

Globally, studies have highlighted the role of financial performance in performing organizations. Most reports on financial performance underpin the relevancy of internal controls in promoting financial performance. A lot of literature has been written on financial performance, and external auditors normally place a lot of emphasis on internal controls as measure to ensure sustainable

and improved financial performance. The effectiveness of ICS, which vary from one organization to the other, from one officer to the other underestimates its efficacy in public sector domains. It is within the interest of the public sector that the current study was conducted. Even when empirical findings show the relationship between internal control systems and financial performance, there are many contextual gaps in their findings. Without underestimating the confirmed relationships, this study adds to the existing knowledge on the relationship between internal control systems and financial performance by designing instruments that suit the setting in Kabale Municipal Council.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methodology that was used in the study. It covers the research design, study population, sample population, size, sampling procedures, data collection methods and their corresponding data collection instruments, data management and analysis procedures, reliability and validity and the ethical considerations.

#### **3.2 Research Approach**

The study utilised a mixed method approach, considering both quantitative and qualitative in data collection, management and analysis. A triangulation of quantitative and qualitative research approaches was preferred to exploit synergies offered by these two different methodological approaches (Creswell, 2018). A quantitative approach assisted in establishing statistical data that can be generalised to explain the effect of ICS on financial performance in the Public Sector. As expressed, quantitative approach when properly conducted gives detailed information from a wide scope of sample involved, and is able to inform a policy or decision (Bryman, 2018). Complementarily, opinions and views of participants in strategic and technical positions that can provide detail on scope of ICS and financial performance of KMC were incorporated. This was a qualitative perspective. A mixed approach was utilised to provide a comprehensive detail of data about the effect of ICS on financial performance of Kabale Municipal Council, Kabale District, in South Western Uganda.

#### **3.3 Research Design**

The study used a descriptive research design, specifically focusing on correlation analysis of the study data. Utilizing a descriptive and correlation analysis was justified by its ability to support the researcher ascertain the relationship between internal control system and financial performance. A correlation is used to ascertain a relationship between variables (Creswell, 2018). A correlation level of analysis was a basis to ascertain how various constructs of ICS (risk assessment, control environment, control activities and monitoring) are related with financial performance's accountability, transparency and reporting. Primary and secondary data were

collected for this study. Correlations are widely used and referred to when establishing relationships between variables.

### 3.4 Area of study

This study was done at Kabale Municipal Council in Kabale district, south Western Uganda. Kabale Municipal Council (KMC) covers three (3) divisions- Northern, Central and Southern Divisions. Kabale Municipal Council oversees the activities of the entire Municipality. Kabale Municipality is located 420 kms from Kampala city. It borders with Rukiga and Rubanda Districts and Ndoorwa County (KMC Annual report, 2020). Choice of Kabale Municipality was due to the slow pace of service delivery often constrained with unrealized financial performance targets. More so, the researcher had access to the area of study and was vested with knowledge of the place as an employee in this study area. All these made Kabale Municipality, a potential source of information for this study.

### 3.5 Population of the study

The study was conducted in Kabale Municipal Council. Throughout all the divisions, KMC has a total of 250 employees. This number was obtained from municipal records, on basis of the distribution of employees in the departments (KMC Human Resource departmental report, 2021). The study also involved 50 beneficiaries to the services of Kabale Municipality council. Beneficiaries were selected on basis of their engagement with any of the three (3) divisions of KMC in the last five years. The number was randomly obtained from records of the council. In total, the study population was 300, distributed in Table1.

**Table 1:** Study population

Department	Division			Total
	Central	Southern	Northern	
General Administration	32	20	15	67
Finance & Audit	22	09	05	36
Community Development	07	05	03	15
Support Staff	19	06	04	29

Health	15	30	08	53
Education	25	20	05	50
Beneficiaries	20	14	16	50
<b>Total</b>	<b>140</b>	<b>104</b>	<b>56</b>	<b>300</b>

*Source: Kabale Municipal Council, Human Resource, Departmental Report, 2021*

All these constituted the target population contacted at Kabale Municipal Council. The study sought responses from all Administration and employees of Kabale Municipal Council. Employees at all managerial hierarchies were represented in the study, since financial performance cuts across all departments of the council.

### 3.6 Sample size and Sample Procedure

#### 3.6.1 Sample Size

The study sample constituted 169 study units derived basing on Krejcie and Morgan's sample table of determining the sample from a given population (Krejcie & Morgan, 1970). The selected sample was distributed among employees at KMC.

**Table 2:** Sample size and selection

Department	Division				Sampling technique
	Central	Southern	Northern	Sample	
General Administration	16	13	09	38	Simple random sampling
Finance & Audit	08	06	06	20	Cluster and Simple random sampling
Community Development	03	03	03	9	Cluster and Simple random sampling
Support Staff	08	05	03	16	Cluster and Simple random sampling
Health	09	17	04	30	Cluster and Simple random sampling
Education	13	12	03	28	Cluster and Simple random sampling

Beneficiaries	11	08	09	28	Purposive sampling
<b>Total</b>	<b>70</b>	<b>58</b>	<b>24</b>	<b>169</b>	

*Source: Researcher, based on Krejcie & Morgan, and KMC Human Resource departmental report, 2021*

### **3.6.2 Sampling techniques**

Purposive, cluster and simple random sampling techniques guided researcher in selecting respondents. In purposive sampling, researcher included only those participants who met particular criteria (Bryman, 2018). Given that the beneficiaries were many, and could be attained on convenience basis, purposive sampling was considered appropriate for this category of participants. Beneficiaries were contacted at their premises basing on their willingness to be part of the study.

Cluster sampling was utilised to obtain the sample of employees for the study. All employees were clustered in their departments basing on division in which they served. Cluster sampling was ideal to provide an equitable representation of participants from each department. It is preferred when participants can be grouped into clusters each with specific homogeneous characteristics (Creswell, 2018). In each cluster, participating sample was then selected using simple random technique. In simple random sampling, the researcher gave chance to all employees at KMC to participate in the study (Kothari & Garg, 2014). The researcher gave a number to each employee in KMC, which was written on equal cards. These were placed in a box and picked at random until the required sample size was realized. The beneficiaries were purposively contacted on basis of their convenience and willingness to be part of the study.

## **3.7 Data Collection Source**

### **3.7.1 Primary Data**

Primary sources included data original facts from the field and presented in its original form (Amin, 2005). Respondents were given questionnaires and interview guides that they filled. The researcher aggregated the responses which constituted the data and later results of the study.

### **3.7.2 Secondary Data**

Publications from secondary sources like dissertations, publications, journals and internet. This was accessed to obtain relevant and supporting literature (Amin, 2005).

## **3.8 Data collection methods**

### **3.8.1 Survey Questionnaire**

Questionnaires are one of most commonly used tools in survey with a large number of participants. In this study, a structured questionnaire was utilised. A self-administered Questionnaire method was adapted. Questionnaires as a method are ideal for saving time, are cost effective and provide room for high response rate (Creswell, 2018). Questionnaires provided room for confidentiality, and considered ideal for sensitive areas of study like ICS and business performance. The respondents had to choose options basing on their level of agreement with the questionnaire items.

### **3.8.2 Interviewing**

In this study, interviewing was adopted. The research engaged respondents in a face-to-face interview focused on the study topic and objectives. Interviewing is widely used when one is soliciting for detailed information about subject from a key informant (Bryman, 2018). Face-to-face interviews were held with KMC administrators. Each interview took duration of 30-45 minutes. The interviews were facilitated by a semi structured interview guide. These interviews were used for comprehensive scope of data collection about internal controls systems and financial performance at Kabale Municipal Council, Kabale District.

## **3.9 Data Collection Instruments**

This study collected data using structured questionnaire and interview guides.

### **3.9.1 Questionnaires**

This study considered a closed-ended questionnaire (Mugenda & Mugenda, 2013). Two questionnaires were prepared for employees of KMC and beneficiaries to the services offered by the council (Appendix IV and V respectively). Questions were designed following a likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A self-completion questionnaire was used on members because it's cost-effective in collecting data (Kent, 2007). The questionnaire was employed on workers as well beneficiaries to various services offered by departments of Kabale Municipal Council, Kabale District.

### **3.9.2 Interview Guide**

In the study, interview guides was designed (Appendix VI). This was administered in a face-to-face interview session with selected staff of Kabale Municipal Council, Kabale District. These selected staff included: head of departments and other top level Administrators. The guide was designed with open ended questions. At least three (3) questions were asked, on each study variable. Interviews are commonly used for detailed perspectives about the phenomena under study (Creswell, 2018). The interviews also allowed participants to freely express themselves, giving a comprehensive scope of coverage of information about the study variables.

## **3.10 Data Quality Control**

For every research study, the quality of data is very important. This is through ensuring validity and reliability of study of instruments (Yin, 2014).

### **3.10.1 Validity**

The study tools were pre-tested for face and content validity. For face validity, tools were reviewed by supervisors who made comments on questions in the questionnaire and interview guide. The questions found vague as suggested by the supervisor were eliminated or rephrased. To measure content validity, each of the pretest respondents was requested to rate questions in questionnaire. Questions were rated as relevant (R) or irrelevant (IR) as a way of showing their level of agreement or disagreement with the fact in questions.

From respondents' rating, Content Validity Index (CVI) was computed using the following formula:  $CVI = \frac{R}{(R+IR)}$ . The tools were considered valid, if their CVI is 0.7 and above as recommended (Amin, 2005). However, necessary adjustments were made to improve the validity of the tools on items/questions that were ranked Irrelevant (IR).

$$CVI = \frac{\text{Items considered relevant}}{\text{total number of items}} = \frac{41}{50} = 0.82$$

Since the CVI was above 0.7, the items used covered the content under study, and were relevant to the problem under investigation.

### 3.10.2 Reliability

Reliability is the extent to which an instrument generates consistent results over time (Creswell, 2018). The researcher pre-tested the instrument on 10 people, the results of which were analyzed in SPSS Ver. 23. From reliability test, Cronbach alpha values were attained, and considered reliable if their alpha values are 0.7 and above. This has been used by earlier studies as recommended (Mugenda & Mugenda, 2013).

**Table 3:** Reliability Statistics

Variable List	Cronbach's Alpha		
	Cronbach's Alpha	Based on Standardized Items	N of Items
Risk assessment	.712	.708	8
Control activities	.692	.700	8
Control environment	.637	.674	7
Monitoring	.805	.809	7
Financial performance	.679	.702	11
<b>Overall</b>	<b>0.705</b>	<b>0.719</b>	<b>41</b>

Source: Field data, 2021

The overall reliability statistics ( $\alpha = .719$ ), which above 0.7 suggests that the instrument used in this study was reliable and adequate for generalization.

### 3.10.3 Measurement of Variables

Internal control system was measured in terms of risk assessment, control activities, monitoring, and control environment. Financial performance was measured in terms of accountability, financial transparency and reporting. Participants expressed their opinions by agreeing or

disagreeing with some statements on internal control system and financial performance. The likert scale, ranging from strongly disagree (1) to strongly agree (5) was used. The study used nominal and likert scale questions. These were used in questionnaire design and for data analysis based on frequencies, percentages and Pearson rank correlation coefficients measures.

### **3.11 Data Collection Procedure**

The researcher obtained a letter from Kabale University which introduced him to the Administrators of Kabale Municipal Council. Kabale Municipal Council after receiving formal introduction of the researcher, granted permission for the study. With a formal permission, the study tools were administered to employees of Kabale Municipal Council. The researcher pre-tested the data collection tools on 10 respondents in Kabale Town for validity and reliability of the instrument.

### **3.12 Method of Data Analysis**

The researcher conducted a data validation for consistency in order to eliminate misleading data which could arise from misrepresentation of questions.

#### **3.12.1 Analysis of Quantitative Data**

Quantitative analysis was descriptive and inferential in nature. Descriptive statistical measures helped the researcher to describe the state of internal control system and financial performance of KMC as at the time of study. Inferential statistics took form of correlation and multiple regression. Pearson correlation helped to test for the nature and strength of relationships while multiple regression tested for variation in financial performance accounted to each independent predictors of internal control system. Quantitative analysis was aided with SPSS ver. 23.

#### **3.12.2 Analysis of Qualitative Data**

Data from interviews was sorted for completeness. Using content analysis, qualitative views were categorized, patterned, and emerging themes identified (Mugenda & Mugenda, 2013).



Simple quotations and corresponding questions were integrated with quantitative findings for emphasis. Verbatim statements showed stance of respondents on ICS and financial performance.

### **3.13 Ethical Considerations**

The study upheld all ethical considerations recommended in research, including seeking participants' informed consent, privacy, anonymity, confidentiality and avoiding plagiarism.

**Seeking participants' informed consent:** Before engaging any participant in the study, the researcher first sought their informed consent. The purpose, objectives and mode of participation in the study were elaborated to potential participants. The participants were also allowed to ask questions for clarification (where need arose). They were asked to fill a consent form (Appendix III), to affirm their acceptance to be part of study. Only consenting participants were involved in the study.

**Privacy:** The participants selected were treated with a high level of private. No participant was allowed to tick the questionnaire in groups or engage in group interviews. Each participant responded to the study tools separately. Any recording done was used for the study, later deleted from researcher's database. Privacy of all official documents accessed was also upheld.

**Confidentiality:** This relates to the extent to which respondents' information is disclosed. The researcher kept respondents' information with utmost confidentiality. Data was securely protected on CDs and only available to the University. After the presentation of the final report, all the data CDs were destroyed. In case of publishing the findings, the researcher would seek permission from the concerned parties for authorization.

**Anonymity:** Keeping researcher' details and personality anonymous is vital for studies that involve humans over sensitive information (Stevenson & Mahmut, 2013). The researcher upheld all private data, details and opinions from respondents, anonymous. Information was kept under key and lock and used exclusively for academic purposes. Specific names of persons and areas that can hardly be ignored in the report were represented by Pseudo names for this purpose. Only information that causally relate to the study objectives, were included in the study report.

### **3.14 Limitations**

Some respondents were not ready to answer the questions, or spare time for the study. This delayed the study and reduced the study sample. However, the researcher explained the purpose of the study to respondents and developed simple and straight forward tools. This encouraged most of the participants to take part in the study confidently.

Some respondents concealed important data for personal and official reasons. This arose on the aspect of financial performance, largely considered as classified information. This however was minimized by promising privacy and confidentiality. More so, the researcher sought and obtained formal permission from KMC's Administration to access this information.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

The chapter presents the analysis of the research problem. Besides the analysis, the chapter presents and bio data of participants and hypotheses tests.

#### 4.2 Biodata information

The bio data covered basically gender, level of education, age brackets, and the years of working with KMC. Table 4 summarizes the bio data.

**Table 4: Biodata of respondents**

Variable list	Categories	Frequency	Percent
Gender	Male	76	53.9
	Female	65	46.1
	Total	141	100
Level of education	Certificate	20	14.2
	Diploma	48	34
	Degree	47	33.3
	Masters	26	18.4
	Total	141	100
Age bracket	18 – 35	58	41.1
	36 – 60	64	45.4
	Above 60	19	13.5
	Total	141	100
Years at KMC	Less than one year	23	16.3
	1 - 5 years	46	32.6
	6 - 10 years	21	14.9
	10 years and	51	36.2

	above		
	Total	141	100

Source: Field data, 2021

The findings on gender show that 53.9% were male while 46.1% were female. The study was therefore dominated by male participants. This was possibly because, Kabale Municipal council has majority male employees, and that several beneficiaries were business proprietors, a large number of whom were men. The study shows that 34.0% of participants had diplomas and were majority while only 14.2% had certificates. The statistics suggests that besides diploma holders, degree holders were common in the study. This was possibly because; diploma and degree qualifications were the minimum/basic qualifications respectively for employees at the council. Few participants indicated having masters possibly because employees pursued master education out of will as it was not a requirement for getting a job. More so, several beneficiaries to KMC's services preferred business activities to education career development and hence a few could focus on pursuing their education up to masters' education.

Regarding participants' age bracket, 45.4% belonged to the 36 – 60 years age bracket and were the majority, followed by those in the age bracket of 18 – 35 years. The least participation was observed among the older persons, possibly because of the retirement age conditions of all public servants at the age of 60. The dominance of the adults the 36 – 60 years age bracket was the most active age bracket in the country where people either seek and work in public entities like KMC or engage in business as it was for beneficiaries. The study further established that 36.2% had stayed in KMC for 10 years and over and were the majority. Those who had stayed at KMC for a period of 6 – 10 years were only 14.9% and were the least in participation. This was possibly because of the fact that as a public entity, the council takes a bureaucratic process in recruitment of its employees. More so, KMC's good employee retention policy. Several participants with a less than 6 years' scope of work with the council were beneficiaries. Therefore, participants had an extensive period of service, interaction with KMC which gave them a wide experience and exposure to give detailed data needed for this study.

### 4.3 Descriptive analysis

This type of analysis allowed the researcher to summarize the attributes and nature of data on internal control systems and financial performance. The technique revolved around mean (central tendency) and standard deviation (dispersion). The researcher used mean to measure the extent to which participants' opinions on internal control systems and financial performance clustered. Standard deviation measured the extent to which participants' opinions differed from one participant to the other.

#### 4.3.1 Internal control systems

Internal control was measured in terms of risk management, control activities, control environment, and monitoring of activities, which were anchored on a five-pointer likert scale. The study, using the descriptive statistical procedure of SPSS runs the mean of the responses for each item on the questionnaire. As a guide to interpreting the mean score, 0 to 2.49 was interpreted as 'weak', 2.50 to 3.49 was interpreted as 'average' while 3.50 to 5.00 was interpreted as 'strong'. Table 5 summarizes the internal control systems.

**Table 5:** Internal control systems

<b>Variable List; N = 141</b>	<b>Mean</b>	<b>Std.</b>
<b>Risk Management</b>		
1. There are strong risk assessment measures at each financial control desk	4.05	1.00
2. Senior officials assist junior staff to analyze risks	4.04	0.96
3. The risks are assessed in terms of achievement of objectives	3.99	0.84
4. We are trained to forecast financial risks	3.94	0.92
5. The risks are assessed basing on visible consequences	3.94	0.97
6. Financial controllers communicate likely risks to all staff	3.94	1.10
7. Risks are identified in terms of occurrence likelihood	3.77	0.78
8. Risks that occur are carefully analyzed by all staff	3.48	1.19
<b>Average</b>	<b>3.89</b>	<b>0.97</b>
<b>Control Activities</b>		
1. Authorization is required for every activity	4.38	0.85

2. At KMC senior staff checks the work employees under their department	4.35	0.76
3. All financial documents are reviewed for accuracy	4.26	0.98
4. There is strict adherence to approval and authorization systems in place	4.15	0.90
5. KMC management separates its roles/duties amongst its employees	4.10	1.04
6. KMC has security that identifies organization assets	3.96	1.02
7. KMC' management weekly checks on employees' level of meeting set targets	3.58	1.03
8. There is a routine check on physical assets of the council every week	3.50	1.19
<b>Average</b>	<b>4.04</b>	<b>0.97</b>
<b>Control Environment</b>		
1. KMC prioritizes accuracy and competent service delivery in regard to control of financial resources	4.40	0.84
2. Employees are made aware of their roles in implementation of the ICS	4.30	1.00
3. Top management and departmental heads delegate their responsibilities to junior staff	4.29	0.75
4. KMC' management has enough skills to oversee its internal control system	4.17	0.85
5. Management provides written guidelines on how staff should handle council's finances	4.00	1.01
6. Management emphasizes adherence to work place and professional ethics among financial controllers at the council	3.69	1.37
7. There is a clear process in the financial records and management at this council	2.79	1.66
<b>Average</b>	<b>3.95</b>	<b>1.07</b>
<b>Monitoring</b>		
1. Financial books are audited regularly	4.42	0.79
2. There is effective monitoring for proper use of resources at each department	4.29	0.71
3. There is a team of supervisors responsible for carrying out monitoring at KMC	4.28	0.87
4. There is continuous performance monitoring process for financial controllers	4.26	0.78
5. There are regular performance inspections by management at KMC	4.20	0.73
6. All assets are monitored to ensure transparency in activities of the council.	4.13	0.86
7. Staff at KMC do a self-assessment regarding adherence to performance goals.	4.06	0.84
<b>Average</b>	<b>4.24</b>	<b>0.80</b>

Source: Field data, 2021

The findings indicate that Risk management (mean = 3.89; std. = .97) was strong, control activity (mean = 4.04; std. = .97) was strong, control environment (mean = 3.95; std. = 1.07) was strong, and monitoring (mean = 4.24; std. = .80) was strong. The findings generally suggest that all internal control systems at KMC were strong. While there are many internal control mechanisms at KMC, the statistics reveal that monitoring of activities is the most enforced internal control mechanism at KMC. This is possibly because monitoring overlaps in all the activities, and at all level of financial control and management. Whether at operations, or tactical and strategic level, monitoring and supervision is a key measure of ensuring financial prudence and transparency in Kabale Municipal Council.

A comparison of standard deviations suggest that participants were more consistent in their opinions on monitoring of activities than they were on control environment. The inconsistent opinions on the control environment suggest some gaps in its enforcement. These may relate to the challenges KMC is facing in coordinating and controlling financial controllers at various divisions. Some of the financial controllers utilise relaxation in head of departments to put them on pressure, to their benefit, consequently submitting their reports late. This is a weakness in the internal control environment at the council.

Risk management at KMC is mostly evident in the risk assessment measures that have been placed at each financial control desk (mean = 4.05; std. = 1.00). On the weakest side the statistics suggest that not all staff carefully analyze risks whenever they occur (mean = 3.48; std. = 1.19). Besides placing risk assessment measures at each financial desk, senior officials assist the junior to analyze risks. However, going by the standard deviation, risk management is mostly evident in the way financial controllers communicate likely risks. Effective communication about risks at KMC and related public entities, helps the responsible officers to quickly identify these risks and address them.

Regarding control activities as an internal control mechanism, there were strong evidences of authorization for every activity (mean = 4.38; std. = .85), checking on performance of employees by senior staff at departmental level (mean = 4.35; std. = .76), and reviewing financial documents for accuracy (mean = 4.26; std. = .98). While the mean scores indicate that authorization of activity as most implemented form of controlling activities, standard deviations suggest that the act of senior staff to oversee the work of junior employees mostly explains the

strength of control activities. Routine and strict check of junior staff's work by their seniors is good as it enhances their adherence to set controls and standards, and consequently save the organization of likely risks and losses.

Control environment is strong mostly because of prioritizing accuracy and competent service delivery (mean = 4.40; std. = .84). From the weakest extreme, the process in the financial records and management at KMC is not clear (mean = 2.79; std. = 1.66). While the mean scores indicate that the control environment is strong due to prioritizing accuracy and competent service delivery, a comparison of standard deviations suggest that the act of delegating responsibilities to junior staff explains the strength of control environment. Delegation is one of the most used tool in steering adherence to the set control environment. Delegates are able to keep focused, prioritise accuracy delivery and ensure they meet set standards without any lapses. Where a senior staff would not be conscious, a delegated staff is strict and observes set guidelines to dot.

Monitoring of activities is strong mostly because of the regular auditing of financial books (mean = 4.42; std. = .79). Besides the regular auditing of financial books, KMC has a monitoring team that monitors the use of resources at department level, assesses continually assesses performance, and regularly inspects performance. The standard deviations on monitoring of activities did not reveal and significant deviations in participants' opinions.

#### 4.3.2 Financial performance

The researcher used a set of statements to indicate financial performance in KMC. The study, using the descriptive statistical procedure of SPSS ran the mean of the responses for each item on the questionnaire. As a guide to interpreting the mean score was that, 0 to 2.49 interpreted as 'poor, 2.50 to 3.49 was interpreted as 'average' while 3.50 to 5.00 was interpreted as 'good. Table 6 summarizes the financial performance at KMC.

**Table 6:** Financial performance

<b>Variable List; N = 141</b>	<b>Mean</b>	<b>Std.</b>
1. The Auditors present financial reports to management in time	4.34	0.84
2. Financial reports are prepared in time	4.23	0.76
3. Financial controllers staff regular present departmental reports	4.21	0.75



4. KMC always accounts for unused cash at the end of every financial year	4.20	0.85
5. All finances received at this council are well reported to stakeholders	4.19	0.85
6. KMC meets all its short and long term financial obligations whenever they are due	4.07	0.78
7. All user departments present detailed financial performance reports	3.99	0.97
8. The local revenue for KMC has increased	3.79	1.09
9. Staff at KMC are transparent in their financial performance activities	3.68	1.02
10. There are reports of financial mismanagement in some divisions of KMC	3.57	1.15
11. There are reports of unauthorized public expenditure at some KMC's divisions	3.41	1.21
<b>Average</b>	<b>3.97</b>	<b>0.94</b>

**Source: Field data, 2021**

The study found that financial performance (mean = 3.97; std. = .94) was generally good. This good performance is mostly attributed to the timely presentation of financial reports by the auditors (mean = 4.34; std. = .84). Besides the timely presentation of financial reports, the good financial performance is due to preparing on time (mean = 4.23; std. = .76), regular presentation of reports by financial controllers (mean = 4.21; std. = .75), and accounting for unused cash (mean = 4.20; std. = .85) contribute to the good financial performance. From the lowest extreme, this study found some reports of unauthorized expenditures (mean = 3.41; std. = 1.21), which are likely to affect the good financial performance of KMC. The mean scores indicate that the good financial performance is mostly due to auditors' work. However, a comparison of standard deviations suggests that the financial performance observed at KMC is mostly due to financial controllers who present their reports timely. This in practice means that where the financial controllers are active, the scope of financial performance in an organization is possible. Activeness of financial actors is envisaged in the roles. The auditor, asking for the financial statements and reports in time, and the financial controller submitting then as well in time. Generally, effective financial performance in municipalities was closely linked to the actors in the financial control discipline at the entity.

## 4.4 Inferential Analysis

The researcher used correlation to test for the relationship between internal control systems and financial performance. Regression was used to establish the effect of internal control systems on financial performance. Finally, hypothesis testing was used to verify all the hypotheses that were developed in the introductory chapter of project.

### 4.4.1 Correlation tests

This study used the correlation coefficient to establish the degree of the relationship between internal control systems and financial performance. The correlation coefficient, which ranges from zero to one shows the nature and strength of the relationship. Strong correlation coefficients tend towards one while weak correlation coefficients tend towards zero.

**Table 7:** Correlation tests

		1	2	3	4	5	6
Risk Management-1	Pearson	1					
	Correlation						
	Sig. (2-tailed)						
Control Activities-2	Pearson	.654(**)	1				
	Correlation						
	Sig. (2-tailed)	.000					
Control Environment-3	Pearson	.505(**)	.614(*	1			
	Correlation		*)				
	Sig. (2-tailed)	.000	.000				
Monitoring-4	Pearson	.574(**)	.784(*	.612(*	1		
	Correlation		*)	*)			
	Sig. (2-tailed)	.000	.000	.000			
Internal Control systems-5	Pearson	.803(**)	.896(*	.818(*	.871(**)	1	
	Correlation		*)	*)			
	Sig. (2-tailed)	.000	.000	.000	.000		
Financial	Pearson	.627(**)	.604(*	.557(*	.595(**)	.703(**)	1

Performance-6	Correlation		*)	*)		
	Sig. (2-tailed)	.000	.000	.000	.000	.000

\*\* Correlation is significant at the 0.01 level (2-tailed).

There is a strong relationship between internal control systems and financial performance, as provided by ( $r = .703$ ; sig.  $<.05$ ). This suggests that variations in internal control systems are associated to variations in financial performance. Any improvements in the internal control function would improve financial performance in both short and long run durations. More so, the significant value, which is less than 0.05 suggests that the relationship between internal control systems and financial performance is significant and the two variables are statistically and linearly related.

The study also established positive and significant relationships between risk management and financial performance ( $r = .627$ ; sig.  $<.05$ ), control activities and financial performance ( $r = .604$ ; sig.  $<.05$ ), control environment and financial performance ( $r = .557$ ; sig.  $<.05$ ), and monitoring controls and financial performance ( $r = .595$ ; sig.  $<.05$ ). The study shows that variations in all the dimensions of internal control is strongly associated to variations in financial performance. This shows that while each of the components of ICS affected financial performance differently with a dominant influence evident in risk management, and least in control environment. The four components worked together and were complementary in realization of desired financial performance. Government entities like KMC, need to be keen in adhering to each of these ICS components, holistically. Basing on these results, the researcher concludes that local governments that have strong internal control systems are likely to register strong financial performance. In real sense, if KMC focuses on enriching its ICS, the potentials of realizing positive financial performance scores, and meeting set targets, which was not the case by study time is possible.

#### 4.4.2 Regression tests

Regression analysis gives a mathematical relationship between the independent and the dependent variables. This study set internal control systems as the independent variable and financial performance as the dependent variable. The beta coefficients gives the proportion of the dependent variable accountable to each of the predictor variables. Given the current study, risk

management, control activities, control environment and monitoring were used as the predictor variables.

**Table 8: Coefficients**

		Unstandardized		Standardized		
Mode		Coefficients		Coefficients		
l		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.234	.237		5.201	.000
	Risk Management	.286	.067	.349	4.296	.000
	Control Activities	.086	.091	.103	.949	.344
	Control Environment	.148	.059	.201	2.506	.013
	Monitoring	.163	.086	.192	1.896	.060
<b>R = .712; R Square = .507; Adjusted R Square = .492</b>						

a Dependent Variable: Financial Performance

The overall effect of internal control systems on financial performance was 50.7%, as provided by (R Square = .507). The study shows that local governments in Uganda that have strong internal control systems are likely to register a 50% variation in their financial performance. Organisation like KMC which uphold set guidelines and requirements of internal controls are able to improve their performance by half, another fraction being from other factors that influence financial performance.

The specific effects of the predictor variables shows that risk management accounts for 34.9% of the variations in financial performance (Beta = .349; sig. <.05). Control activities accounts for 10.3% of variations in financial performance (Beta = .103; sig >.05). Control environment accounts for 20.1% of variations in financial performance (Beta = .201; sig. <.05). Monitoring of activities accounts for 19.2% of variations in financial performance (Beta = .192; sig. >.05). By implication, statistics suggest that a variation in risk management by a single unit is likely to result in a 34.9% effect in financial performance. Likewise, a variation in monitoring of activities by a single unit is likely to result in a 19.2% effect in financial performance. A reflection of

activities that are undertaken in finance departments, safeguarding against risks as well as identifying and setting mitigation measures, save the firm of huge losses. Often risks tend to occur in operations, and monitoring later. Thus, care has to be taken to manage risks, as what is the outcome of the financial records and documentation process is, what is monitored by supervisors and auditors. Keen attention to risks which occur before or during the process is indispensable in any efforts to attain financial performance targets.

The statistics further revealed that risk management and control environment had significant effects on financial performance. On the other hand, control activities and monitoring did not show any significant effects on financial performance. In all financial activities, risks management and control environment are embedded with in process of financial management determining the financial flow. A risky financial flow will significantly affect the final financial outcome, when it is monitored or not. In several cases, financial related activities are well defined, and each financial controller or auditor is aware of the scope of financial activities before hand, as a result control of these activities may not influence overall financial performance, as routine activities. On the other hand, situation in which they are done (control environment), and efforts undertaken to do them well without causing harm to the organisation (risk management), can adversely affect the financial performance when not well handled.

#### **4.4.3 Hypothesis tests**

The study used the significance value approach to test the hypotheses designed in the introductory chapter of this study. In this approach, the test statistic is compared with sample statistic to verify the hypothetical claims. In social sciences, the test statistic is normally set at 95% ( $\alpha = .05$ ). If the sample statistic is less than 0.05 the null hypothesis is rejected and the alternative hypothesis is accepted. On the other if the sample statistic is greater than 0.05, the null hypothesis is accepted and the alternative hypothesis is rejected.

**Table 9:** Decision strategy

Hypothetical Statements	Criterion	Alpha	Decision
-------------------------	-----------	-------	----------

1. Risk assessment has no significant positive effect on financial performance of Kabale Municipal Council	0.05	.000	Reject
2. Control activities has no significant positive effect on financial performance of Kabale Municipal Council	0.05	.344	Accept
3. Control environment has no significant positive effect on financial performance of Kabale Municipal Council	0.05	.013	Reject
4. Monitoring has no significant positive effect on financial performance of Kabale Municipal Council.	0.05	.060	Accept

---

Source: Field data, 2021

From the table above, the null hypotheses that risk management significant effect on financial performance was rejected. The study accepted the alternative hypothesis that risk management significantly affects financial performance. Similarly, this study rejected the null hypothesis and accepted the alternative hypothesis that control environment significantly affects financial performance. On the other hand, the null hypothesis that control activities have no significant effect on financial performance was accepted. Similarly, the study accepted the null hypothesis that monitoring of activities has no significant effect on financial performance. For any 100 employees that took part in the study, over 95% are more likely to assert that monitoring of activities and control environments have not supported KMC in her endeavors to strengthen her financial position.

#### **4.5 Chapter Summary**

The financial performance of KMC was generally, due to the internal control systems in place. This level of financial performance was mostly due to efforts made by council in risk management and enforcing the control environment. Control activities and monitoring of activities appeared of little effect to the financial performance of KMC.

## CHAPTER FIVE

### DISCUSSION OF RESULTS

#### 5.1 Introduction

The chapter presents a discussion of findings presented according to the research objectives. The findings from interviews were herein integrated in the discussion.

#### 5.2 Effect of risk assessment on financial performance

Risk management has a significant effect on financial performance in KMC. By implication, organizations that observe risk management are likely to perform financially than those which do not. This opinion that was also held by Lagat and Okelo (2016) that how a firm handles its risk assessment aspects is vital for financial and performance management. Complementary views from employees of Kabale Municipality also revealed related opinions. Evidence from KMC on risk management points to presence of a financial control desk, presence of senior officials who assist junior officials on how to identify and analyse risks, and training staff on how to mitigate financial risks occurrence. According to one interviewee,

*...risks are numerous in any organization, but here in Kabale, we handle them as they arise. For instance, our tax officials reported collusion with the URA agents, which was affecting our internally generated revenues. We had to arrange a meeting with the URA agents to define areas of jurisdiction...*

In reality, two government entities were likely to conflict in their operations, which would not only taint the image of KMC but the government as a whole. This also reflects what was pointed out by Magara (2013) noted that risk assessment is ideal for providing a dependable financial scope, and where the contrary exists, the reputation of the firm stands at stake. Much as the risk was not brought to light by senior officials charged with tax collection, experience from the field brought forward the likely clashing, which was corrected immediately. More so, these findings agree with (COSO, 2013) who reports that risk assessment helps organizations to eliminate harm operations of the company. Possible harm like shortfalls in liquidity, over or under budget forecasts, IT security risk, fraud and human errors in records keeping. These risks tend to emerge, with the ICS and can only be avoided with strict risk assessment is done. The

findings agree with (Ntongo (2012; Kinyua et al., 2015; Kipkemboi, Ayuma & Terer, 2016) who revealed that risk assessment shapes the extent to which employees respond to risk; which include transfer, tolerance, treatment and termination. Firms that identify risks hardly operate outside the acceptable standards. It's these standards that help financial controllers to identify potential areas of risk, and they avoid them. More so, these tasks right from risk identification to risk mitigation form the basis of quality reporting, which consequently support financial performance of the organisation.

Whereas the study findings show that risk assessment was a key predictor of financial performance, and proper risk assessment was an asset in the pursuit of financial performance. This depended also on several factors like the official implementing the practice (risk assessment) and other ICS factors. In light of this, studies like that of Schulze et al. (2013) noted that risk assessment cannot in isolation, but also with the support of other factors like human resources competence, and other ICS components. Relatedly, some of these risks may not be predictable and hence uncontrollable such as pandemics (Grondys et al. 2021), and yet other can present direct negative effects on financial performance as noted by Onsongo et al., (2020). Therefore, these studies (Grondys et al. 2021; Onsongo et al., 2020; Schulze et al. 2013), contradict with this overall findings that risk assessment positively affects financial performance.

### **5.3 Effect control activities on financial performance**

The study found that control activities do not have a significant effect on financial performance of KMC. The findings suggest that laying much emphasis on control activities is least likely to cause a significant change in the financial operations of any organization. This concurs with the earlier perspective of Sharma & Senan (2019) that control activities define a lot in regards to financial activities in an organization. Evidence from KMC revealed some laxity in the routine checks on the physical assets of the council, which was often attributed to the fact that almost all the control activities are done on routine basis. Several financial controllers and auditor at KMC may not easily identify these are new, unique areas worthy special attention.

The above findings, however disagree with Whittington & Pany (2016) who showed that better control activities especially through performance reviews, forecasts, period performance,



physical controls and segregation of duties influence financial performance of the company. In essence control activities should not be taken as routine activities as they present an outstanding value to a firm. At KMC for instance, control activities especially the performance reviews, are a basis for budget evaluations, and planning, and physical controls safe guards against misuse of assets like cars by staff, for personal benefits. When duties are well segregated, also as part of control activities, KMC is able to have a smooth flow of activities, as each office bearer focuses on tasks at his/her desk.

More so the findings contradict the view of Tunji (2013) who opined that physical security of physical and non-physical property is very important. He observes that the use of passwords to enforce information security should be implemented to minimize unauthorized logins. According to one of the employees at KMC, he revealed that,

*...our assets, especially the physical assets are safe only that they are sometimes used by unauthorized persons. I will give the example of some of the district vehicles. You find them on the streets even during the weekend, and you ask yourself why at that time? Take the case of stationery, it sounds small but officers use some of these resources for other purposes than those of the council...*

This view suggests that there exists some gaps in the council's control of activities. Likewise, Onsongo, Muathe and Mwangi (2020) also revealed that controls shape what the company does, though not all organisations have the right control activities in place. As noted from the interviews, there are some loopholes that lend access of council resources to unauthorized persons. The concept of unauthorized may not necessarily refer to enemies to the organizations but use resources unlawfully.

While many authors have documented that control activities control the occurrence of fraud, the practicality of this vice is hard to control. For instance,

*...we receive a lot of money from central government to provide goods and services for the public. These monies are laid down in the annual performance budgets. However, the public is sometimes dismayed when the goods and services procured do not meet consumer expectations...Public funds are not always rightfully, used. No wonder, the Auditor General reported negatively on funds usage in one of the recent reports...*

This excerpt supports many reports that have been documented on the misuse of public finances. Public officers have taken advantage of the gaps in the financial management systems to squander public resources. In the long run, money is put to other purposes than what it was intended for, and the person at the lower level suffers the consequences. The findings further contradict Bukenya and Kinatta (2012) who note that proper physical control improves financial performance by safeguarding vulnerable assets while Chiezey and Agbo (2013) and Katnic (2011) show that control activities eliminate occurrence of fraud in organization. Similarly the findings do not agree with Katushabe (2016) who revealed that firms must always adhere to internal control activities, as they form a key pillar in organisation performance, especially in financial perspectives. The study also did not support conclusion by Henk (2020) that control activities must be adhered by all financial officers which he considers as institutional embeddedness. Officials out of this institutional placement (in top positions) may take advantage of financial management system gaps, to mismanage finances than implementing control activities.

#### **5.4 Effect of control environment on financial performance**

The findings found that control environment significantly affects financial performance of KMC. The findings suggest that organizations that ensure that their control environments are rightly placed are likely to perform better than those which do not. By implication, KMC has been able to maintain her control environment through prioritizing service delivery and financial resources, making sure that all officers know their roles, duties and providing opportunities for delegating powers. The findings of (Eton et al., 2018; Younas & Kassim, 2019) also consider the control environment as key for steering financial performance while promoting organizational structure and accountability relationships. The results also agree with (CPA Study Kit, 2016; Kinyua et al. 2015) who pointed out that delegating powers to lower officers by senior officers helps both managers and staff to commit themselves to accountability of the organization. This view was highly expressed in one interview:

*...All the work in this organization is CAO's work. Therefore, when I assign someone to do a particular task, I am in one way or the other creating an avenue to deliver on time but also to exploit one's potentials in that task. Besides, any one*

*whom I assign a task will become competent at the end of the day, and that is mentorship...*

On the contrary however, some officers tend to delegate junior officers to tasks that do not have any monetary value. As a result the staff delegated to get demotivated, and perform poorly. In such cases, control activities are not implemented. Reflecting on this, one participants in the interview said

*...workshops that attract a reasonable perdiem are attended by senior officers, while the junior officers are keeping the offices. Rather than being motivated, the junior officers are demotivated, which affects the general performance of the organization...*

This excerpt suggests that while the large part of the organization are confidently acknowledging the importance of delegating authority as a tool to strengthening internal control systems, some staff in the organization are left out of the beneficiaries. This will eventually suffocate the performance of the organization.

Whereas, this current study findings agree with Eton et al. (2018)'s findings that control environment is a core function which organizations cannot do without if they are to harmonize their ICS, some studies, refute this conclusion. For instance studies (Inusah & Abdulai, 2015; Muhunyo, 2018) revealed that in some cases especially in public institutions of learning the control environment especially where human resources policies and authority are not well controlled and exercised respectively. Like it would be the case of KMC, while the entity is independent, some of its control environment is shaped by the central government's policies, and as a result their implementation in the local context may have worrying negative outcomes on the overall ICS and financial performance at large.

## **5.5 Effect between monitoring on financial performance**

The study found that monitoring of activities does not significantly affect financial performance of KMC. This is view and finding consistently agree with Olanrewaju (2019) who reported that monitoring the activities, utilisation of resources and capacity of staff in financial matters is key for steering financial performance of the organization. This study found some evidence of monitoring of activities in the form of audited financial books, proper use of resources at

departmental level, the presence of the monitoring team, regular performance monitoring of financial controllers, and regular performance inspection. However, these activities are theoretically acknowledged and practically, as observed by one interviewee:

*...of course like in any public institution, there all guidelines that promote adherence to standards in operations. We have the auditors in place, who give their opinion on the different activities of the council. However, the irregularities that are reported annually in auditor general's reports are enough evidence that monitoring is not a strong is it ought to be...*

This excerpt is suggestion that monitoring of activities has its hold in the council but those in charge of the task are lacking in its implementation. The findings disagree with (Katushabe, 2016; Rafindadi & Olanrewaju, 2019; Ssebakumba, 2013) all of which show that appropriate supervision, and well done monitoring during a financial year, is key for financial performance. The practical importance of monitoring is to ensure that all the organizational resources are rightly used for the goals of improving performance in the organization. The view that monitoring has a profound effect on financial performance is not always the same for all firms, especially when the practice is not well done. Earlier studies that contradict with this perspective (Muhunyo, 2018; Wang & Hooper, 2017), show that this depends on the quality, and efficacy of staff. The findings also do not agree with Avortri et al (2019), who concluded that for monitoring to translate into desired performance, it should have supportive supervision. These studies hence disagree with this current study findings that do not significantly affect financial performance, but premise on the fact that failure to support financial performance can be a result of lack of co-operation from staff, as well as laxity in monitoring teams. Laxity in monitoring which could be as result of low levels of motivation, poor pay, corruption, among other factors, will consequently result into low financial target achievements, as experienced at Kabale Municipal Council.

## **CHAPTER SIX**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **6.1 Introduction**

This chapter presents the summary of findings, the conclusion, recommendations, and areas for future research. Summary of findings, conclusions are based on the research objectives, which recommendations are based on empirical findings.

#### **6.2 Summary of findings**

The major purpose of the study was to find the effect of internal control systems on financial performance. The overall effect of internal control systems on financial performance was 50.7%, as provided by (R Square = .507). Risk management accounts for 34.9% of the variations in financial performance (Beta = .349; sig. <.05). Control activities accounts for 10.3% of the variations in financial performance (Beta = .103; sig >.05) but effect is not significant. Control environment accounts for 20.1% of variations in financial performance (Beta = .201; sig. <.05). Monitoring of activities accounts for 19.2% of the variations in financial performance (Beta = .192; sig. >.05) but the effect is not significant.

### 6.3 Conclusion

The study was conducted at KMC, and the conclusion are drawn on a response rate of 83% constituting council administrators, beneficiaries and staff from all departments of the entity. Internal control systems significantly affect the financial performance of local governments. The most influential of the internal controls are risk management and control activities. Implicitly, local governments in Uganda that enforce risk management and control activities perform better financially than those which do not enforce them.

Risk management significantly affect financial performance of local governments. Most importantly, local governments that have established financial controls desks, with specific officers to analyse desks are likely to register improvements in their financial performance. However, the fact that not all staff consider risk management seriously many at times limit the effectiveness of risk management in local governments.

Control activities do not significantly affect financial performance in local governments. In real practice, local governments in Uganda that have emphasized control activities as a means to improve their financial performance are least likely to achieve their targets. This is possibly because control activities are often confused by implementing staff as routine roles of financial controllers and auditors, and hence not give the attention they do deserve.

Control environment significantly affect financial performance of local governments. This study confirms that local governments that over emphasize control environment are more likely to realize the desired financial performance goals. The high effectiveness of control activities in effecting financial performance is possibly due to the fact that these constitute and streamlines the process of undertaking ICS and guide financial transparency, accountability and staff resilience.

Monitoring of activities does not significantly affect financial performance in local government. This study provides evidence that local governments in Uganda, which give attention monitoring of activities are likely to meet their desired financial performance goals. The effectiveness of monitoring of activities in influencing financial performance is premised on prioritizing accuracy and competence of service delivery, raising the awareness of ICS among all employees in the organization, and delegating junior staff, which beefs their skills in overseeing internal controls.

This study contributes empirical evidence on the role of internal control systems in promoting financial performance in public sector organizations. Accepting the hypotheses that risk management and control activities affect financial performance contributes to the relevancy of the already established theories in explaining variations in financial performance. Findings can help audit departments to strengthen risk management and control activities at department level.

#### **6.4 Recommendations**

This study has found that control activities do not significantly affect financial performance in local governments. Therefore, this study recommends that administrators and staff in local governments should find out the reason why these do not support financial performance, yet they constitute the indispensable control system. They (control activities) need to be re-engineered, if they are to have a profound influence on the financial performance of the organisation.

The study observed that risk management is fundamental in financial performance of public entities, and more than a third of financial performance achievements attained depend on how risk is managed. Therefore, there is need for emphasise risks management practices at KMC, especially through appropriate risk assessment, forecasts, and analysis by financial controllers.

Relatedly, results revealed that one-fifth of the financial performance attained at KMC was linked with control environment aspects within the internal control system of the organisation. Thus the researcher considers improvement of control environment vital for KMC, if it is to attain desirable financial performance. Financial controllers, especially auditors need to guide accountants and other junior staff on being competent, how to use available electronic systems, and provide regular delegation opportunities. This in a way can improve control environment, and enhance financial performance of the organisation.

The study has found that monitoring of activities does not affect financial performance in local governments. From several descriptive findings, monitoring was revealed as vital aspect of ICS, and so, this study recommends than management of KMC should improve and practice effective monitoring of the ICS activities. There is need to introduce monitoring tools that fit the financial performance operations of Kabale municipal council.

This study has found a low evidence of a clear process of managing financial records at the council. The researcher recommends a routine follow up by heads of departments on financial officers responsible for records management. This can be done using motivation and punitive measures like rewards and warning letters respectively.

## **6.5 Areas for future research**

The study has found some evidence of financial mismanagement in some divisions. Future researchers should consider assessing the financial management in Kabale Municipal Divisions.

The study has found some evidence of unauthorized public expenditure in some divisions in KMC. Future researchers should consider assessing the effectiveness of FMIS in the management of public expenditure in Kabale municipal divisions.

The study found low evidence of a clear process of managing financial records. Future researchers should consider investigating financial records management in Kabale municipal divisions.



## REFERENCES

- Abdolmohammadi, M. and Sarens, G. (2010). Monitoring effects of the Control environment functions, Agency Theory Versus other explanatory variables. *International Journal of Auditing. Blackwell Publishing Ltd*
- Abuya, J. (2017). Internal Control System and Financial Performance in Financial Institutions in Rwanda: A Case of I & M Bank Ltd Rwanda. *African Journal of Business and Industry*, 2 (3), 46 –58
- Aïhounhin, P. Kérékou, H. Aïtchédj, C. and Su, Z. (2016). Public Enterprises and Structural Adjustments in Sub-Saharan Africa: Some Lessons to be learned. *Journal of Comparative International Management*.
- Amin, M. (2005). *Social science research: Conception, methodology and analysis*. Kampala: Makerere University Printery.
- Amudo, A. and Inanga, E. (2019). Evaluation of Internal Control System on regional member countries of East African Development Bank: A Case Study from Uganda.
- Anh, T. Thi, L. Quang, H. and Thi, T. (2020). Factors influencing the effectiveness of internal control in cement manufacturing companies. *Management Science* 10 (1), 133-142.
- Auditor General Report, AGR (2020). Report of the Auditor General to Parliament for the Financial Year Ended 30th June 2020. The Office of the AG, Republic of Uganda, February, 2021
- Avortri, G, Nabukalu, B and Nabyonga-Orem, J. (2019). Supportive supervision to improve service delivery in low-income countries: is there a conceptual problem or a strategy problem? *BMJ Global Health Journal*, 4 (9), 4-5.
- Ayom, A. (2013). *Internal Controls and Performance in Non-Governmental organisations* (Doctoral dissertation), Cavendish University Uganda.
- Bayyoud, M. and Sayyad, N. (2015). The Impact of Internal Control and Risk management on Banks in Palestine; *International Journal of Economics, Finance and Management Sciences*; 3(3):156-161
- Bett, J. and Memba, F. (2017). Effects of internal control on the financial performance of processing firms in Kenya: A case of Menengai Company. *International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)*, 4(1), 11-22.
- Bongani, N. (2013). Application of internal controls in NGOs: Evidence from Zimbabwe. *Journal of Finance and Accounting*, 1(2), 39-47.

- Bryman, A. (2018). *Social Research Methods*. Oxford: Oxford University Press, 181-270.
- Burlton, R. T. (2010). *Delivering Business Strategy through Process Management: Handbook on Business Process Management 2*. Heidelberg: Springer.
- Chen, H., Yang, D., Zhang, J. and Zhou, H. (2020). Internal controls, risk management, and cash holdings. *Journal of Corporate Finance*, 64, 101695.
- Committee of Sponsoring Organizations of the Treadway Committee-COSO. (2013). *Internal Control Integrated Framework. Executive Summary*. Jessey: American Institute of CPA.
- Cowgill, G. (2014). Rationality and contexts in agency theory. In *Agency in archaeology* (pp. 67-76). Routledge.
- CPA Study Kit, (2016). *Auditing and Professional Ethics and Values*.
- Creswell, J. (2018). *Research design: Qualitative, quantitative and mixed method approaches*. London: Sage.
- Duncan, J. (2020). *Impacting Nonprofit Financial performance and Mission*.
- Dwivedi, H. (2016). *Internal Vs External Auditing as an Incentive Business Tools*. Oxford Review of Economic Policy.3 (9).
- Elliott, B & Elliott. J. (2009). *Financial Accounting and Reporting*. 13<sup>th</sup> Ed. Pearson Prentice Hall, London: UK
- Eton, M. (2019). *Internal Control and Budget Implementation in Kabale District Uganda*.
- Eton, M., Murezi, C., Mwosi, F. Bernard, P and Ogwel, P. (2018). Internal control systems and financial accountability in Uganda: A case of selected districts in western Uganda. *International Journal of Technology Management*. 4. 106-111.
- Gherai, D. (2010). The Assessment of Internal Control System in the Public Sector in Romania. *Court of auditors*, 925-929
- Gosnik, D. (2019). Core Business Process Management and Company Performance. *Management Journal*, 14 (1), 59-86.
- Grondys, K.; Slusarczyk, O. Hussain, H.I. and Androniceanu, A. (2021). Risk Assessment of the SME Sector Operations during the COVID-19 Pandemic. *International Journal of Environmental Research in Public Health*, 18 (1), 4-9
- Gupta, P. Sami, H. and Zhou, H. (2018). Do companies with effective internal controls over financial reporting benefit from Sarbanes–Oxley Sections 302 and 404. *Journal of Accounting, Auditing & Finance*, 33(2), 200-227.

- Hayes, R. (2012). *Principles of Auditing*. (5<sup>th</sup> Ed). New York: USA; Irwin/McGraw- Hill.
- Henk, O. (2020). Internal control through the lens of institutional work: a systematic literature review. *Journal of Management Control*. 31 (1), 1-4.
- Hull, R. & Dawar, V. (2014). Agency theory, capital structure and firm performance: some Indian evidence. *Managerial Finance*.
- Inusah, A.M. and Abdulai, S. (2015). Assessing Internal Financial Controls of the Lands Commission of Ghana. *European Journal of Business, Economics and Accountancy*, 3(3), 51-65
- Jensen, M. C. and Meckling, W. (1977). *Theory of the firm: managerial behaviour, agency costs, and ownership structure*. *Journal of Financial Economics*.
- John J. and Morris, M. (2011). The Impact of Enterprise Resource Planning (ERP) Systems on the Effectiveness of Internal Controls over Financial Reporting.
- Kamau C.N. (2014). Effect of Internal Control Systems on the Financial Performance of Manufacturing Firms in Kenya. *Published MSc Report, University of Nairobi, Kenya*
- Kaplan, R. and Norton, D. (2001). Transforming the balanced scorecard from performance measurement to strategic management. *Accounting Horizon*, 15, 87–104.
- Kinyua, J. Gakure, R., Gekara, M. and Orwa, G. (2015). Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange. *International Journal of Innovative Finance and Economics Research* 3(4), 29-48
- Kothari, C. and Garg, G. (2014). *Research Methods: Methods and Techniques*. New Delhi: New Age International (P) Limited.
- Krejcie, R. and Morgan, D. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, 30, 607-610.
- Lagat, C. and Okelo, C. (2016). Effect of internal control systems on financial management in Baringo County Government, Kenya. *Journal of Economics Finance and Accounting*, 3(1).
- Loan, S. (2011). Audit Risk. The role of control environment in Controlling Business risk, 2067-0532.
- Magara, C. N. (2013). Effect of Internal Controls on Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in Kenya. *MBA thesis, University of Nairobi*.

- Mawanda, S. (2008). *Effects of internal control systems on financial performance in an institution of higher learning in Uganda*. Unpublished thesis, Uganda Martyrs University
- Mayne, J. and Zapico-Goni, E. (2007). *Monitoring Performance in the Public Sector: Future Directors from International Experience*. USA: Transaction Publishers
- Millichamp, A.H. and Taylor, J. (2008). *Auditing*. (10<sup>th</sup> Ed.). Cengage Learning
- Mitnick, B. M. (2015). Agency theory. *Wiley encyclopedia of management*, 1-6.
- Morris, J. (2011). The Impact of Enterprise Resource Planning (ERP) Systems on the Effectiveness of Internal Control Systems Over financial reporting
- Mugenda, O. and Mugenda, A. (2013). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: ACTS Press.
- Muhunyo, M. B (2018). *Effect of internal control systems on financial performance of public institutions of higher learning in Nairobi city county, Kenya*. Kenyatta University Library, Kenya.
- Muraleetharan, P. (2013). Control activities and performance of organizations. *International Journal of Marketing, Financial Services and Management Research*, 2(4), 10-16.
- Musya, F.M. (2014). The Effect of Internal Controls on Revenue Collection by County Governments in Kenya. *Published MBA Report, University of Nairobi, Kenya*
- Mutensigensi, H. (2008). *Simplified Auditing: Theory and Practice (5th e)* Nairobi: Kenya. Longman publications.
- Mwakimasinde, M., Odhiambo, A. and Byaruhanga, (2014). Effects of Internal Control Systems on Financial Performance of Sugarcane out grower Companies in Kenya. *Journal of Business and Management*, 16(12), 62-73
- Myers, J. (1985). Spiralling Upward: Auditing Methods as described by Montgomery and his Successors. *Accounting Historians Journal*, (June, 1985): 53-72.
- Ndifon, E. and Ejom, P (2015). The Impact of Internal Control Activities on Financial Performance of Tertiary institutions in Nigeria. *Journal of Economic and Sustainable Development*.
- Ntongo, V. (2012). Internal Controls, Financial Accountability and Service Delivery in Private Health Providers of Kampala District. *Makerere University, Uganda*
- Onsongo, S. Muathe, M. and Mwangi, L. (2020). Financial Risk and Financial Performance: Evidence and Insights from Commercial and Services Listed Companies in Nairobi Securities Exchange, Kenya. *International journal of Financial studies*, 8(51), 1-15

- Papadatou, P. (2015). *Financial Accounting and Reporting*. (5<sup>th</sup>Ed.). New Delhi: India. Vikas Publishing House.
- Petrovits, C., Shakespeare, C and Shih, A. (2011). The causes and consequences of internal control problems in nonprofit organizations. *The Accounting Review*, 86(1), 325-357.
- Pina, V. Bachiller, P. and Ripoll, L. (2020). Testing the reliability of financial performance. The case of Spanish local governments. *Sustainability*, 12(17), 6880.
- Rafindadi, A. and Olanrewaju, Z. (2019). Internal Control System, Sustainable Management and Service Delivery of NGO's in Nigeria: An Empirical Analysis. *International Review of Management and Marketing*, 9(2), 89.
- Sarens, G. and De Beelde, I. (2016). *The relationship between control environment and senior management: an analysis of expectations and perceptions*. International Journal of auditing effectiveness of internal controls over financial reporting.
- Schulze, W. Lubatkin, M. and Dino, R. (2013). Exploring the Agency Consequences of Ownership Dispersion among the Directors of Private Family Firms. *Academy of Management Journal*, 46(2): 179-194.
- Shapiro, S. P. (2005). Agency theory. *Annual Review of Sociology*, 31: 263-84.
- Sharma, R. and Senan, N. (2019). A study on effectiveness of internal control system in selected banks in Saudi Arabia. *Asian Journal of Managerial Science*, 8(1), 41-47.
- Ssewanyana, G.S. (2015). *Auditing Simplified*. (6th Ed.), Longman Publishers, London: Great Britain
- Verstegen, B. (2010). Relating the Institutional Approach in Management Accounting to Institutional Economics: An Essay on Dual-Mode Rationality. *Journal of Economic Issues*, Vol. 40 No. 4, Pp. 1137-51.
- Vichet, S. (2020). High but Fragile Growth: Fostering SMEs development to improve Cambodia's economic resilience. *Munich Personal RePEc Archive*, MPRA Paper No. 104935
- Visser, C.B. and Erasmus, P.W. (2018). The Management of public finance: A practical guide.
- Wang, J. and Hooper, K. (2017). Internal control and accommodation in Chinese organizations. *Critical Perspectives on Accounting*, 49, 18-30.
- Whittington O. R and Pany K., (2016). Principles of Auditing and other Assurance Services. (20th Ed.), McGraw-Hill International.
- Yin, R. (2014). *Qualitative research from start to finish*. London: Sage.

Younas, A. and Kassim, A. (2019). Essentiality of internal control in Audit process. Center for Promoting Education and Research (CPER) USA. *International Journal of Business and Applied Social Science (IJBASS)*, 5 (11),1-6

## **APPENDIX I: PARTICIPANTS' LETTER OF CONSENT**

Kabale University  
P.O. Box 317  
Kabale- Uganda  
Email: info@kab.ac.ug  
www.kab.ac.ug

August 15, 2021

Dear respondent,

### **Seeking your consent to participate in the Study**

Greetings!

I am writing to seek your consent to be part of this study. I am a student pursuing a Master of

Business Administration Degree at Kabale University. As part of the requirement for this award, I am undertaking a study on the topic, **“The effect of internal control systems on financial performance at Kabale Municipal Council, Kabale District”**. As an employee at this council, you have been selected to participate by providing your opinions through answering the questions in the questionnaire below attached.

Please feel at ease to give your true opinion as this is just an academic study and your responses will be treated for that purpose. Your views will be treated with great confidentiality, unanimous and in case of need for the outcome of this research you can contact me on Telephone. If you are willing to be part of this study, please sign the tear off portion below, and return it to the researcher/ or the bearer.

Thank you for your cooperation in this matter in advance.

Sincerely,

**MWESIGWA BERNARD KABWEINE**

**Student/Researcher**

---

*.....Tear off portion.....*

I agree..... Signature .....

and will be available on.....Day/Time.....

## **APPENDIX II**

### **QUESTIONNAIRE FOR STAFF AT KABALE MUNICIPAL COUNCIL**

Dear Sir/Madam

I am Mwesigwa Bernard Kabweine, (Reg No. 2019/A/MBA/046/W), a student of Kabale University pursuing a Master of Business Administration. As part of the requirements for this award, I am undertaking a study on the effect of internal control systems on financial performance of Kabale Municipal Council, Kabale District. In relation to their study, I am contacting you for relevant information about the topic. Your responses/information will be treated with great confidentiality and used for this study purposes.

### ***SECTION A: Biodata information about the respondents***

---

1. Gender Male ☐ Female ☐

2. Level of Education

Certificate ☐ Diploma ☐ Degree ☐ Masters ☐

Other (Specify).....

3. Age bracket

18-35 Years ☐ 35-60 Years ☐ Above 60 years ☐

4. Number of Years in working with KMC

Less Than One Year ☐ 1-5 Years ☐

6-10 Years ☐ 10 Years and above ☐

For sections B to E use scale below to give the extent to which you agree or disagree to the information provided in Table. Rating scale. *1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree*

### **SECTION B: Risk Assessment**

---

N/S	Item	1	2	3	4	5
B1	Risks are identified in terms of occurrence likelihood					
B2	We are trained to forecast financial risks					
B3	The risks are assessed basing on visible consequences					
B4	The risks are assessed in terms of achievement of objectives					
B5	There are strong risk assessment measures at each financial control desk					



B6	Risks that occur are carefully analysed by all staff					
B7	Senior officials assist junior staff to analyse risks					
B8	Financial controllers communicate likely risks to all staff					

B9. How have the risk assessment done affect financial performance in your department at this council?

.....

.....

### SECTION C: Control activities

---

N/S	Item	1	2	3	4	5
C1	KMC management separates its roles/duties amongst its employees					
C2	At KMC senior staff checks the work employees under their department					
C3	Authorization is required for every activity					
C4	KMC has security that identifies organization assets					
C5	KMC' management weekly checks on employees' level of meeting set targets					
C6	There is a routine check on physical assets of the council every week					
C7	There is strict adherence to approval and authorization systems in place					
C8	All financial documents are reviewed for accuracy					

C9. In your opinion, in which ways have internal control activities affected financial performance of your department at Kabale Municipal Council?

.....

.....

.....

### SECTION D: Control environment activities

---

N/S	Item	1	2	3	4	5
D1	There is a clear process in the financial records and management at this council					
D2	Management provides written guidelines on how staff should handle council's finances					
D3	KMC' management has enough skills to oversee its internal control system					

D4	Employees are made aware of their roles in implementation of the ICS					
D5	Top management and departmental heads delegate their responsibilities to junior staff					
D6	KMC prioritizes accuracy and competent service delivery in regard to control of financial resources					
D7	Management emphasizes adherence to work place and professional ethics among financial controllers at the council					
D8	Employees exhibit a positive in regard to internal control system requirements at the KMC					

D9. In your opinion, describe how the control environment has affected financial performance of your department in this (KMC) council?

.....

.....

.....

## SECTION E: Monitoring

---

N/S	Item	1	2	3	4	5
E1	There is a team of supervisors responsible for carrying out monitoring at KMC					
E2	There are regular performance inspections by management at KMC					
E3	There is effective monitoring for proper use of resources at each department					
E4	There is continuous performance monitoring process for financial controllers					
E5	Financial books are audited regularly					
E6	All assets are monitored to ensure transparency in activities of the council.					
E7	Staff at KMC do a self-assessment regarding adherence to performance goals.					

E8. In your opinion, describe how has monitoring and supervision activities done affected financial performance in this council?

.....

.....

.....

**Section F: Financial performance**

---

	<b>Item</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
F1	Financial controllers staff regular present departmental reports					
F2	The Auditors present financial reports to management in time					
F3	KMC always accounts for unused cash at the end of every financial year					
F4	KMC meets all its short and long term financial obligations whenever they are due					
F5	All finances received at this council are well reported to stakeholders					
F6	All user departments present detailed financial performance reports					
F7	Financial reports are prepared in time					
F8	The local revenue for KMC has increased					
F9	There are reports of financial mismanagement in some divisions of KMC					
F10	Staff at KMC are transparent in their financial performance activities					
F11	There are reports of unauthorized public expenditure at some KMC's divisions					

F12. In what ways have internal control system affected the overall performance of Kabale Municipal Council?

.....

.....

.....

.....

**End**

**Thank you for your time**

### APPENDIX III

#### QUESTIONNAIRE FOR BENEFICIARIES [PUBLIC] TO SERVICES OF KABALE MUNICIPAL COUNCIL

Dear Sir/Madam

I am Mwesigwa Bernard Kabweine, (Reg No. 2019/A/MBA/046/W), a student of Kabale University pursuing a Master of Business Administration. As part of the requirements for this award, I am undertaking a study on the effect of internal control systems on financial performance of Kabale Municipal Council, Kabale District. In relation to their study, I am contacting you for relevant information about the topic. Your responses/information will be treated with great confidentiality and used for this study purposes.

#### ***SECTION A: Biodata information about the respondents***

---

**Instruction: Please tick/fill with an appropriate answer**

1. Gender Male ☐ Female ☐
2. Level of Education  
Certificate ☐ Diploma ☐ Degree ☐ Masters ☐  
Other (Specify).....
3. Age bracket 18-35 Years ☐ 35-60 Years ☐ Above 60 years ☐

#### **Section B: Internal control and Financial Performance of Kabale Municipal Council**

---

4. When were you last at KMC to get services?.....
5. Did you get the services you wanted from the council? Yes ☐ No ☐
6. What are some of the challenges you often get while using KMC facilities?  
.....  
.....
7. In your opinion would you think KMC handles its finances well?

Yes [ ] No [ ]

Why do you think so?

.....  
.....

8. Have you ever read KMC's financial report in the national media/newspapers?

Yes [ ] No [ ]

If yes, did it show a good performance? Yes [ ] No [ ]

9. Do officials of KMC keep to the set guidelines when dealing with the public in matters of finance?

Yes [ ] No [ ]

Why do you think/say so?

.....  
.....

10. In your view would you consider the officials at KMC as transparent when handling money/financial matters?

Yes [ ] No [ ]

.....  
.....

11. In your engagement/dealing with KMC, did some of its staff monitor the progress of the activity you had with the municipality?

Yes [ ] No [ ]

If yes, how often.....

12. How do you rate their monitoring effectiveness?

Very effective [ ] Effective [ ] Ineffective [ ] They did not monitor [ ]

13 Do you agree that KMC always accounts for unused cash at the end of every financial year?

Yes [ ] No [ ]

14. Kabale municipal council always report on how they have utilised the received funds to the beneficiaries (public)?      Yes    [    ]      No [    ]

If yes, how?

.....  
.....

If No, why do you think so?

.....  
.....  
.....

**End**

**Thank you**

## **APPENDIX IV: INTERVIEW GUIDE FOR HEAD OF DEPARTMENTS**

Venue of interview.....

Name of the department:.....

### **Part 1: Introductions**

*The researcher introduces himself, the topic, and study purpose.*

Topic: The effect of internal control systems on financial performance of Kabale Municipal Council, Kabale District. The purpose of the interview is to gather views on internal control system and its effect on financial performance of KMC. In the following interview, please respond truthfully as you can.

*The respondent introduces him/herself, (give details of biodata, and experience)*

### **Part 2: Specific Questions**

#### **Questions on risk assessment and financial performance**

- 1.What are some of risk assessment activities undertake in your department?
- 2.In your opinion, would you consider your risk assessment effective? Why do you think so?
- 3.In what ways have risk assessment practice done at this council affected its financial performance?

#### **Questions on control activities and financial performance**

- 4.What different internal control activities are undertaken in your ICS at this council?
- 5.What internal control activities are important, but not carried out by staff at KMC?
- 6.How has the control activities affected financial performance of this council?

#### **Questions on control environment and financial performance**

7. What are the leading control environment activities undertaken at this council?
8. What internal control environments are not well done at KMC?
9. In which way, has the control environment affected financial performance of KMC?

#### **Questions on Monitoring and Financial Performance**

10. How is monitoring and supervision implemented in the ICS at this council?
11. What are some of the monitoring challenges experienced in your ICS at this council?
12. How has monitoring processes at this council affected its financial performance?

**“Thanks for the cooperation”**

#### APPENDIX V: KREJCIE AND MORGAN TABLE

---

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384



