

**INTERNAL ACCOUNTING CONTROL SYSTEMS AND PERFORMANCE OF
LOCAL GOVERNMENTS IN UGANDA.
(A CASE STUDY OF NANSANA MUNICIPALITY HEADQUARTERS)**

By

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**A RESEARCH REPORT SUBMITTED TO COLLEGE OF ECONOMICS AND,
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DECLARATION

I KABOYO IVAN declare that this Research proposal presented to the School of Business and Management of Kampala International University is my original work and has never been submitted to any institution of higher learning for any award.

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APPROVAL

This Research Report has been done under my supervision as a University Supervisor and submitted to the School of Business and Management with my approval.

Supervisor

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Signature.....

Date.....

DEDICATION

I dedicate this book to my beloved parents' Mr Byabakama Jonah , Mrs Kanyunyuzi Alice and Mr Kasaija Victor, relatives friends and in-laws. Deep appreciation goes to all the lecturers of Kampala International University for their Godly devotion in teaching. Special regards are directed to my supervisor Dr Awolusi O Dele for his tireless efforts in guiding me on research writing. The researcher would like to recognize the classmates for continuous support in group discussion on research work, and the entire community of Kampala international university.

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LIST OF ABBREVIATION

LG.	-	Local government
RDC	-	Resident District Commissioner
ABA	-	American Bar Association
ACCA	-	Association of Chartered Certified Accountants
AICPA	-	American Institute of Certified Public Accountants
COSO	-	Committee of Sponsoring Organizations
CPD	-	Continuing Professional Development
ERP	-	Enterprise Resource Planning
ICPAU	-	Institute of Certified Public Accountants of Uganda
IFRS	-	International Financial Reporting Standards
IIA-UK	-	Institute of Internal Auditors- United Kingdom
K.I.U	-	Kampala International University
OAG	-	Office of Auditor General
SAS	-	Statement of Auditing Standards
SME	-	Small and Medium Size Entity
SOX	-	Sarbanes- Oxley Act

ABSTRACT

This study is a result of an academic research entitled “internal accounting control systems and performance of local government in Uganda. On the effects of Internal Control systems and financial performance, the objective of the study is To determine the effect of Internal Control systems in local government in Uganda. To find out the effect of Segmentation of duties on financial performance of local government in Uganda, to establish the effect of authorization on financial performance of and To find out the effect of budgeting on financial performance of commercial bank descriptive date collection techniques was used. Researcher targeted a total of 159 but the actual sample responses were 150. The findings found out that out of 150 respondents chosen for the study, majority of the respondents were aged between 31 years to 36 years, who made the total of 33% of the respondents. Other age groups individually comprised of 27%, 20%, 13% and 7% who in total made a total of 100%. out of 150 respondents, who were randomly selected to answer the questionnaires, 60 of them were males and 90 of them were females. This shows that 40% of the respondents on the questionnaires were male while 60% of the respondents were females. Out of the 150 respondents, fifty (50) were singles, seventy (70) were married and thirty (30) were divorced. In terms of percentage, the respondents may be represented by 33%, 47% and 20% respectively. Of these respondents, 7% certificates, 20% posses diplomas, 47% have degrees qualification, 20% have masters and 6% posses other profesional courses such as CPA. Segmentation of duties affects financial performance of local government in Uganda, it reveals that out of 150 respondents which represent 100%. 60 of them strongly agree that segmentation of duties greatly affect financial performance and it represents 40%, 50 agree with percentage of 33%, 5 were not sure whether segmentation of duties affects financial performance at 3% while 25 strongly disagree, 10 disagree with percentage of 17% and 7% respectively. Authorization affects financial performance of local government in Uganda; it reveals that out of 150 respondents which represent 100%. 90 of them strongly agree that authorization greatly affect financial performance and it represents 60%, 30 agree with percentage of 20%, 15 were not sure whether authorization affects financial performance at 10% while 5 strongly disagree, 10 disagree with percentage of 3% and 7% respectively. Budgeting affects financial performance of local government, that is to say Nansana municipality, it reveals that out of 150 respondents which represent 100%. 100 of them strongly agree that budgeting greatly affect financial performance and it represents 67%, 30 agree with percentage of 20%, 5 were not sure whether authorization affects financial performance at 3% while 1 strongly disagree, 14 disagree with percentage of 1% and 9% respectively. In conclusion Segmentation of duties. The researcher recommends that local government institutions must segregate duties such that tasks performed by different people can easily be identified, Separation of accounting and custody of assets: An employee who had custody of an asset or an access to an asset lets say cash should not maintain the accounting records of that asset, this alms at reducing temptation to that particular employee. This may also be sorted out by increasing the number of employees so as to facilitate the separation of duties

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CHAPTER ONE

INTRODUCTION

In this chapter, the researcher discussed the operational framework of how the research was carried out under the topic which was internal accounting control systems and performance of local government a case study of Nansana municipality headquarters.

The researcher also examined the background of the study, statement of the problem, specific objectives, and scope of the study, research questions, significance and justifications of the study.

1.1 Background to the study

1.1.1 Historical perspective

Internal controls have existed from ancient times. In Hellenistic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. The sacking of Troy was a classic example of the failure of internal controls. In the Republic of China, the Control the five branches of government, is an investigatory agency that monitors the other branches of government.

Internal control systems, has been defined differently by different scholar some defined it as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (for example, how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures to reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes–Oxley Act of 2002, which required improvements in

internal control in United States public corporations. Internal controls within business entities are also referred to as operational controls.

1.1.2 Theoretical perspective

This study was guided by “The Agency Theory” as initially put across by Jensen &Meckling,(1976) and later expounded on by Gerrit Sarens & Mohammad J. Abdolmohammadi, (2010).Gerrit &Mohammad theory also has connections with the Theory of firm articulated by NicolaiJ. Foss *et al.* According to the agency theory a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen &Meckling, 1976). Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents.

Furthermore, an assumption of agency theory is that principals and agents act rationally and use contracting to maximize their wealth. A consequence of this assumption maybe the ‘moral hazard’ problem (Jensen &Meckling, 1976), indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals. This will be expounded later during the literature review in Chapter two (2) of the study.

This Theory will be used because “Internal control is one of many mechanisms used in business to address the agency problem” (Jensen and Payne 2003) and again “studies have shown that internal control reduces agency costs” (Abdel-khalik 1993; Barefieldetal. (1993).

In the study, Internal control systems was construed to mean “a process effected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories; reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.” (Ray & Kurt; 2001) While financial performance will be considered in terms of Internal controls on receipt and receipts posting, Internal controls of payment in bank, Internal controls on payment in bank, Internal controls on cash payment and Internal controls on balances both cash and banks.

According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. On the other hand Stoner (2003), refers to performance as the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats. For purposes of the study we adopted Ray and Kurt's definition of internal control systems. In as much as Internal control Systems are wide and numerous, for the sake of this study, Internal control systems were limited to; organization segmentation duties ,Authorization and approval ,Authorization and approval, Arithmetical and accounting ,Physical restrictions, Management, personnel, Supervision, Acknowledgement of performance and budgeting.

1.1.3 Conceptual perspective

Internal controls as an Independent variable (as measured by the Control Environment, Internal Audit and the Control Activities) affects Financial Performance a dependent variable (as measured by Liquidity of an Entity, Financial Accountability and Financial Reporting). However, there are also moderating factors like Policies established by the Government, inflation and interest rates and many others.

Welsh (2003), Simons (1995), Chow et al (1999), Merchant (2007), appreciate that internal Control systems are the formal, information-based routines and procedures managers that ensure that errors and fraud are detected, safe guard company's assets and opine that ICS greatly affects Financial Performance a dependent variable Stoner (2003), refers performance as the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats (was measured by liquidity, accountability and reporting. According to Dixon *et al* (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

1.1.4 Contextual perspective

Nansana is located on the main highway between Kampala and Hoima , the Kampala-Hoima Road .The town is approximately 12 kilometres (7 mi), by road, north-west of Kampala, Uganda's capital and largest city. This is approximately 9 kilometres (6 mi), by road, south of Wakiso , the location of he district headquarters. The coordinates of the town are 0°21'50.0"N, 32°31'43.0"E (Latitude:0.363889; Longitude:32.528611).

Nansana is a high-density working class neighborhood. Beginning in May 2017 a crime wave engulfed the town, involving the murder of young women in their 20s and 30s. As of 4 August 2017, a total of 10 young women have been murdered in Nansana, after being sexually molested. None of the murders have been solved. The local politicians have disagreed on what needs to be done. There are reasons to believe that some of the victims were engaged in prostitution and were killed when they disagreed with their customers. Ian Kyeyune, the Resident District Commissioner (RDC) for Wakiso District proposes to license all prostitutes in the town so that they are accorded protection by the government. However, Regina Bakitte, the mayor of Nansana, opposes the idea, arguing that this would encourage promiscuity in the town. Prostitution is illegal in Uganda.

1.2 Problem statement

The internal control is essential corporate governance mechanism of the firm based on internal control statement quality that it should be to control effectiveness and also influences the reliability of financial reporting both in internal and external's firm (Skaife et al, 2007). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity's management and board of directors that the organization's objectives will be achieved. "The likelihood of achievement is affected by limitations inherent in all systems of internal control" (Gerrit and Abdolmohammadi

2010). Organizations establish systems of internal control to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations (Emasu, 2010). The continued involvement of County Governments in the affairs of supervisory capacity has ensured continuity and faster rise, growth and prosperity.

However, related studies that have been conducted in Uganda with regard to internal control systems clearly indicate that organizational internal control and financial performance is understudied area. Some of the challenges experienced with regard to internal control is concerned at the district level include; struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of public resources have been unearthed and a number of decisions made have not yielded the expected results.

A study carried out by Aikins in the United States (2008) on examination of government internal audits' role in improving financial performance established that in general, local government auditors performed more audits in operational areas that deal with fiscal receipts and outlays. In addition, auditors' work significantly influenced local government financial performance both directly and indirectly through improvements in internal controls and efficiency of operations. A study carried out in Nigeria by Owizy

(2008) Assessment of Effectiveness of Internal Control in Government Ministries: A Case study of Benue State Ministry of Finance. The study found out that Benue State ministry of finance do prepare annual budget promptly and also have adequate expenditure tracking to prevent financial recklessness.

A study by Ochoge in Uganda (2011) on internal controls and organizational performance: a case of Medipont industries limited identified that the internal controls used in Medipoint Industries Limited were ineffective and unsatisfactory, the level of organizational performance was found to be inadequate and a significant positive relationship between internal controls and organizational performance was established to exist.

Studies conducted by Simiyu (2011) on effectiveness of internal control system in parastatals in Kenya, Mugwe (2010) on Internal control practices on performance of manufacturing companies in Kenya, Webola (2009) on the relationship of internal control and resource management of NGO's in Tanzania clearly indicated that organizations face quite a number of challenges during internal controls in performance like; struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources.

However, the studies that were carried out did not focus on the effectiveness of internal controls on performance of local Governments in Uganda. In addition, the findings of the study that were carried out were too general and did not focus specifically on the effectiveness of internal control on performance of local Governments in Uganda. Previous studies that have been carried out focused in different sectors and carried out in different environments. It was for this reason that this study sought to investigate the effectiveness of internal controls on performance of local Governments in Uganda.

1.3 Purpose of the study

The purpose of this research is to establish the relationship between internal control systems and financial performance at Nansana municipality headquarters.

1.4 Specific objectives

To find out the effects of internal control system on the performance at Nansana municipality headquarters.

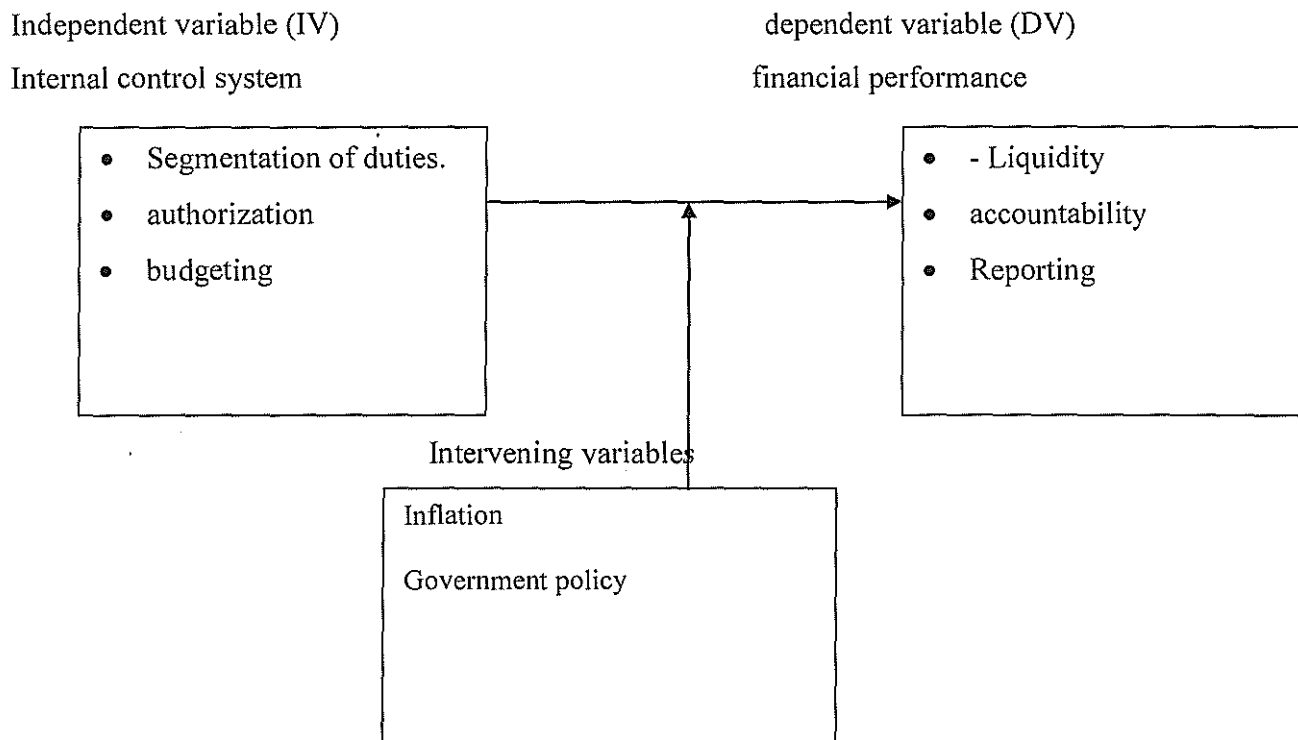
1.5 Objectives

1. To find out the effect of Segmentation of duties on financial performance.
2. To establish the effect of authorization on financial performance.
3. To find out the effect of budgeting on financial performance of Nansana municipality headquarters.

1.6 Research question

- 1: What are the effects of internal control system on performance of Local governments?
- 2: What are the different forms of internal control systems used in local government?
- 3: What is the relationship between internal control system and performance in local government?

Figure1: Conceptual framework



Source: Millichamp Alan (1996) Auditing 7th Edition Letts Educational.

Figure1: Conceptual framework showing internal control system as an independent variable and performance as a dependent variable.

The above conceptual frame work represents the relationship between the independent and dependent variable. The independent variable is internal control system and the dependent variable is performance of local governments. The researcher realized that when there is proper internal control systems in the organization , there is proper management responsible for better performance of Nansana municipality, and maintains good record keeping, proper accountability, avoid falsification of financial records and good customer satisfaction will be efficient and effective. And when internal control systems are not well managed or are abused, then there is inefficiency in customer satisfaction, poor planning and poor record keeping together with forgery and fraud among others.

1.6 Research Hypothesis:

The researcher tested the following hypothesis

There is no significant different between Internal Control systems **and** performance at nansana municipal council.

There is significant different between Internal Control systems **and** performance at nansana municipal council.

1.7 Scope of the study

1.7.1 Geographical scope

The study will be carried out at Nansana municipal council. The researcher choose Nansana municipal council due to its nearness to the researcher's residence and easy access to required information and this covered all staffs that have authority at the municipal. The municipal management using its workers was studied and the workers gave relevant information as a proof through answering questionnaires.

1.7.2 Time scope

The research study will be carried out in a local government institution, Nansana municipal council on the role of internal control systems on the performance of local governments in Uganda and the research took a period of three months. That is to say from June to September 2018.

1.7.3 Content scope

The study will be limited to internal control systems on organization of segmentation duties, Authorization and approval and budgeting while organizational performance was limited to liquidity, accountability and reporting .Internal controls on receipt and receipts posting, Internal controls of payment in local government, Internal controls on payment in bank, Internal controls on cash payment and Internal controls on balances both cash and banks

1.8 Theoretical scope

Agency Theory describes firm as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. Accordingly, Barlie and Means (2012) post that in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent

and the principal. They further explain that the relationship is further strengthened by the principal of employing an expert to monitor the agent.

1.9 Significance of the study

The research study will add to the existing stack of knowledge as regards to the effects of internal control systems on performance of local government.

The research findings will guide future researcher on how they can collect data, analyze data, interpret and communicate to the relevant authority so as to help in policy making and formulation.

The decision makers will study findings for extracting policies and laws that must be followed by any local government institutions such as maximizing the objectives or reasons of its existence. The decision makers must be from within nansana municipal council or oother institutions.

The proper internal control systems must lead to good record keeping, proper accountability, avoiding falsification of financial records and good customer satisfaction.

The study identified the gaps and loopholes that exist between internal control systems and performance of local government in Uganda such as fraudulent and corrupt officials and how they can be reduced. The research work also enabled the researcher to attain a certificate of Bachelors' degree in Business Administration.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, the researcher reviewed the literature related to the topic under investigation. That is the role of internal control systems on the performance of local government (A case study of Nansana municipal council). The researcher examined the different types of internal control systems, the relationship between internal control systems (ICS) and performance, definition of concepts, the principles under which internal control systems work (Principles governing internal control systems).

2.1 Theoretical review

This study will be guided by “The Agency Theory” as initially put across by Jensen & Meckling, (1976) and later expounded on by Gerrit Sarens & Mohammad J. Abdolmohammadi, (2010). Gerrit & Mohammad theory also has connections with the Theory of firm articulated by Nicolai J. Foss *et al.* According to the agency theory a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen & Meckling, 1976). Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents.

Furthermore, an assumption of agency theory is that principals and agents act rationally and use contracting to maximize their wealth. A consequence of this assumption maybe the ‘moral hazard’ problem (Jensen & Meckling, 1976), indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals. This will be expounded later during the literature review in Chapter two (2) of the study.

2.2 Conceptual review.

There are many definitions of internal control as it affects the various constituencies (stakeholders) of an organization in various ways and at different levels of aggregation.

According to the committee of sponsoring organization (COSO) and William F. et al defined internal control system as the process effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance recording the achievement of

objectives in the following categories: Effectiveness and efficiency of operations; reliability of financial reporting; and compliance with laws and regulations.

“Internal control systems are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organizations’ business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concern. “This was defined by Awe, 2005).

Belverd E. Needles JR, (1999) defines internal control as all the policies and procedures management uses to protect a firm’s assets and to ensure the accuracy and reliability of the accounting records. It also includes controls that deal with operating efficiency and adherence to management policies. In other words, management wants not only to safeguard assets and have reliable records but also to maintain an efficient operation that follows its policies. To this end, it established an internal control instructive that consists of three elements, the control environment, the accounting system and the centered procedures.

The Institute of Chartered Accountants of England and Wales (ICAEW), defines internal controls as “internal control means not only checker internal audit, but the whole system of control financial and otherwise, established by management in order to carry on the business of the company in orderly manner, safeguard its assets and secure as far as possible accuracy and reliability of its records”.

The American Institute of Public Accountants (AIPA) has defined internal control as the plan of organization and all the coordinate methods, and measures adopted within a business to safeguard its assets, check the accuracy and the reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. A system of internal control extends beyond those matters which relate directly to the function of the accounting and financial performance.

Kermit D. Larson and John J. Wild, (1999) defines internal control system as the policies and procedures that managers use to protect assets, ensure reliable accounting, promote efficient operation and urge adherence to company policies. Internal control system (ICS) applies to all assets owned by a business and to all phases of its operation so as to protect assets from fraud, theft, misuse and embezzlement.

Ray, (1992) defined control as the steps taken by a business to prevent employee fraud.

Ali, (2003) defined it as the measures taken by an organization for the purpose of protecting its resources against wastes, fraud, inefficiency; ensuring accuracy and reliability in accounting and operating data; securing compliance with organization policies and evaluation the level of performances in all divisions of the organizations.

Foster, (1985) defined internal control as the set of accounting and administrative controls and practices that help to ensure that approved and appropriate decisions are made in commercial banks.

Didnald A. Watne and Peter B.B Turney, (1984) Auditing EDP systems, defines internal control systems, as that which compresses the plan of organization and all of the methods and procedures adopted by a business to safe guard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

Fabozzi, (1995) performance measurement involves the calculation of the return realized by money manager over some time interval which we call the evaluation period.

Kenny Thomas, (1995) defines performance as the way in which an activity was accomplished in a particular level or standard to which a task was achieved within a working environment. It also added that control comprises of those elements of an organization that was together to support people in the attainment of the objective of an organization.

From these definitions, it can be deduced that internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Internal control objectives are channeled towards ensuring adherence to managerial policies and achieving organizational goals in general.

2.3. Internal control systems and performance

Wouldian W. Dyte and Kermit D. Larson (2002) stated that internal control systems help in adherence to prescribed managerial policies. According to them as a business grows. It becomes difficult to maintain or manage person staff of the entity or organization. Therefore, at some point it becomes increasingly necessary to delegate responsibilities or power and

internal control procedures rather than personal control in controlling the operations of the business organization.

National omission for fraudulent reporting came into emphasis that companies whose stock was publicly traded to maintain proper internal control system that provide reasonable assurance that the organization would perform to meet the aims and objectives, it was intended for. It was therefore evident that proper internal control system positively impacts the working environment and leads to achievement of the organizational reasons of existence by ensuring informal decision making or strategy planning.

“In his book accounting principles, cities an example of a computer operator who was reported ii the financial press to have embezzled 21 million from wells Fargo Bank. Another cited example was the shipping clerk who was reported to have shipped merchandize worth dollar 125,000 having served or worked for 28 years. It was therefore, likely that ill equipped internal control systems encourage falsification of accounting records, corporation, fraud and embezzlement among other internal practices.” Said by (DidnaldeE.Kewaso, 2002).

“Performance as a way in which an activity is accomplished in a particular level of standards to which a taste is to be accomplished. It is adopted, carried out or achieved within the working environment. Therefore the purpose of internal control system is to ensure that banks operate to some good standards and this increases profits in banks and many customers will be attracted due to the good standard of work. This improves performance and maintains dignity.” Defined (Kerry, 1995).

Vroom, Porter and Lawler, (1991) the philosophers of expectancy theory argue that the degree of effort an individual exert depend on his or her own perception of the effort performance when standard and criteria are not put in place in the banking industry using internal control system fraud and embezzlement will be high and reins the banking activities and leading its down fall.

Ray, Whittington & Walter B Mages, (1992), stressed the need for corporations or organizations to maintain adequate controls. This was emphasized after it was realized that the corporations sued illegal payment which was not in accordance with the American Standards of Business ethics.

2.4 Related review

Management established other controls over the entity transactions and assets. While there are many specific control procedures that may be implemented by an institution and they may be categorized as procedures.

2.5 Segmentation of Duties and financial performance

The University of California at Los Angeles notes that a segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. An effective system of internal control separates authoritative, accounting and custodial functions. For instance, one employee opens incoming mail a second employee prepares deposit slips for daily receipts, while a third employee deposits receipts in the bank. The previous example prevents the opportunity of one employee to misappropriate incoming funds. In addition, it's a fundamental concept of internal control which shows that there is no department or person handles all aspects of transaction from beginning to end. In a similar manner, no one of the functions of authorizing transactions, recording transactions and maintaining custody.

The authoritative 1994 *Principles of Corporate Governance* of the American Law Institute recommends that "every large publicly held corporation should have an audit committee that would review on a periodic basis. The corporation's internal controls According to Verschoor, (1999), approximately three-quarters of the 500 largest publicly held U.S. corporations voluntarily make a public assertion of management's responsibilities for properly reporting financial results and also maintaining an effective system of internal control. These management statements on internal control are contained in the company's annual report to shareholders. He asserts that; virtually all of these companies report using the same strategies to execute management's internal control responsibilities. These include references to segregation of functions, programs of selection and training of personnel, the results of an internal auditing function, and oversight from the audit committee.

2.6 Authorization and approval and financial performance

Ray (1992), Authorization of transactions, this is when management establishes criteria for acceptance of a certain type of transaction. For example top management may establish general prices lists and credit policies for new customers. Transaction with customers that meet these criteria can be approved by the credit department.

Philip E. Fees & Cauls S. Warren, (1990), wages that control procedures or principles were those policies and procedures that management has put in place within the control environment in order to provide reasonable assurance that enterprises goals would be achieved.

A government institution that provides services such as protecting citizens, collecting taxes and other basic services. General control procedures which can be integrated throughout the accounting system all therefore; Safeguarding assets is one essential characteristic of an effective system of internal control.

A system of internal control refers to the process by which organizations maintain environment that encourage incorruptibility and deter fraudulent activities by management and employees. An organization's components of internal control are evaluated during the planning phase of an independent financial statement audit. The results of the, evaluation directly influence the auditors level of detailed testing. To reduce detailed testing, and perhaps the audit fee, organizations implement common features of a proper internal control systems.

2.7 Budgeting and financial performance

Verschoor; 1999).Hitt, Hoskisson, Johnson, and Moesel (1996) argued that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls (budgeting) and financial controls. Strategic controls entail the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance. Strategic controls emphasize largely subjective and sometimes intuitive criteria for evaluation (Gupta, 1987). The use of strategic controls requires that corporate managers have a deep understanding of business-level operations and markets. Such controls also require a rich information exchange between corporate and divisional managers (Hoskisson, Hitt, & Ireland, 1994).

On the other hand, financial controls entail objective criteria such as return on investment (ROI) in the evaluation of business-level managers' performance. They are similar to what Ouchi (1980) and Eisenhardt (1985) referred to as outcome controls. Thus, top-level managers establish financial targets for each business and measure the business-level managers' performance against those targets. Such an approach can be problematic when the degree of

interdependence among business units is high. Thus, emphasis on financial controls requires each division's performance to be largely independent.

2.8 Management Integrity and financial performance.

Management integrity, or the moral character of persons of authority, sets the overall tone for the organization. Management integrity is communicated to employees through employee handbooks and procedural manuals. The management library indicates that in addition to communicating management integrity, policy manuals facilitate training to employee. However, management's enforcement of policies is the major indicator of an organization's commitment to successful internal control systems.

2.9 Competent Personnel and financial performance.

An organization's ability to recruit and retain competent personnel indicates management's intent to properly record accounting transactions. In addition, the retention of employees increases the comparability of financial records from year to year. Furthermore, an auditor's confidence in the underlying accounting records increases as he observes the reliability of the organization's personnel. This in turn reduces on auditor's assessment of the risk of a material misstatement in the entity's financial statements.

2.10 Proper Record Maintenance and financial performance.

Maintaining appropriate records ensures that proper documentation exists for each business transaction. Record management involves storing, safeguarding and eventually destroying tangible or electronic records. Also, appropriate back-up deters an employee on management from creating phantom transactions in the underlying accounting records. The environmental protection Agency emphasizes that a good record management program reduces operating costs, improves efficiency and minimizes the risks of litigation,

2.11 Proper Safeguarding of Assets and financial performance.

Safeguarding prevents unauthorized personnel from accessing valuable company assets.

Safeguard are physical, such as locks on doors, or intangible, such as computer software passwords. Regardless of the methods, safeguards are a necessary feature of an organization's internal control system. Many business owners instinctively protect inventory cash and supplies. However, blank checks, company letterheads and signatures, stamps are items that require safeguarding that are commonly overlooked.

2.12 Internal Auditing Principles and financial performance.

Walter B. Mages, (1987), defines auditing as the searching and investigation of accounting records and other evidence supporting those financial statements. He emphasized that the objectives of internal control auditors were to monitor and improve the system of internal control. He adds that auditors should test and evaluate both accounting controls and administrative controls in all areas of the organization and prepare reports to management on their findings and recommendations.

2.13 Pre-numbered Document and financial performance

According to Robert F. Merges and Walter B. Merges, (1993) stressed that important forms such as cheques, sales invoices, purchases orders, were usually serially pre-numbered and subsequently accounted for. This practice permits the discovery of wasting documents by detecting a break in the numbering scheme. An investigation can then commence to locate the source of the problem.

2.14 Separate Record Keeping and financial performance.

Kermit D. Larson and John T. Wild, (1999), emphasizes that the person who has access to or otherwise responsible to an asset should not maintain the accounting record for that asset. When This principle was followed, the custodian of an asset knowing that a record of asset was being kept by another person, was not likely to misplace, misappropriate or waste the asset, they also urge that the record keeper did not have to agree to commit a fraud (called collusion) so if The chart was not setup or was used incorrectly managers might never discover excessive expenses or inflated sales.

2.15 Insure asset and bond key employees.

An employee was bonded when a company purchases an insurance policy or a bond against losses from theft by that employee. Barbara Chiappetta, (1999), urges that good internal control means that assets were adequately insured against casualty and employee handling cash and negotiable instruments should be bonded so as to reduce the risk suffered from theft and to discourage theft because employees did not know that an independent bonding company involved when theft is insured.

2.16 Record of Cheques drawn

A memorandum record of the basic details of a cheque should be prepared at the time the cheque was drawn. The record may be a stub (the counter foil of a cheque) from which the cheque was detailed with the cheque forms each type or record should provide spaces for recording deposit and the current bank balance. There should be in addition to the mortification or a remittance advice which makes sure that proper credit is recorded in the amounts of the creditors.

2.17 Maintenance of Bank Accounts

Philip E. Fess and Cans Warren, (1990) urge that all cash received must be deposited in the bank and payment must be made by cheques drawn in the bank or from special cash funds. When such a system is strictly followed, there will be a double record of cash, one maintained by the business and the other bank.

1.18 Property Remuneration System and financial performance.

Robert W. Ingram and Thomas L. Albert, (2001), stresses that there ought to be proper remuneration system scheme for the skills rendered to the organization/entity/enterprises so as to close avenues or possibilities of falsification of the accounting records. These schemes should be clearly spelt out for the skills and efforts rendered by employees such as cashiers, accountants/auditors to the institutions or organization since they will be the ones who directly or indirectly deal with the firm's cash items.

Physical control over assets and records helps protect the company's assets. These control activities may include electronic or mechanical controls (such as a safe, employee ID cards, fences, cash registers, fireproof files, and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.

2.19 Independent checks and proper valuation performance.

The accuracy of the work of various individuals in a bank may be verified by independent checks on performance and valuation such as clerical checks. Computer program controls independent review reports and reconciliations. When the accounting and custodial departments are relating independently, the work of each department serves to verify the accuracy of the work of the other. Periodic comparison should be made of accounting records and the physical assets on hand. Investigation as to the cause of any discrepancies will uncover weakness either in procedures for safeguarding assets or in maintaining the related accounting records.

2.20 Various types of Internal Control Systems (ICS)

The concept of fraud; what is fraud? Fraud has been widely defined in literature by scholars and experts. Horn by, (1998) defines Fraud as an action or an instance of checking somebody in order to make money or obtain goods illegally. The same dictionary defines the perpetrator of fraud as fraudsters. According to the ICAN study pack (2006a,b) Fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentations, affecting the financial statements by the one or more individuals among management employees and third parties.

Archibong, (1992) describes Fraud as a predetermined and well planned tricky process or devices usually under taken by a person or group of persons, with the sole aim of checking another person or organization, to gain ill-gotten advantages be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedures.

2.20.1 Preventive control:

Penne Ainswouth and Dan Deines (2004), in their book cited that preventive controls are those controls that predict potential problems before they occur and make adjustment. They also prevent an error, omission or malicious act from occurring. Examples of preventive controls includes; using well-designed documents to prevent errors, establishing suitable procedures for authorization of transactions and employing qualified personnel.

2.20.2 Detective control: David Marchal, (1996) describes detective internal control systems as those policies or systems that detect if any errors in the accounting procedures were committed. These could be exception types of reports that reveal that controls have been circumvented (enable a difficulty) for example, large amounts paid without being authorized. Other examples could include reconciliation, supervision and internal checks.

2.20.3 Corrective control: These type of internal controls helps to minimize the impact of a threat, identify the cause of a problem, and correct errors arising from the problem. They also correct problems discovered by detective controls and modify the processing systems to minimize future occurrence of the problem. Examples of corrective controls are: contingency planning back up procedures, return procedures.

2.21 Limitation of the Internal Control System

An effective internal control system can only over provide reasonable assurance than an agency's operating systems, financial controls, reporting and other agency processes are working effectively. No matter how well designed and operated internal control systems cannot provide absolute assurance that agency objectives have been, and will continue to be met.

Robert F. Mergs, Mary A. Mark Better and Ray Wittington, urged that although internal control system is highly effective in increasing the reliability of accounting data safeguarding assets, a complete protection against fraud, theft or errors. For example, control based upon sub-division of duties may be defeated at least temporarily by collusion among two or more employees, who are careless also may cause a break down in internal control system. The principle of reasonable assurance rests on the promise that the costs of establishing control procedures should not exceed their expected benefits.

Jerry T. Weygandt, Didnald E. Kieso and Paul D. Kimmel, (2004) accordingly emphasized that good system can become ineffective due to employees fraud including theft of assets, changing lower sales prices to favor customers, receiving "Kick Back" from suppliers, over stating hours worked, "adding" expense accounts and embezzlement.

According to Kathy Adams, (2011), internal controls provide a level of confidence in financial information reported on the financial statements. Internal control limits individual employee access to manipulating the data or misrepresenting the financial data. Internal controls are

critical for accounting staff who work regularly with the company's financial data. However, internal controls are fool proofs. There are limits to internal control policies and procedures implemented by commercial banks. Some of these limitations include the following.

2.21.1. Lack of training/communication

Employees who do not understand the purpose of internal control or the proper procedure to follow can limit the effectiveness of internal controls. Management communicates the purpose of incorporating internal controls and assigns specific employees the responsibility of training the rest of the department. If management miss communicates the purpose of implementing internal controls, employees feel mistrusted, swamped with additional work and find opportunities to sidestep the internal control system. If the trainers do not train employees to use the new internal controls, the employees will create their own methods or ignore the system altogether.

2.22 Financial performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg& Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 1999).Hitt, *et al* (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.'

2.23. Measures of financial performance

According to Dixon *et al* (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Kotey& Meredith (1997) contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences

in accounting methods used by firms. Kent (1994) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Survival

According to Kotler (1992), strong performer firms are those that can stay in business for a good number of years. Dwivedi (2002) also found out that, the ability of a firm to survive in business is an indicator of good financial performance. Richardson, Sonny & Suzan (1994) found out that, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Uganda, about 90% of Ugandan SMEs collapse within 3 years Katuntu (2005). This is therefore an indicator of poor financial performance.

Liquidity

Hitt, *et al* (1996) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organization's liquidity. Other measures of Liquidity according to ACCA and Panday (1996) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

Accountability

According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social or financial accountability.

Reporting

Whittington & Pany (2001), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that "Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization"

They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others. According Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter discussed the operation framework within which the factors of the research study will be gathered. It covered sections on study design, area and population of the study, the nature and composition of respondents, instruments of data collection, sampling designs and data collection procedures.

The researcher identified, specified and discussed all the possible methods which were applied in carrying out the study. Both qualitative and quantitative techniques of data collection and analysis was used since one research method can not be able to yield an authentic report on the relationship between internal control system and the performance of local governments.

3.1. The Research design.

The case study is Nansana Municipal council. This study is descriptive cross section survey. The objective of descriptive research is to portray a profile of persons, situations or events (Saunders et al, 2000). It is not possible to access all the information in all the local governments in Uganda. So the researcher will obtain the information from respondents based on Nansana municipal council.

3.2. The Study population.

The study population was 500 people who include the providers and clients of Nansana municipal council specially since the researcher was able to travel to the field to collect data. The staff and non-staff helped the researcher to have a clear view and balanced understanding offered by the municipal and therefore, the researcher was able to access the role of internal control on the performance of local governments.

3.3. Sample design.

This is a technique of data collection which the researcher applied in drawing inferences based on the information which was collected about the target population. Under sample design, the researcher collected data by using probability and simple technique, with the collection of data from a sample units (purposive/judge mental sample) that was selected from the target population with the intention that they represent the population.

3.4. Sampling procedures

The sampling methods involve purposive random sampling since it's extensively used in the exploratory research stage and is very valuable in the making of a final questionnaire. This method also takes care of non-responses and accurate information will be obtained perfectly. Consequently, it gives the random size equal chance of participating and being selected.

3.5. Sample size

The sample of small proportion of a target population selected for comprehensive analysis to represent the whole population. Nansana municipal council has a population of 500 people under study and the study will consider the sample of 100 respondents, 10 respondents' local government officials, 20 accountants, 50 cashiers, 70 cleaners, 200 security guards and 100 respondents will be clients to the Nansana municipal council.

Table showing population and sample size of respondents

Respondents	population	Sample size
Managers	10	5
Accountants	20	10
Cashier	50	15
Concerned parties	50	25
Clients	100	30
Security	200	50
Cleaners	70	24
Total	500	159

$$\text{Sample size } n = \frac{N}{1+N(e)^2}$$

Where: n = sample size
 N = population
 e = 0.05
 $n=159$

3.6. Data collection instruments

The researcher used both qualitative and quantitative techniques of data collection as; questionnaires and documentary review of data collection. These instruments ensure

maximum credibility and validity of data which will be collected and help in organizing it into meaningful information regarding the subject of the study.

3.6.1. Questionnaires

The questionnaires were self-administered to individuals who are respondents. The questionnaires include both structured and non-structured questions. The respondents will be approached and given questionnaires which they fill with answers of different views.

The researcher employed this instrument since it cover a large number of respondents relatively at a short period of time. Besides, questionnaires allow the respondents to give free and independent opinions because they are not affected by the presence of the researcher as well; respondents were expected to answer even sensitive questions since they can not be identified by thareir names.

3.6.2. Interviews

The researcher involved interpersonal talk with different respondents in order to obtain resourceful information about the roles of internal control on performance of local governments.

The researcher employed this method because interviews can easily be administered. For instance, they do not require the respondents to have ability to read, write and handle complex documents or long questionnaires.

It creates a right type of friendly atmosphere which are conclusive for obtaining desired information. It's often perceived as a cooperative venture because personal contact gives emphasis.

Flexibility identified in the nature of the interviews enabled researcher to adjust the interviews to meet many diverse situations for example, language barrier, physical abilities and others.

It has control overtime data and venue because an interview will be held at the certain time, for example, after evening news or Sundays after service, arrangement was made.

to allow discussions of the meaningful questions to eliminate ambiguity, provide an opportunity of correcting misunderstandings by the researcher and the respondents, who were not common with forms of data collection.

3.6.3. Observation

This was conducted during the time of interview to observe state of workers and the real role in order to come with the report.

It show collection of wide range of information even when this information is thought to be at the time of study, relevant and is also not relatively expensive.

It provides first hand information which is more valid than reported information obtained from questionnaires and interviews.

3.6.4. Documentary review

In this, the researcher made research by carefully studying written documents or visual information from different libraries review literature, related to the study basing on the objectives of the study. The data collection instruments had the following importance, related data will give direction when setting questionnaires, interviews and readers of this study who became suspicious of the data findings will always refer to the literature review especially in chapter two. This is basis for further studies in the same field by acting as a reference book.

3.7. Data sources

The source of data collected was both primary and secondary. These include the following.”

3.7.1. Primary data

This is the first hand information that is collected from the field by the aid of techniques like interview guide, questionnaires, observation and references to the secondary data.

3.7.2. Secondary data

Under secondary data information is extracted from the text books and work of other scholars whether published magazines, written data source including published and un published document agency reports, news paper articles, internet sources, proposal books, Local Government acts among others so as to obtain relevant information.

3.8 Data analysis

A data analysis show how data is analyzed according to objective by objective. Data is collected, edited and analyzed using Statistical Package for Social Scientists (SPSS). Analysis output included; Descriptive statistics (means, frequencies, percentages and factor analysis), for objective question 1 and 2 and inferential statistics (correlations, and regressions) for objective question 3. The interpretations are as follows for objective 2.

3.9 Reliability and Validity.

The reliability is ensured by testing the instruments for the reliability of values (Alpha values) as recommended by Cronbach, (1946). Cronbach recommends analysis for Alpha values for each variable under study. According to Sekaran 2001 Alpha values for each variable under study should not be less than 0.70 for the statements in the Instruments to be deemed reliable. Consequently The validity of the data collection instruments was done with the help of an Expert (the Researcher's Supervisor) to edit the questionnaire and the Interview guide. The Researcher will forward the structured Questionnaire to Supervisor who is an expert in the area covered by the research for editing and reviewing.

3.10 Ethical consideration

Ethical considerations was taken into consideration by first seeking authorization from top management of the municipal. Questionnaires are structured in such a way that there will be no mention of the Interviewee's name. A statement as to the strict confidentiality with which data held was expressly be stated in the questionnaire. Further, responding was optional, basically explaining the reason for replacing respondents who didn't respond as mentioned in the "Sample Size and Sample Selection techniques" above. Ethical considerations was also to be taken care of by the researcher briefing the respondents on the purpose of the research, their relevance in the research process, and expectations from them.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND FINDINGS

4.0 Introduction

This chapter presents the findings in relation to the research questions and research objectives established earlier. The chapter presents the findings by considering the research purpose which was to establish the relationship between internal controls and financial performance at Nansana municipality. The data collected from the field was processed, analyzed interpreted and presented quantitatively and qualitatively by using tables and percentages to show the responses of the respondents. All of these findings were interpreted and presented, through re-examining research objectives.

Variance in the targeted and actual respondents

The researcher targeted a total of 159 respondents, selected in finance and other related departments of the organisation targeting particularly Finance **Managers, Accountants , Cashier, other officers, customers,. Security and cleaners** Nonetheless, not all the targeted sample responded; the actual sample responses were 150 out of the targeted 159, hence, a response rate of 94%.

4.1 Demographic characteristics

The main purpose of this part was to analyze the background information of the respondents in relation to their age, gender (sex), marital status and level of education. The information was presented by the use of tabulation as below.

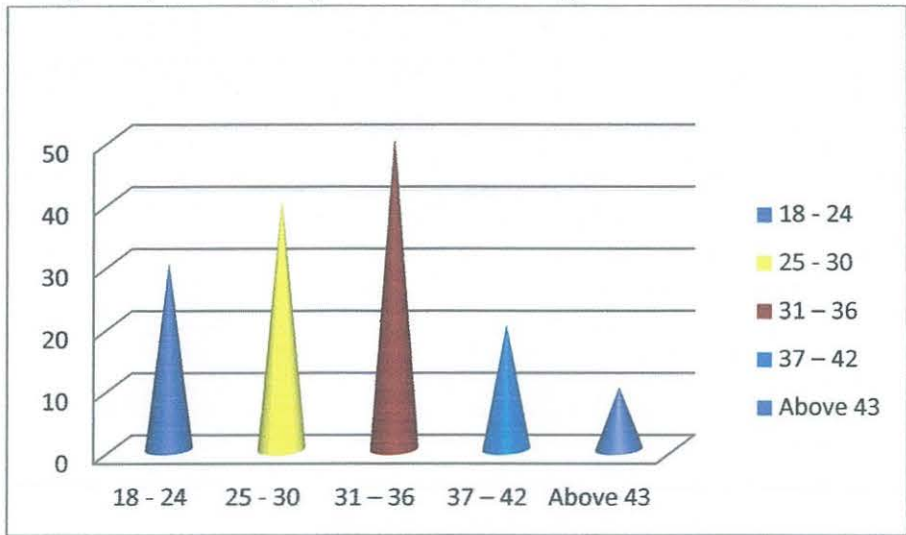
Table 1: shows the age of the respondents

Age (years)	Frequency	Percentage (%)
18 - 24	30	20
25 - 30	40	27
31 – 36	50	33
37 – 42	20	13
Above 43	10	7
Total	150	100

Source: Primary Data

According to the table above, the data revealed that the majority of the respondents were aged between 31 years to 36 years, who made the total of 33% of the respondents. Other age groups individually comprised of 27%, 20%, 13% and 7% who in total made a total of 100%.

Graph: 1, A bar graph showing the age of the respondents



Source: Primary data

According to the graph above, the data revealed that the majority of the respondents were aged between 31 years to 36 years, who made the total of 33% of the respondents. Other age groups individuals comprised of 27% in age of 25-30,20% in age of 18-24,13% in the age of 37-42 and 7% above 43 years totalling to 100%.

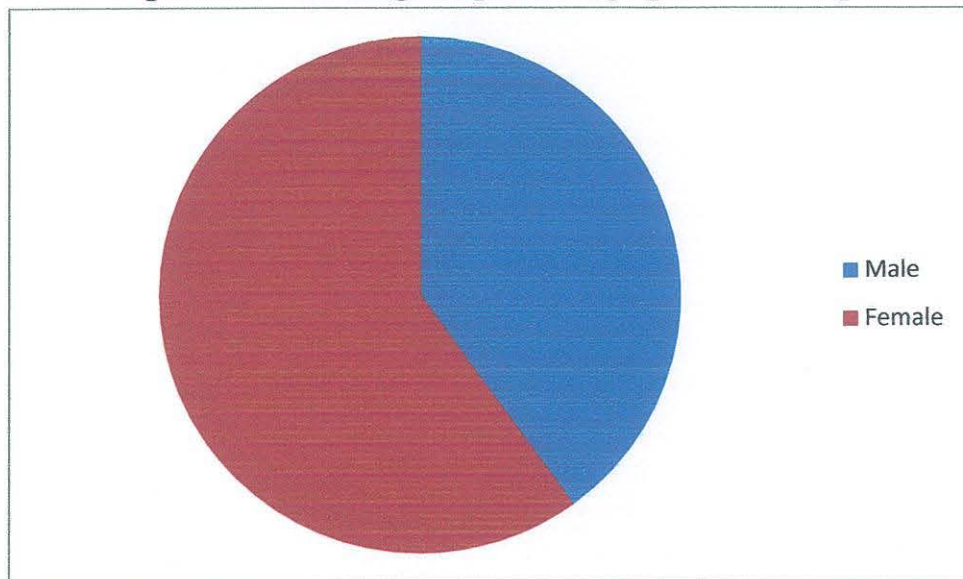
Table 2: shows the gender of the respondents

Gender	Frequency	Percentage (%)
Male	60	40
Female	90	60
Total	150	100

Source: Primary Data

Table 2: Shows the gender ratio of the respondents. The table reveals that out of 150 respondents, who were randomly selected to answer the questionnaires, 60 of them were males and 90 of them were females. This shows that 40% of the respondents on the questionnaires were male while 60% of the respondents were females.

Chart 2: pie chart showing the percentage gender of respondents



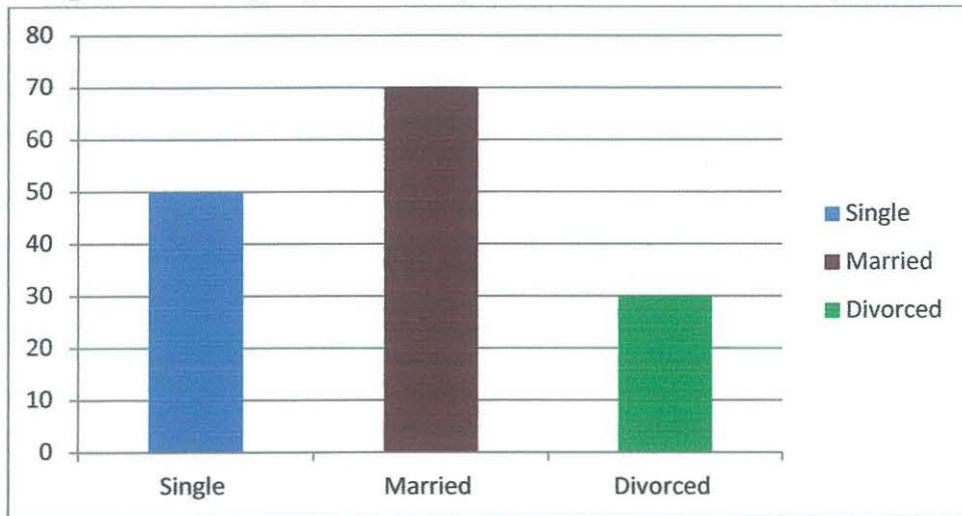
The pie chart above reveals that out of 150 respondents, who were randomly selected to answer the questionnaires, 60 of them were males and 90 of them were females.

Table 3: Shows the marital status of the respondents

Marital status	Frequency	Percentage (%)
Single	50	33
Married	70	47
Divorced	30	20
Total	150	100

The table above reveals the marital status of the respondents of the questionnaires. Out of the 150 respondents, fifty (50) were singles, seventy (70) were married and thirty (30) were divorced. In terms of percentage, the respondents may be represented by 33%, 47% and 20% respectively.

Graph 3: A bar graph showing marital status of the respondents



Source: Primary Data

The bar graph above shows the marital status of the respondents of the questionnaires. Out of the 150 respondents, 50 (33%) were singles, 70 (47%) were married and 30 (20%) were divorced.

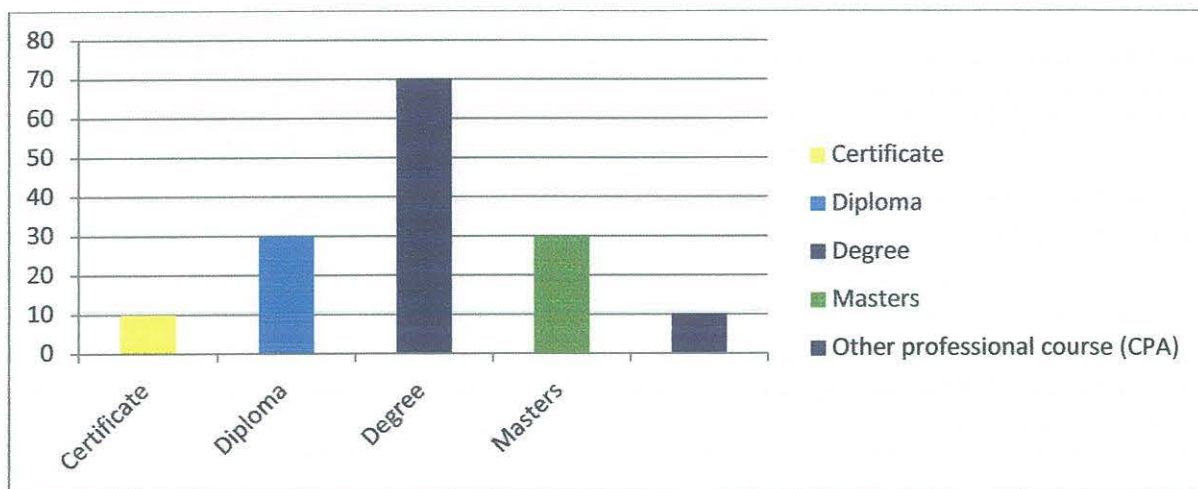
Table 4: shows the level of education of the respondents

Education level	Frequency	Percentage (%)
Certificate	10	7
Diploma	30	20
Degree	70	47
Masters	30	20
Other professional course (CPA)	10	6
Total	150	100

Source: Primary Data

The above table describes the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 7% certificates, 20% possess diplomas, 47% have degrees qualification, 20% have masters and 6% possess other professional courses such as CPA.

Graph 4: A bar graph showing the education levels of the respondents



Source: primary Data

The above bar graph shows the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 7% certificates, 20% possess diplomas, 47% have degrees qualification, 20% have masters and 6% possess other professional courses such as CPA.

4. 2. Response on Segmentation of duties on financial performance at Nansana Municipality.

Table 5 shows responses on Segmentation of duties on financial performance at Nansana municipality.

RESPONSE	STRONGLY AGREE	AGREE	STRONGLY DISAGREE	DISAGREE	NOT SURE	TOTAL
FREQUENCY	60	50	25	10	5	150
PERCENTAGE	40%	33%	17%	7%	3%	100%

Source: Primary Data

Table above shows how segmentation of duties affects financial performance of local government, that is to say Nansana municipality, it reveals that out of 150 respondents which represent 100%. 60 of them strongly agree that segmentation of duties greatly affect financial performance and it represents 40%, 50 agree with percentage of 33%, 5 were not sure whether segmentation of duties affects financial performance at 3% while 25 strongly disagree, 10 disagree with percentage of 17% and 7% respectively.

4.2.1. Response on authorization on financial performance of Nansana municipality.

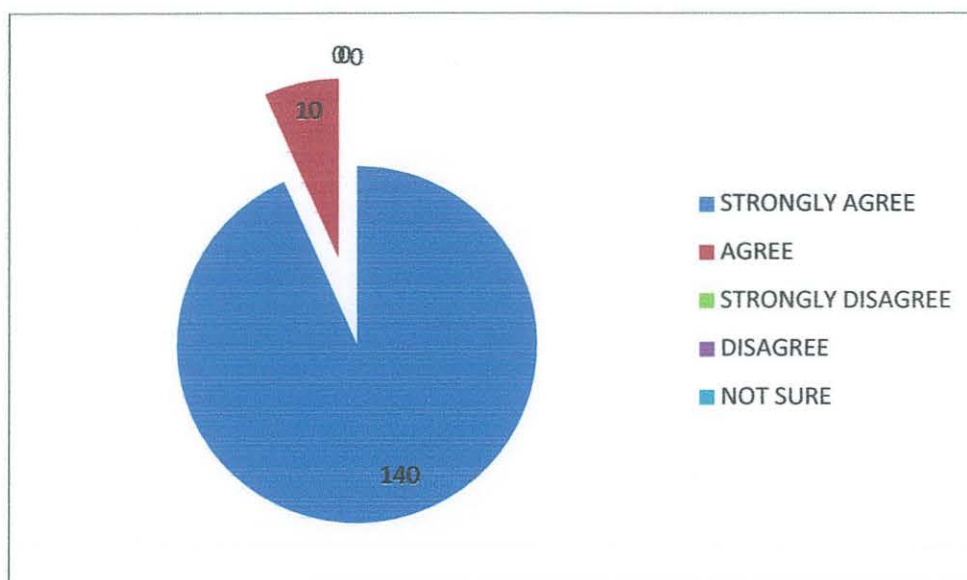
Table 6. Response on authorization on financial performance of Nansana municipality

RESPONSE	STRONGLY AGREE	AGREE	STRONGLY DISAGREE	DISAGREE	NOT SURE	TOTAL
FREQUENCY	90	30	5	10	15	150
PERCENTAGE	60%	20%	3%	7%	10%	100%

Source: Primary Data

Table above shows how authorization affects financial performance of Nansana municipality, it reveals that out of 150 respondents which represent 100%. 90 of them strongly agree that authorization greatly affect financial performance and it represents 60%, 30 agree with percentage of 20%, 15 were not sure whether authorization affects financial performance at 10% while 5 strongly disagree, 10 disagree with percentage of 3% and 7% respectively.

Pie chart 6. Shows response on authorization on financial performance.



Source: Primary Data

The pie chart 5 shows that 60% of the respondent strongly agree with the statement that segmentation of duties affects financial performance, 20% agree, 3% strongly disagree, 7% disagree and 10% were not sure.

4.2.2. Response of budgeting on financial performance.

Table 7. Shows the effect of budgeting on financial performance.

RESPONSE	STRONGLY AGREE	AGREE	STRONGLY DISAGREE	DISAGREE	NOT SURE	TOTAL
FREQUENCY	100	30	1	14	5	150
PERCENTAGE	67%	20%	1%	9%	3%	100%

Source: Primary Data

Table above shows how budgeting affects financial performance of local government, that is to say Nansana municipality in Uganda, it reveals that out of 150 respondents which represent 100%. 100 of them strongly agree that budgeting greatly affect financial performance and it represents 67%, 30 agree with percentage of 20%, 5 were not sure whether authorization affects financial performance at 3% while 1 strongly disagree, 14 disagree with percentage of 1% and 9% respectively.

4.2.3. Response on effect of internal control system on financial performance

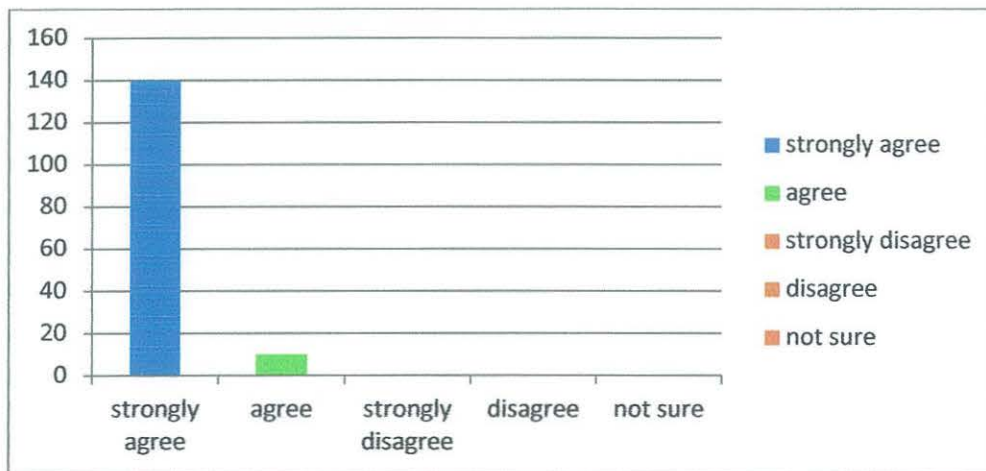
Table 8. Shows the effects of internal control system on the performance at Nansana municipality.

RESPONSE	STRONGLY AGREE	AGREE	STRONGLY DISAGREE	DISAGREE	NOT SURE	TOTAL
FREQUENCY	140	10	0	0	0	150
PERCENTAGE	93%	7%	0	0	0	100%

Source: Primary Data

Table above shows the effects of internal control system on financial performance of local government. That is to say Nansana municipality reveals that out of 150 respondents which represent 100%. 140 of them strongly agree that there is **great effect of internal control system on financial performance** and it represents 93%, 10 agree with percentage of 7%, 0 were not sure whether **internal control system affects financial performance** at 0% while 0 strongly disagree, 0 disagree with percentage of 0% and 0% respectively

Graph 8. Shows the effects of internal control system on the performance in Nansana municipal council.



Source: Primary Data

Graph above shows the effects between internal control system on financial performance of local government. That is to say nansana municipality it reveals that out of 150 respondents which represent 100%. 140 of them strongly agree that there is great effects between internal control system and financial performance and it represents 93%, 10 agree with percentage of 7%, 0 were not sure whether internal control system affects financial performance at 0% while 0 strongly disagree, 0 disagree with percentage of 0% and 0% respectively.

4.3. PRESENTATION OF OTHER FINDINGS

4.3.1 Some of the internal control procedures for the types of internal control systems

Internal control over cash

All cash and cheques received are recorded immediately and accurately usually using serially numbered books.

There are different people responsible for selling the bank's property, making authorization, and receiving cash and payments.

Adequate security exists over all cash/near cash holdings and over all transactions of cash. (to the bank, from the institution to payment sites for wages among others).

Daily reconciliation statements are prepared regarding cash and cheques received, banked and balance in hand. Any discrepancies are investigated immediately and the culprits are immediately brought to book.

4.3.2 Problems that have been faced in the course of implementation of internal control systems in nansana municipal council.

No internal control systems, however elaborate, can by itself guarantee efficient administration and completeness and accuracy to the records nor can it be proof against fraudulent collusion, especially on the part of those holding positions of authority and trust. This implies that there are certain factors that could undermine the effective operation of an internal control system, some of which could be outside the control of management.

- ❖ Management has to ensure that the benefits expected from an internal control system outweigh the costs. As a result, certain important controls like computerization of all activities within and outside the bank has not fully been put in place because it is very expensive.

- ❖ Most internal control in the institution are directed towards routine transactions like deposit of cash and cheques, payment in cash and non routine transactions like disposal of the organization assets. This leaves gaps that are exploited by individuals in charge if disposals of the organization assets.

- ❖ Human errors due to carelessness, distraction, mistakes of judgment and misunderstanding instructions undermine the effectiveness of the internal control system in equity nansana municipal council A number of management or employees circumvent controls through collusion with persons outside or inside the organization. For example, where duties are segregated, the employees collude to perpetuate and conceal a fraud.

- ❖ 4.3.3 What the management of Nansana municipal council are doing to minimize the problems of internal control system.

4.3.3.1 Control over disbursement of cash

Most of the disbursements of the organization were made by cheques while minor payments were made through the petty cash fund. The payment was done after all necessary processes,

authorization and approval have been performed. Nansana municipal council has three signatories who are authorized and approved to sign authorization. These include the managing director, director of finance and chief accountant. However, small amounts of less than fifty thousand (50,000/=) may be signed by the chief accountant and chief cashier for petty cash only. However, all these and other transactions are monitored and reviewed by the director of finance and planning and executive director, on monthly bases.

4.3.3.2 Vote book

This is the column sheet bund together in the form of the book or register is used by the organisation to record all expenditures including commitments. The book contains the current unspent and uncommitted balances of each item, serial number, the date, amount and the payee of each voucher paid or forwarded to be paid.

4.3.3.3 Control over paid documents

The entire paid up documents are stamped “paid” to show that the payment was made. All the cancelled documents are written “cancelled” and are not thrown away rather they are kept together for easy reference and trace for auditing purposes.

4.3.3.4 Internal control over cash

Nansana municipal council is exercising a certain level of control over its cash; the systems available are in terms of accounting and administrative control. Accounting control includes making use of supporting documents, bank reconciliation and the use of budgetary control. While administrative control includes strictly prohibiting access of the cashier office

4.3.3.5 Physical control

The physical control over cash of equity Bank (U) Ltd comprises of safes, cash boxes and strong room and more over the custody of documents and records. The equity Bank (U) Ltd financial regulation suggests that all valuable documents such as the Bank Seal, contracts agreements, motor vehicle registration cards, and share certificates, title deeds, among others, shall be kept in safe custody (under lock and key) by the managing director.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussions and findings from the previous chapters. It was on the basis of chapter four with reference to research objectives and the aid of literature review where the conclusions and recommendations were made. The objectives of this study were to find out ; the effect of internal control systems on financial performance, effect of segmentation of duties on financial performance, effect of authorization and approval on financial performance, and effect of budgeting on financial performance in Nansana municipality.

5.1 Summary

On the basis of the analysis of chapter four, the findings suggested that internal controls and performance of local governments are inseparable terms. The respondents and interviewees were quite aware on the influence of internal control systems on the performance of local governments such as Nansana municipality. It was viewed that, internal control plays very important roles in the performance of nansana municipality headquarters were identified where 94% of the total respondents concurred with the fact and mentioned roles such as it ensured business of the entity was carried on in an efficient and orderly manner, it ensured business was adhering to the prescribed management policies, it secured and safeguarded the organisations assets and secure as far as completeness and accuracy of records was concern.

The effects of internal control systems on financial performance of local governments. That is to say Nansana municipality, it reveals that out of 150 respondents which represent 100%. 140 of them strongly agree that there is great effects between internal control system and financial performance and it represents 93%, 10 agree with percentage of 7%, 0 were not sure whether internal control system affects financial performance at 0% while 0 strongly disagree,0 disagree with percentage of 0% and 0% respectively

Segmentation of duties affects financial performance of local governments that is to say Nansana municipality, it reveals that out of 150 respondents which represent 100%. 60 of them strongly agree that segmentation of duties greatly affect financial performance and it

represents 40%, 50 agree with percentage of 33%, 5 were not sure whether segmentation of duties affects financial performance at 3% while 25 strongly disagree, 10 disagree with percentage of 17% and 7% respectively.

Authorization affects financial performance of local governments, that is to say Nansana municipality, it reveals that out of 150 respondents which represent 100%. 90 of them strongly agree that authorization greatly affect financial performance and it represents 60%, 30 agree with percentage of 20%, 15 were not sure whether authorization affects financial performance at 10% while 5 strongly disagree, 10 disagree with percentage of 3% and 7% respectively.

Budgeting affects financial performance of local government, it was revealed that out of 150 respondents which represent 100%. 100 of them strongly agree that budgeting greatly affect financial performance and it represents 67%, 30 agree with percentage of 20%, 5 were not sure whether authorization affects financial performance at 3% while 1 strongly disagree, 14 disagree with percentage of 1% and 9% respectively.

5.2 Conclusion

Internal control systems which relied entirely on segmentation of duties, plans of organization, budgeting, authorization and approval, rotation of employees, safeguarding of assets among others may be used to control frauds, embezzlement and accounting errors that is, it ensured proper and satisfactory cash management and hence good performance of Nansana municipality.

Therefore, it is very important to note that, **internal control systems** play an important role in the performance of local governments since it ensures that business is ran in accordance with prescribed managerial policies, organizational resources especially cash which is properly handled, there is incidental accountability for all cash received and payment is made on the basis of proper documentary authority for the benefit of the organization and such authorization is Ltd to few known and eligible personnel.

On the other hand, the researcher identified the factors which led to inefficiency and ineffectiveness of used internal control systems. Some of these factors are inability of Nansana municipality to implement satisfactory control such as **proper authorization and approval** of funds, lack of active internal audit unit in big organization like Nansana municipality and failure to separate the responsibility for related transaction.

On the above basis the researcher recommended that **segmentation of duties** should be adopted to eliminate or minimize the chances of consequences which are likely to happen as the result of failure to segment the duties in the Organization to bring about good performance.

On **budgeting** the researcher recommended that Nansana municipality should establish authority and responsibility centres for every function to provide basis for the cost centre, an organization plan should indicate clearly the department or person responsible for such function as purchasing, receiving incoming shipments, maintaining accounting records, approving financial matters and preparing the financial year budget.

5.3 Recommendations

On the basis of this research work performed, the researcher recommended the following with the aim of improving the internal control systems of Nansana municipality to bring about better performance of the organization and hence ensured that the controls practiced are appropriate and satisfactory:

The organization should increase the ability of implementing the internal control process, policies and procedures at hand. Nansana municipality headquarters had almost all vital internal control policies, the only problem existing is its inability to **act** and operate within the set principles.

On Segmentation of duties. The researcher greatly recommended that nansana municipality headquarters must segregate duties such that tasks performed by different people can easily be identified, Separation of accounting and custody of assets: An employee who had custody of an asset or an access to an asset lets say cash should not maintain the accounting records of

that asset, this aims at reducing temptation to that particular employee. This may also be sorted out by increasing the number of employees so as to facilitate the separation of duties.

On authorization the researcher recommends that the organization directors must approve any kind of payment before employee are permitted to handle or performs any transaction, every transaction should go through four steps: authorization, approval, execution and recording. For example when top management authorizes a transaction, the departmental manager may approve and payment office execute while accounting office records it on its books, the danger of fraud are in increase. Studies of fraud cases suggest that many individuals may be tempted into dishonest act if given complete control of company assets (Source: External payment in arrear Account scandal of BOT as audited by Ernest and Young. in 2008). So Nansana municipality should consider this fact and minimize the possibility as quick as possible to be free from this risk.

On budgeting the organization must establish authority and responsibility centres for every function to provide basis for the cost centre, an organization plan should indicate clearly the department or person responsible for such function as purchasing, receiving incoming shipments, maintaining accounting records, approving financial matters and preparing the financial year budget. One person should be clearly responsible for each function in the budget otherwise it would be difficult to determine the cost /expenditure against revenue and the person responsible for budget review. This leads to effectiveness and it promote efficiency hence economic growth and development.

5.4 Limitations and suggestions for further studies

Financial constraints. A lot of funds were needed to conduct the research study like printing, typing, buying published documents, calls and transport.

This was reduced by soliciting funds from family members, friends, relatives and closest friends.

Time. There was limited time available to carry out the study extensively and yet the research had a lot to cover within the scope of research and hence there was a wide scope of coverage

which the researcher required more time. On the issue of time, the researcher utilized all the free time she had in addition to missing leisure so as to concentrate on research.

Some respondents required having enough time to respond to the questions or to fill them at their leisure time. They delayed the research process. The researcher obtained telephone contacts of the respondents which made her get in touch in order to remind them to finish filling in the questionnaires in time.

There was little information documented and in writing about the operations of Nansana municipal council. The researcher put more time in coordinating with people and requested them to present any available records.

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APPENDICES

APPENDIX 1: RESEARCH INSTRUMENTS

(a) QUESTIONNAIRE

I'm KABOYO IVAN persuing Bachelor's Degree in Business Administration with Finance and Accounting option from Kampala International University. I'm conducting a research on the topic: "The role of internal control systems on the performance of local governments with a case study of Nansana municipality headquarters. The purpose of this study is to fulfill my academic requirements. Therefore, I kindly request you to answer the following questions. Your responses will be treated with the highest degree of confidentiality. The data gathered will only and only be for academic benefits.

Background information

Please, tick appropriate box

1. Age

- a) 18-24 ☐ b) 25-30 ☐ e) 43 and above ☐
c) 31-36 ☐ d) 37-42 ☐

2. Sex/Gender

- a. Male ☐ b. Female ☐

3. Marital status

- a. Single ☐ b. Married ☐
c. Divorced ☐

4. Level of education

- a. Certificate ☐ Diploma ☐ e) professional course CPA ☐
c. Degree ☐ d. Masters ☐

SECTION B

Questionnaire to determine the level of Internal Control systems.

Please rank the following statement on likert scale ranging from strongly disagree to strongly agree

Where;

1= strongly agree, 2= agree, 3= strongly disagree,4= disagree,5= not sure

Segmentation of duties and financial performance

Questions	1	2	3	4	5
Our institution has clear separation of roles					
Our governing council and its committees are independent of Management.					
Management closely monitors implementation of Internal control systems in our institution					
Management provides feedback to the junior officers about the Operation of the system					
Our Institution has a well developed Chart of Account					
Management acts with a great degree of integrity in execution of their roles.					
Ethical values are upheld in all management decisions.					
Our Institution has an objective, independent and active audit Committee.					

Authorization and financial performance

Questions	1	2	3	4	5
Internal auditor makes appropriate recommendations for Management to improve.					
It is impossible for one staff to have access to all valuable Information without the consent of senior staff.					
There is appropriate supervision by senior staff on the work of their juniors.					
Every employee's work check on the others					
All Payments are approved by management.					
There is Preventive control in the organization					
There is detective control in the organization					
There is Corrective control in the organization					
Receipts are verified before posting and other documents					
Approvals are done before cash is given out					

Budgeting and financial performance

Questions	1	2	3	4	5
We have budget reviews where actual expenditure is Compared with budgeted expenditure and explanations for the Variances given.					
Financial budgeting is done annually.					
Our budget shows actual expenditure incurred					
our budget shows actual revenue generated					
Management make decision basing on financial report.					
Our financial report shows our corporate responsibilities to the communities and its surrounding.					
There is Proper Record Maintenance in the organization					
Taxes are catered in the budget					
.There is Proper Safeguarding of Assets in the organization					
Depreciation of assets are catered for in the budget					

SECTION C

Please answer "yes" or "No" in the box provided.

5. Did you have internal control systems in place

a. No ☐ b. Yes ☐

6. Are internal control systems related to performance of an organisation?

a. Yes ☐ No ☐

7. Please, tick the different types of internal control systems that are at Nansana municipality headquarters.

a. Protective ☐ tective ☐

b. Corrective ☐

8. Are the internal control procedures for three the above types of internal control systems?

a. Yes ☐ b. No ☐

9. A part from physical control and security on cash, do you have other system of control in authorization of cash and other disbursements?

a. Yes ☐

b. No ☐

c. Not sure ☐

10. Do you think, internal control is efficient and effective in the performance of an organization?

a. Yes b. No ☐

c. Not sure ☐

11. Are internal control process policies and procedures satisfactory in local government.

a. Yes ☐ b. No ☐

c. Not sure ☐



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**COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE**

August, 16th 2018

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR KABOYO IVAN REG NO 1153-
05014-01485**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail him with all the necessary assistance regarding him research.

**TOPIC: INTERNAL ACCOUNTING CONTROL SYSTEM IN THE
PERFORMANCE OF LOCAL GOVERNMENTS**

Case Study: - NANSANA MUNICIPALITY HEADQUARTERS

Any information shared with him from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

DR. JOSEPH B.K. KIRABO
HOD. ACCOUNTING AND FINANCE
0772323344