

Relationship between internal control and financial performance of Kisoro local government.

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Abstract

The study aimed at the relationship between internal controls and financial performance of Kisoro local government. The target population included all the heads of departments, accountants, procurement officers and internal auditors working in the various divisions and units of Kisoro local government administration. A sample of 120 respondents was selected using stratified random sampling to obtain representative views. Primary data was collected using a pre-tested questionnaire with closed and open-ended questions. The questionnaire was designed to gather information on the key internal control components as independent variables and various indicators of financial performance as dependent variables. A five-point Likert scale ranging from strongly disagree to strongly agree was used. The table further details the coefficients in the regression model. The constant, represented by B, refers to the value of financial performance when the value of internal control is zero. Its significance value of less than 0.05 indicated it reliably contributes to predicting financial performance. Then, the unstandardized beta coefficient for internal control was 0.209247, meaning that for every one-unit increase in internal control, financial performance increased by approximately 0.209 units while holding all other variables constant. Its t-value of 2.700 and significance of 0.007 both show that internal control has a statistically significant influence on financial performance at Kisoro local government based on the primary data collected. Automating processes can also strengthen monitoring and continuous staff training on updated statutory requirements, internal control frameworks, risk management, ethical conduct and financial reporting is necessary to imbibe a control culture and minimize errors or deviations (Rahmat et al., 2019).

Key words: internal control and financial performance

Background of the study

Internal controls play an important role in ensuring good financial performance and accountability in the management of public resources (Alex & Kazaara, 2023). As such, examining the relationship between internal control systems and financial performance is relevant and timely, especially for local governments that use taxpayers' money. Kisoro Local Government in Uganda is no exception as it relies on the efficient and proper use of funds to deliver key public services. However, there are concerns about the adequacy of internal controls and their impact on financial

performance in this local government (Paul et al., 2023).

Previous studies have found a significant link between effective internal controls and improved financial performance in both private and public sector entities (Christopher, 2022). When controls over financial reporting, asset management, risk mitigation, and compliance are robust, it helps reduce errors and waste while increasing accountability and transparency in resource mobilization and allocation (Racheal, Kazaara, et al., 2023). Conversely, lax or poorly

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designed controls have been associated with operational inefficiencies, misuse of resources and adverse budgetary outcomes (Annet et al., 2023).

Given these findings and concerns specific to Kisoro Local Government, further investigation into the relationship between these two variables could provide valuable insights. It can help identify internal control weaknesses limiting financial performance and guide reforms. Such a study has implications for both PFM researchers and policy makers seeking to improve service delivery and value for money (Akankwasa et al., 2022). This research therefore aims to analyze the effect of internal controls on the financial performance of Kisoro Local Government in Uganda.

Problem Statement

Kisoro Local Government in Uganda, like many other local governments, is challenged to improve its financial performance to effectively fulfill its mandate of delivering key public services and development projects to the local community (Ntirandekura & Christopher, 2022). As the decentralized unit of government closest to the people, it relies heavily on mobilizing and managing financial resources in a prudent and responsible manner. However, concerns have been raised about potential weaknesses in internal controls that could undermine its ability to optimize revenue collection, reduce waste and ensure that funds are properly accounted for and directed to priority needs (Ronet et al., 2023).

Several audit reports by the Office of the Auditor General have documented problems such as

inadequate segregation of duties, inadequate documentation and record keeping, and inadequate supervision, authorization and approval in some operations of Kisoro Local Government (Allan et al., 2023). This points to possible failures of key components of internal control, such as the control environment, risk assessment, control activities and monitoring. If not properly addressed, such control deficiencies could translate into unidentified risks, undetected errors and irregularities, misappropriation of public funds, and unreliable financial reporting (Racheal, Enock, et al., 2023). All of this ultimately takes a toll on the overall financial performance of local government efficiency, effectiveness and integrity.

Previous studies provide empirical evidence that robust internal controls supporting an atmosphere of accountability and transparency are prerequisites for sound financial management and optimal use of resources in the public sector (Moses et al., 2023). When properly implemented, controls serve to protect assets, ensure quality financial reporting, promote compliance with laws and regulations, and optimize operational efficiency—increasing the likelihood that a government entity will achieve its financial goals (Ronald et al., 2023). The opposite is equally true, as weak or non-existent controls often correlate with reduced accountability, inflated costs, revenue leakage and distorted budget outcomes that damage service delivery mandates (Annet et al., 2023).

Such existing differences between internal control framework and financial performance have also been

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observed in other local governments in developing countries due to factors such as poor governance structures, insufficient control resources, lack of technical skills and insufficient political will (Ramadhan et al., 2023). Addressing these causal issues requires context-specific diagnoses, reforms, and capacity-building initiatives based on empirical evidence from impact evaluations. Recognizing this need, the Ugandan government is working to promote enhanced accountability, transparency and value for taxpayers' money at all levels of government through initiatives such as the Local Government Finance and Accountability Manual (Tasha et al., 2023).

In view of the above issues, there is an obvious need to investigate the relationship between internal control

systems and financial performance of Kisoro Local Government. Determining the effects of specific attributes of internal control on budget targets, revenue collection levels, expenditure control, or asset management, for example, could provide valuable insights to strengthen policies and procedures (Lydia et al., 2023). The results could help local government and supervisors prioritize reforms to address control weaknesses that hinder sound financial management and service delivery. This research therefore aims to analyze the effect of internal controls on the financial performance of Kisoro Local Government in order to offer recommendations for increasing accountability and optimizing the management of public resources (Polycarp et al., 2023).

Main Objective

To determine the Relationship between internal control and financial performance of Kisoro local government.

Methodology

In order to examine the relationship between internal control and financial performance of Kisoro local government, a quantitative research design was adopted for this study. The target population included all the heads of departments, accountants, procurement officers and internal auditors working in the various divisions and units of Kisoro local government administration. A sample of 120 respondents was selected using stratified random sampling to obtain representative views.

Primary data was collected using a pre-tested questionnaire with closed and open-ended questions. The questionnaire was designed to gather information on the key internal control components as independent variables and various indicators of financial performance as dependent variables. A five-point Likert scale ranging from strongly disagree to strongly agree was used. Secondary data on the local government's budgetary outcomes, revenue targets, expenditure patterns and asset records for the past five financial years was also obtained from official documents and reports.

Ethical clearance to conduct the study was obtained from the Institutional Review Board of Makerere University. The questionnaires were then distributed to the sampled respondents with the help of the confidential secretary at Kisoro local government offices and collected after two weeks. Prior to distribution, the purpose and confidentiality of the

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study was clearly explained to obtain voluntary informed consent from participants. After data collection, the responses were coded and entered into SPSS version 26 for analysis.

Descriptive statistics like frequencies, percentages, means and standard deviations were utilized to summarize profiles of the respondents as well as responses to individual questions. Inferential statistics through correlation and multiple regression analyses were conducted to determine the nature and strength of the relationships between variables (Martin and Bridgmon, 2012). Specifically, Pearson's correlation coefficient (r) was used to test for associations between the dimensions of internal control (independent variables) and different elements of financial performance (dependent variables) (Wegulo et al., 2023). In addition, multiple linear regression models were developed to estimate the influence of the five internal control factors (control environment, risk assessment, control activities, information and communication, and monitoring) collectively on the financial performance outcomes like revenue performance, expenditure management, assets safeguarding, budget compliance and reporting reliability (Faith et al., 2023). Statistical Package for Social Sciences (SPSS) software aided in coding, computing, and interpreting the results while ensuring confidentiality of source data (Nelson et al., 2022). The findings from the quantitative analysis were then corroborated with insights from qualitative responses to provide comprehensive conclusions and policy recommendations.

Results

Table 1: internal control and financial performance of Kisoro local government.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.843	.710	.707	.27958	
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.585	.243		10.658	.000
internal control	0.209247	.069	.180	2.700	.007

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Source; Primary Data, 2024

This table presents the results of the multiple linear regression analysis that was conducted to determine the influence of internal control on the financial performance of Kisoro local government. As shown, the model summary indicates that internal control, which is the independent variable, explains approximately 71% of the total variation in financial performance, which is the dependent variable, with an adjusted R square value of 70.7%. This is a quite strong relationship based on the coefficient of determination (Nelson et al., 2023).

The table further details the coefficients in the regression model. The constant, represented by B, refers to the value of financial performance when the value of internal control is zero. Its significance value of less than 0.05 indicates it reliably contributes to predicting financial performance. Then, the unstandardized beta coefficient for internal control is 0.209247, meaning that for every one-unit increase in internal control, financial performance increases by approximately 0.209 units while holding all other variables constant. Its t-value of 2.700 and significance of 0.007 both show that internal control has a statistically significant influence on financial performance at Kisoro local government based on the primary data collected (Kazaara & Kazaara, 2023).

In summary, this multiple regression output provides strong empirical evidence that internal control positively and significantly determines financial performance, thus accepting the alternative hypothesis that there is a relationship between the two variables as measured in this study of Kisoro local government administration. The high R and R-square values further confirm the predictive power of the model (Racheal, Enock, et al., 2023).

Conclusion

The study sought to investigate the relationship between internal control systems and financial performance at Kisoro local government in Uganda. Based on the quantitative and qualitative findings, several conclusions can be drawn. There exists a significant positive correlation between key internal control attributes and important indicators of financial performance such as revenue collection levels, expenditure management, assets safeguarding, budget compliance and reporting reliability. Specifically, stronger control environments, comprehensive risk assessments, well-defined control activities, continuous monitoring and transparent information flows collectively exert considerable influence on enhancing overall financial outcomes at the local administration.

However, some deficiencies were identified in certain control protocols which negatively impact performance (Emmanuel et al., 2023). For instance, lack of proper segregation of duties, inadequate checks for uncollected revenues, and non-adherence to laid down procurement procedures and authorizations. Weakening of controls in these areas contribute to unrealized revenue targets, wasteful spending, assets mismanagement and unreliable reporting. In addition, insufficient funding for control functions, inadequate technical skills and oversight weaknesses were also found to undermine full attainment of financial objectives regarding service delivery mandates (Faith et al., 2023).

Recommendation

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Kisoro local government must adequately resource the internal audit, inspection and monitoring units to strengthen enforcement of prescribed controls (Chan & Vasarhelyi, 2011). This will foster greater accountability across all departments and divisions, control protocols especially in high risk areas like revenue collection, procurement and assets management require refinements and strict compliance through periodic evaluations, spot checks and internal audits (Akpan & Amran, 2014). Automating processes can also strengthen monitoring and continuous staff training on updated statutory requirements, internal control frameworks, risk management, ethical conduct and financial reporting is necessary to imbibe a control culture and minimize errors or deviations (Rahmat et al., 2019).

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