
**Fiscal Decentralization And It's Effect On Quality Of Financial Reporting, A Case Study Of Kcca, Kampala -
Uganda**

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Abstract

The study examined the effect fiscal decentralization on quality of financial reporting in Kampala city council. The fiscal decentralization were the independent variables while quality of financial reporting was the dependent variable. The study adopted a triangulation design consisting of a correlation design which was quantitative in approach and cross sectional in nature. The study population consisted of three hundred ninety one members from whom a sample of two hundred five two elements was drawn using Krejcie and Morgan method. A combination of census, proportionate stratified random sampling and simple random sampling techniques were employed in selecting members from different strata into the study sample. Two data collection methods namely structured questionnaire consisting of closed questions with five point Likert scale and interview guide were used in collecting primary data. Out of two hundred five two questionnaires administered, two hundred twenty five registered returned posing a response rate of eighty nine percent. The collected data was presented using frequency tables and pie charts which were analyzed by Microsoft excel software. The findings from the research indicated that 58(26%) of the respondents strongly agreed that Fiscal decentralization significantly simplified financial reporting in KCCA, 87 (39%) agreed. 56(25%) were not sure, 17(12%) disagreed, while on 7(3%) strongly disagreed the idea. The respondents agreed that fiscal decentralization helps the planning, resource mobilization and among others. The management of KCCA should put more effort on improving the budget monitoring through effective and efficient application of the vote books. This would assist in controlling irregular spending, flouting of budget guidelines that will result in timely production of budget reports which is still a challenge in KCCA.

Keywords: Fiscal, Decentralization, Quality, Financial and Reporting

Background of the Study.

Globally, interest in fiscal decentralization is broad and long-term (Christopher, Muhindo, et al., 2022). The rapid expansion and unchecked growth of cities and municipal authorities has created previously unimaginable financial reporting quality challenges for university stakeholders with diverse interests and backgrounds, a critical issue in public sector financial management (Racheal, Enock, et al., 2023). Many countries and local governments (LG) around the world are struggling to provide solutions to the problem of low quality financial reporting law. business managers have expanded the problem of financial reporting and therefore increased the need to have relevant, reliable and timely financial information for decision making (Racheal, Kazaara, et al., 2023). In African countries like Senegal, Ghana and others. Management of public financial resources is a current topic in both developing and developed countries. This has become relevant following the widespread transfer of financial responsibilities from the central government to sub-national local governments with the idea of improving operational accountability and performance (Ntirandekura et al., 2022). Accounting reporting as an element of financial responsibility and is very

Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

important for ensuring the proper use of public finances for the provision of social services. (Christopher, Komunda, et al., 2022), point out that the need for strong management of public resources in local government has been accelerated by fiscal decentralization, which provides fiscal autonomy in both revenue and expenditure. The nature of local government operations attracts a strong financial accountability mechanism and one of the key elements of financial accountability is financial reporting (Racheal, Enock, et al., 2023).

In East African countries, various institutions have been created to support decentralization and development as part of a broader reform agenda, such as Kenya, Tanzania and others. However, the region scores low in institutional competitiveness based on the Global Competitiveness Index. Some key lessons can be drawn from the study's findings: Each country's context with respect to politics, demographics, and other social dimensions influences the form, timing, and strength of decentralization (Christopher, Muhindo, et al., 2022). These aspects should be taken into account when countries seek to improve governance, accountability and participation in decentralized units. These country-specific aspects are likely to influence policy formulation and implementation and thus structural transformation. The relationship between the national government and the various stakeholders, as well as the political, legislative and regulatory frameworks, are all important factors influencing the form and process of decentralization in the region (Winny et al., 2023). The main stakeholders in this regard are decentralized units, power centers, media and civil society (Ramadhan et al., 2023). According to (Polycarp et al., 2023), the quality of financial information includes key aspects such as relevance, reliability, comprehensibility, accuracy and timeliness. These qualities of financial information contribute significantly to the quality of financial reporting. It has been praised as “one of the most far-reaching local government reform programs in the developing world” (Cand et al., 2022) and “one of the most radical decentralization initiatives in any country today” (Besley T 2013: 241) It is exceptional among developing countries , in terms of the scope and extent of devolution of power and responsibility to the local level. to decentralization supporting such an ambitious and exemplary form of devolution Local councils (then called "resistance councils") played an important role for the NRM during and after the guerrilla war in the first half of the 1980s (Richard, 2022). These councils were to resist the incumbent government before the NRM came to power and maintain social order and peace and then ensure democracy. Decentralized governance was part of the new regime's political strategy to introduce a new and revolutionary concept of democracy; a democracy that is participatory, people-based and popular (Faith et al., 2023). Therefore, the priority was to carry out decentralization quickly and holistically. Under this system. LG and UA have independent powers to make financial decisions, use and account for funds through the production of their own financial reports, statements and final accounts to the Auditor General, section 86 and 87 of LGA CAP 243.

According to Kampala District PAC (2008), KCCA continued to operate without preparing and submitting budget monitoring reports, monthly, quarterly, half-yearly and annual financial reports to its councilors or producing and submitting final accounts to the Auditor General on time as required (Annet and coll., 2023). The application of

Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

different accounting bases and principles over the years has made comparability and standardization of financial reporting in KCCA quite cumbersome. This has also made it difficult to evaluate financial performance, which has significantly undermined the usefulness and quality of financial reporting in KCCA (Auditor General, 2015). The study was based on the theory of liberal democracy and the local fiscal choice model (Racheal, Kazaara, et al., 2023). Both the theory and the model advocated the creation and transfer of administrative, financial and political powers and responsibilities from the center to autonomous local governments and municipal authorities in terms of planning, budgeting, decision-making and financial reporting activities (Racheal, Enock, et al., 2023). . It was argued that liability; equity in service delivery, rapid government response to community concerns is best achieved by devolving these mandates to local governments where such services are required (Ntirandekura & Christopher, 2022).

Statement of the problem

The Government of Uganda (GoU) has over the years implemented several measures apart from financial decentralization and the development of a new Accounting Information System (IFMS) to address the problem of poor quality financial reporting in local governments, municipal authorities and especially KCCA, which have not yielded any significant results. (Moses et al., 2023). While the Local Government Act CAP 243 section 79 gave KCCA discretionary and autonomous financial powers to formulate, approve, implement, monitor, evaluate and report financial performance to its stakeholders (Faith et al., 2023). The Auditor General (2010) found that of the 114 statutory financial reports due per year, only 51% are produced, of which 75% are always presented to stakeholders late. Also, according to the Chief Internal Auditor (2014), the reports produced by KCCA usually do not conform to the guidelines in LGFAR (2014). (Akankwasa et al., 2022), Public Finance and Accountability Act (2003), which makes financial evaluation and comparability very difficult. This plight has also been continuously reported by the national evaluation team from MOLG on the Local Government Development Program (LGDP) at KCCA for 2014, 2015, 2016 and 2017. However, there is no clear explanation as to why this is so and yet little effort has been made. address it (Christopher, Muhindo, et al., 2022). The study will therefore intend to examine the effect of fiscal decentralization on the quality of financial reporting.

Objectives of the Study

1. To establish the relationship between fiscal decentralization and quality of financial reporting in KCCA.
2. To examine the causes of poor quality of financial reporting in Kampala City Council Authority.
3. To analyze the possible solution to the causes of poor financial reporting in KCCA.

Methodology

The researcher used a cross sectional research design during the study. The researcher used this design because it compared different population groups at a single point time (Anwar et al., 2022). Cross sectional design is a type of observational study design in which the investigator measures the outcome and the exposures in the study participants at the same time (L. A. Nafiu et al., 2012). Qualitative approach was used in recording descriptions of the elements of the study in a form which was not numerical and this helped in getting an in-depth analysis of the

Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

problem under investigation. Qualitative approach was further applied in order to describe current conditions and investigate relationships of the two variables (A & Ahmed, 2019). In addition, it was helpful in answering questions concerning the current state of the subject under study. Quantitative research design was also used to capture details of the study which was expressed in numerical terms like percentages, ratios, and population and sample sizes, among others (Olanrewaju & Abiodun, 2021). The study population constituted mainly the population of KCCA, these included, 131 managerial staffs and 260 operational staffs totaling to 391 staffs as of Daily monitor of Monday 14th January 2019 (L. Nafiu et al., 2013). This population was chosen because, it had adequate knowledge of the subject under investigation and the research variables under investigation. The researcher determined the sample size using Krejcie and Morgan table. According to Krejcie and Morgan. Sample table, required sample size, Given A= Finite population, where N= population size and n=sample size (Rasheed et al., 2022). Therefore, in this study, the study population was 391, and 252 respondents

Hence $N=n$ $N=391$ $n=252$

The sample size was 252 respondents selected from the population of 391 using krejcie and Morgan of (1970) method. The researcher first divided the targeted population into two non over lapping strata namely (Jallow et al., 2021). Managerial staff and Operational staff based on roles before determining the sample size in each stratum using Krejcie and Morgan table as illustrated in table 1:

Table 1: The required Sample size

Category	Population	Sample Size	Selection Method
Managerial staff	131	97	Purposive Sampling
Operational staff	260	155	Simple Random and Systematic sampling
Total	391	252	

The study employed both statistical and non-statistical sampling techniques. Statistical sampling techniques included random sampling, systematic and cluster sampling whereby the respondents was grouped into different clusters mainly the Managerial staffs. Then a random sampling technique was applied on the Operational staffs since they were many in number. However, since the Managerial staffs were few, non-statistical sampling was used and this was mainly purposive sampling technique (L. A. Nafiu & Ph, 2012). This research used self-administered questionnaires for the respondents. They were distributed among the respondents. The justification for using this instrument is that questionnaires were easy to quantify and analyze. In addition, the questionnaire was used because the study focused on opinions, attitudes, feelings and perceptions of respondents (Olanrewaju et al., 2021). Data analysis included; editing, coding computer data entry and verification of the accuracy of the data entered into the computer. Qualitative data was reviewed and analyzed using content analysis where by key statements was used to backup numerical data analyzed. Data analysis was carried out using SPSS in the form of frequency distribution tables, and pie chart which analyzed the relationship between the two variables (Nelson et al., 2022).

Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

RESULTS**Table 2: The relationship between fiscal decentralization and quality of financial reporting in KCCA**

RESPONSE	SA		A		UD		D		DS		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Quality of financial reporting in KCCA significantly improved since the inception of fiscal decentralization	58	26.0	78	34.0	37	16.0	27	12.0	25	11.0	225	100
Financial decentralization significantly standardized financial reports in KCCA	98	44.0	75	33.0	27	12.0	25	11.0	0.0	0.0	225	100
The implementation of fiscal decentralization in KCCA greatly streamlined the financial reporting challenges	89	39.0	69	31.0	60	27.0	7	3.0	0.0	0.0	225	100
Fiscal decentralization significantly increased the reliability of the financial reports in KCCA	65	29.0	82	36.0	52	23.0	16	7.0	10	4.0	225	100
The usefulness of the financial reports in KCCA significantly	49	22.0	91	40.0	29	13.0	36	16.0	20	9.0	225	100

Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

improved after the adoption of fiscal decentralization												
Fiscal decentralization significantly simplified financial reporting in KCCA	58	26.0	87	39.0	56	25.0	17	7.0	7	3.0	225	100

Source: Primary Data, 2023

According to the table, 58 (26%) of the respondents strongly agreed and 78(34%) agreed respectively that Quality of financial reporting in KCCA significantly improved since the inception of fiscal decentralization. Accordingly, 37(16%) were not sure, 27(12%) disagreed and 11 (5%) Strongly disagreed to the idea, 98(44%) of the respondents strongly agreed to the notion of Fiscal decentralization which significantly standardized financial reports in KCCA (Musimenta et al., 2017). Most of the respondents said that fiscal decentralization was undertaken to reduce errors of financial reports and to ensure accurate and reliable preparation of financial statements by external auditors. It involves planning, decision making, and implementation and among others which is the transfer of financial powers from the central government to the sub levels of government.

The table then shows that 89(39%) of the respondents strongly agreed that the implementation of fiscal decentralization in KCCA greatly streamlined the financial reporting challenges. 69(36%) agreed, 60(27%) they were not sure, 7 (3%) disagreed and non-strongly agreed to the idea. Through the verbal interview, most of the respondents agreed that the implementation of fiscal decentralization in KCCA has highly streamlined the financial reporting challenges in terms preparation, resource allocation both in short and long run. If fiscal decentralization is done effectively, then the organization is likely to get many positive benefits (Winny et al., 2023).

The table indicates that 65(29%) of the respondents strongly agreed. 82(36%) agreed, 52(23%) were no sure, while 16(7%) strongly agreed, and 10 (4%) to the idea that fiscal decentralization significantly increased the reliability of the financial reports in KCCA, In the verbal interview, most of the respondents agreed that fiscal decentralization helps the external Auditors with accurate and reliable information while preparing financial statements. The table shows that 49 (22%) of the respondents strongly agreed, that the usefulness of the financial reports in KCCA significantly improved after the adoption of fiscal decentralization, 91(40%) agreed, 29(13) were not sure, 36 (16%) disagreed, while 20(9%) strongly disagreed to the idea (Alex et al., 2023).

The findings from the research indicated in the table above that 58(26%) of the respondents strongly agreed that Fiscal decentralization significantly simplified financial reporting in KCCA, 87 (39%) agreed. 56(25%) were not sure, 17(12%) disagreed, while on 7(3%) strongly disagreed the idea. The respondents agreed that fiscal decentralization helps the planning, resource mobilization and among others (Christopher, Muhindo, et al., 2022). The respondents believe that proper implementation of fiscal decentralization in everything in an organization is a key to proper decision making.

The views as per the study respondents revealed that all respondents believed that decentralized planning, decision making and others have a relationship between fiscal decentralization and quality of financial reporting in KCCA as none of the respondents was in the disagreement with

the same statement that a relationship between the fiscal decentralization and quality of financial reporting in KCCA exist.

Respondents from the study reported of the relationship between the fiscal decentralization and quality of financial reporting in KCCA-headquarters can either be negative or positive depending on the way how the implementation of decentralization practices. The above information as per the study respondents significantly implies that the relationship can either be negative or positive. The views as per the study respondents revealed that all respondents believed that decentralized planning, decision making and others have a relationship between fiscal decentralization and quality of financial reporting in KCCA as none of the respondents was in the disagreement with the same statement that a relationship between the fiscal decentralization and quality of financial reporting in KCCA exist (Polycarp et al., 2023). Respondents from the study reported of the relationship between the fiscal decentralization and quality of financial reporting in KCCA-headquarters can either be negative or positive depending on the way how the implementation of decentralization practices.

Table 3: The causes of poor quality of financial reporting in Kampala City Council

RESPONSE	SA		A		UD		D		DS		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Decision making in KCCA is not always consistent with the existing regulatory framework	48	21.0	77	34.0	100	44.0	0.0	0.0	0.0	0.0	225	100
Financial decisions in KCCA are not always guided by	60	27.0	105	47.0	60	26.0	0.0	0.0	0.0	0.0	225	100

accurate and relevant information												
Budgeting in KCCA is not regularly monitored, evaluated, reported and discussed	82	36.0	93	41.0	40	18.0	10	5.0	0.0	0.0	225	100
KCCA staff auditors are always influenced by top managers and not independent while making decisions	102	45.0	60	27.0	63	28.0	0.0	0.0	0.0	0.0	225	100
Budgeting in KCCA is not always guide by the financial activities	49	22.0	76	34.0	59	26.0	41	18.0	0.0	0.0	225	100
Weak regulatory enforcement in KCCA lead to poor quality of financial reporting	76	34.0	97	43.0	39	17.0	13	6.0	0.0	0.0	225	100

From the table above. 48(21.0%) of the respondents noted that Decision making in KCCA is not always consistent with the existing regulatory framework such as IFR3, IFRS and among others which in turn affect the quality of financial reporting. 77(34%) of the respondents agree and 100(44%) were not sure about this. The study then shows that 60(27%) of the respondents strongly agree, 105 (47.0%) agree (Racheal, Enock, et al., 2023). 60(26%) are not sure, while non-disagreed and strongly disagreed about the fact that fiscal decisions in KCCA are not always guided by accurate and relevant information such as un expected occurrence from the management, limited information and explanation from the organization officials, lack of supportive source documents and others.

Budgeting in KCCA is not regularly monitored, evaluated, reported and discussed was reported as one of courses of poor quality of financial reporting, 80(36%) of the respondents confirmed the assertion that Budgeting in KCCA is not regularly monitored, evaluated, reported and discussed when allocating of resources. 93(%) of the respondents

agreed, 40(18%) were not sure, only 10 (5%) disagreed, while non-strongly disagreed about this. The study went ahead to discover that Budgeting in KCCA is not regularly monitored, evaluated, reported and discussed. Therefore This lead to lack of accountability and transparency hence poor quality of financial reporting.

According to the table, 102(45%) of the respondents noted that KCCA staff Auditors are always influenced by top Managers and not independent while making decisions. The researcher established that Auditors do not some have a remoteness of mind when preparing and presenting financial statements to the different users, 60(27%) of the respondents agreed, and 63(28%) were not sure about this.

The study also established that Budgeting in KCCA is not always guide by the financial activities which is one of the course of poor quality of financial reporting in the study area. The study learnt that KCCA budgeting do not portray the actual purpose for the resource allocation, they argued that the resources are not always allocated to the desired activities as because of high rampant tendency of corruption among the PAC committee members, it should be noted that 49(22%) respondents bitterly emphasized the challenge, 76(34%) strongly emphasized the challenge, and 59(26%) were not sure, while only 41(18%) strongly disagreed. According to the table, 76(34%) of the respondents said that Weak regulatory enforcement in KCCA lead to poor quality of financial reporting, 97(43%) of the respondents agreed, 39(17%) were not sure, while only 13(6%) disagreed. It was established that the above challenge affect the quality of financial reporting as some times reduce greatly on the firms performance on profitability level of the organization. The verbal findings of the study also indicated that there are still challenges faced by KCCA as firm in the process of preparing and presenting of financial statements

The possible solution to the causes of poor financial reporting in KCCA

Table 4: The possible solution to the causes of poor financial reporting in KCCA

RESPONSE	SA		A		UD		D		DS		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Information contained in financial reports in KCCA is always free from intended errors	98	44.0	57	25.0	70	31.0	0.0	0.0	0.0	0.0	225	100
In KCCA information contained in financial reports is	57	25.0	68	30.0	43	19.0	37	16.0	20	9.0	225	100

usually complete and not biased												
Financial report in KCCA normally are cross checked by a senior officer before they are signed and disseminated	86	38.0	59	26.0	21	9.0	39	17.0	20	9.0	225	100
Electronically prepared financial reports in KCCA have increased its reliability	62	28.0	83	37.0	42	19.0	38	17.0	0.0	0.0	225	100
Financial reports in KCCA are ever audited by certified public accountants before they are used	46	20.0	77	34.0	60	27.0	15	7.0	25	1.0	225	100
In KCCA financial reports are usually prepared by technically qualified accountants	79	35.0	86	38.0	32	14.0	28	13.0	0.0	0.0	225	100

Source: primary. 2019

According to the table 98t44°o) of the respondents strongly agreed and 57(25%) agreed respectively that Information contained in financial reports in KCCA is always free from intended errors. 70(310 o) w ere not sure and non- of the respondents disagreed about tins. Most of the verbal findings indicated that it is an obligation on accountants to be fair, honest and avoid conflicts of interest in their dealings with clients. The study also shows that the environment that accountants operate puts them at risk of breaching codes of conduct because of some returns, which come their way.

The findings from the researcher indicated in the above shows that 57(25%) of the respondents strongly agreed that in KCCA, Information contained in financial reports is usually complete and not biased, 68 (30%) agreed, 43 (19%) were not sure, 39(17%) disagreed, while only 20(9%) strongly disagreed. The respondents agreed that Members of

the profession are expected to desist from accepting to deliver accounting services which they lack the necessary competencies to execute.

From the table, 86(38%) of the respondents strongly agreed that Financial reports in KCCA normally are cross checked by a senior officer before they are signed and disseminated, 59(26%) agreed, 21(9%) were not sure, 39(17%) disagreed, while only 20(9%) strongly disagreed. Further still, the findings in the table indicate that 62(28%) of the respondents strongly agreed that Electronically prepared financial reports in KCCA have increased its reliability, in the field most of the interviewed respondents supported this point by saying that when financial statements are prepared electronically by use of computer accounting soft wares enables the organization to errors and fraud within the management and poor quality of financial reporting.83(37%) agreed, 42 (19%) were not sure, 38(17%) disagreed and non-strongly disagreed about this.

The table indicates that 46(20%) of the respondents strongly agreed that financial reports in KCCA are ever audited by certified public accountants before they are used. Though an interview with the respondents, some of them respondents agreed that Accountants are not expected to use personal discretion in determining the mode of treating accounting transactions. At all times, accountants are expected to act in conformity with technical and professional guidelines set up by relevant bodies of the profession such as IF AC, IASC, ICPAU and others, 77(34%) agreed, 60 (27%) were not sure, 15(7%) disagreed, while only 25 (11%) strongly disagreed about this. The respondents agreed that financial statements that are being audited by highly qualified staffs enables the decision makers to have corrective and informed allocation of resources and effective economic decisions (Edgar & Moses, 2023).

Further still, the findings from in the table indicate that, 79(35%) of the respondents strongly agreed that in KCCA, Financial reports are usually prepared by technically qualified accountants. Most of the verbal findings indicated that the behavior of accountants in executing an assigned task should be in conformity with the code of conduct of the profession with relevant technical skills, the accountant should not involve in collection of bribe taking or act in a manner which will cast doubt on the reputation and integrity of the profession, 86(38%) agreed, 32(14%) were not sure, 28 (13%) disagreed, while nom-strongly with the fact that Financial reports in KCCA, are usually prepared by technically qualified accountants.

Conclusion

The study established a significant positive relationship between fiscal decentralization and quality. The study also established that in KCCA, decentralized decision making, budgeting and planning portrayed a more significant positive correlation with quality of financial reporting than what exists between accounting information system and quality of financial reporting. Furthermore, it was established that forty five percent of quality of financial reporting could be explained by accounting information system and financial decentralization. However, decentralized decision making alone account for forty seven percent of the forty five percent compared to twenty eight and fifteen percent for budgeting/planning and accounting information system respectively. This means that to the extent of

Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

55% prediction of changes in quality of financial reporting in KCCA was by other factors other outside the scope of this study other than financial decentralization and accounting information system.

It was established that inconsistency in decision making, weak regulatory framework and others used in the study accounts for the causes of the poor quality of financial reporting. This means that inconsistency in decentralized decision making is the main component of fiscal decentralization and therefore the most influential factor and best predictor of quality of financial reporting in KCCA compared to decentralized budgeting and planning.

The results of the Microsoft Excel software model confirmed that decentralized decision making was more influential, predictor and negatively correlated to quality of financial reporting in KCCA than budgeting and planning. These findings provides an explanation why in KCCA the incidence of un accounted for funds is on the rise despite having introduced one of the best recognized accounting packages the integrated financial management system (LEMS).

The findings of the study indicated that quality of financial reporting and accountability can be assured when there is an effective and efficient monitoring and evaluation mechanism in place. A good monitoring and evaluation system should not overlap each other. Efforts of inspectors at the Ministry of Local Government and Rural Development (MLGRD), internal auditors, monitoring and evaluation officials and the Controller and Accountant General (CAG) monitoring units appear to be conflicting and duplicating their functions on several fronts. Therefore, KCCA management and MoLG should concentrate its effort in streamlining financial decision making than directing it in having realistic and effective budgeting and planning. It should put also m place sound accounting information system if it is to register significant improvement in quality of financial reporting and achieving the requirements of section 79 of LG A CAP 243.

Recommendations

Strict adherence on the budget Act (2001) and financial planning guidelines as laid down in LGA CAP 243 should be enforced; this will address the non-consultative, direct influence by MoLG and reverse the top-bottom approach in budgeting that have affected negatively the financial reporting in KCCA. This will cause the budget and planning process to be participatory, comprehensive, realistic and effectively monitored and evaluated. It is believed that once this is achieved there will be improvement in the reliability, relevance and timeliness of the budget monitoring reports which will in turn improve quality of financial reporting.

The MoLG and Inspectorate of Government must take firm and timely action against whoever is engaged in corruption. The quality of financial reporting in KCCA will not be achieved unless an aggressive attitude to all those involved in downplaying the critical success of financial decentralization are dealt with accordingly and precisely.

KCCA should design new strategies and procedures in decisions making that will restrict direct influence by MoLG especially those that would affect negatively quality of financial reporting. This will improve on the effectiveness of the decision making process which will positively impact on the quality of financial reporting in KCCA.

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Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

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Received: 11.05.2024

Accepted: 16.05.2024

Published on: 30.05.2024

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