

**INTERNAL CONTROL SYSTEM AND BUDGET PERFORMANCE IN LOCAL  
GOVERNMENTS, A CASE OF KOBOKO DISTRICT LOCAL GOVERNMENT**

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## TABLE OF CONTENT

<b>Contents</b>	<b>Pages</b>
APPROVAL .....	i
DECLARATION .....	ii
ACKNOWLEDGEMENTS .....	iii
TABLE OF CONTENT .....	iv
LIST OF ACRONYMS .....	x
ABSTRACT .....	xi
<b>CHAPTER ONE:INTRODUCTION</b> .....	<b>1</b>
1.1 Introduction.....	1
1.2 Background of the study .....	1
1.3 Problem Statement .....	3
1.4 General Objectives.....	4
1.5 Specific Objectives .....	4
1.6 Research Hypotheses .....	5
1.7 Scope of the Study .....	5
1.8 Significance of the Study .....	6
1.9 Conceptual Framework.....	7
1.9 Operational Definition of the Key Concepts .....	8
1.10 Conclusion .....	8

## **CHAPTER TWO:**

### **LITERATUREREVIEW .....8.**

2.1 Introduction..... 10

2.2. Theoretical Framework..... 10

2.3 Actual Review of Related Literature ..... 11

2.4 Conclusion ..... 23

### **CHAPTER THREE: METHODOLOGY ..... 24**

3.1 Introduction..... 24

3.2 Research Design..... 24

3.3 The study population..... 25

3.4 Area of the Study ..... 25

3.5 Sample Size and Selection ..... 25

Table 3.1: Sample Size and Sampling Technique ..... 26

3.6 Methods of Data Collection ..... 26

3.7 Data Management and Analysis ..... 28

Table 3.2 Showing Reliability Index for Study Variables ..... 29

3.8 Measurement of variables ..... 30

3.9 Ethical Consideration..... 30

3.10 Limitations and Delimitations..... 32

3.11 Conclusion ..... 32

<b>CHAPTER FOUR:DATA PRESENTATION, ANALYSIS AND INTERPRETATION ....</b>	<b>33</b>
4.0 Introduction.....	33
4.1 Response Rate.....	33
4.2 Demographic Information.....	34
<b>CHAPTER FIVE:SUMMARY, DISCUSSION, CONCLUSIONS AND</b>	
<b>RECOMMENDATIONS.....</b>	<b>63</b>
5.0 Introduction.....	63
5.2.0 Discussion of the Study Findings .....	65
5.4.0 Recommendations.....	71
5.7 Areas Recommended For Future Research.....	72
<b>REFERENCES.....</b>	<b>73</b>
Appendix I:Questionnaire for District Technical Planning Committee Members , Town council staff , and Politicians.....	81
Appendix II:: Interview guide for District Executive Committee members.....	88
Appendix III:Documentary Analysis Guide .....	89
Appendix 1V:Krejcie and Morgan’s Table to Determine Sample Size.....	90

## LIST OF TABLES

Table 3.1: Sample Size and Sampling Technique .....	26
Table 3.2 Showing Reliability Index for Study Variables .....	29
Table 4.1 response from respondents.....	33
Table 4.2 :Distribution of Respondents by Gender .....	34
Table 4.3 : Distribution of Respondents by Education Level.....	36
Table4.4 :Distribution of employees by employmentStatus.....	38
Table 4.5 :Descriptive summary of control environment.....	39
Table 4.6 :Descriptive summary of control activities.....	44
Table 4.7 :Descriptive summary of Monitoring and Evaluation.....	48
Ta.ble 4.8 :Descriptive Summary on Budget performance.....	53
Table 4.9 :Pearson Correlation Coefficient.....	56
Table 4.10 :Regression analyzes on Control Environment.....	58
Table 4.11 :Regression analyzes on Control Activities.....	59
Table 4.12 :Regression analyzes on monitoring and evaluation.....	60
Table 4.13 :Multiple Regression analyzes.....	61



## LIST OF FIGURES

Figure 4.1: Bar Chart Showing Distribution of Respondents by Age .....	35
Figure 4.2: Pie Chart Showing Distribution of Respondents by Work Experience .....	37



## LIST OF ACRONYMS

<b>CGT:</b>	Central Government Transfers
<b>COSO:</b>	Committee for Sponsoring Organization
<b>GDP:</b>	Gross Domestic Product
<b>FY:</b>	Financial Year
<b>LGBFAM:</b>	Local Government Budget Framework Paper
<b>LGFAM:</b>	Local Government Framework Manual
<b>LG FAR:</b>	Local Government Financial Accounting Regulation
<b>OAG:</b>	Office of Auditor General
<b>SAI:</b>	Supreme Audit Institution
<b>SPSS:</b>	Statistical Package for Social Sciences
<b>UK:</b>	United Kingdom
<b>USA:</b>	United States of America
<b>IFMS:</b>	Integrated Financial Management System

## ABSTRACT

Budget performance in Uganda is essential for decentralization policy framework. Koboko District Local Government budget performance has had some gaps. It was on this basis that the study sought to analyze the effect of internal control system on budget performance. The study objectives were: to examine the effect of control environment on budget performance, analyze the effects of control activities on budget performance and to establish the effects of monitoring and evaluation on budget performance.

Cross-sectional survey design was used to collect data from 52 respondents drawn by simple random sampling from an accessible population of 59 people. Data was collected through questionnaires, interview guide and documentary review and analyzed by use of descriptive and inferential statistics. The study attained a response rate of 88.6%.

Regression analysis showed that control environment, control activities, monitoring and evaluation had positive effect on budget performance with p-values (0.000) <0.05(level of significant) and R<sup>2</sup> values above 0.7(70%).

The study concluded that internal control system positively affected budget performance in terms of Revenues Received and Expenditures.

The study recommended that management should lobby for lifting of recruitment ban, IFMS to be introduced, external auditing should be done more than once a year, segregation of duties, inspection of assets and motivation of staff to control risks.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

In this chapter the researcher provides an introduction to the study brings out the research problem and presents the background to the study. The chapter also consists of the purpose of the study, objectives of the study, research questions, research hypotheses, and significance of the study and scope of the study and the conceptual framework.

### **1.2 Background of the study**

Globally, internal control system in Organizations is essential for effective and efficient operations provision of reasonable assurance (Krishman, 2005). International Organizations depend upon internal control systems for the effectiveness of their budget performance (Sulaiman et al, 2008). In USA, the performance of budget is an important instrument for Governments to measure the implementation of their programs which are, to some extent, influenced by how the budget is managed and measured on the basis of good governance: transparency, participation, accountability and gender equity (Seknas, 2007). In the UK, Local Government financial and budget performance amounts to over 37% of all public spending. The expenditure is mostly on providing Schools, social services and maintaining roads, but they also provide many other services which include payments for County Councils, District Councils, London and Metropolitan Authorities, Police and fire services and that, Overall, local Government spending is paid for by three main sources: Central Government (61%), Business rates (17%) and Council tax ( 22%).The biggest single amount that Local Government receives in form of ' specific' grants (54%) and a general grant (7%) for local authorities and the police: is from the Central Government ( Caudler ,2013).

In Asia, specifically; in Malaysia, effective internal controls and effectual budget performance of Local Government was consequent upon proper and accurate recording of financial transaction, enhancing the accountability of chairman and treasurer (Shah, 2006) and in Pakistan, internal control system achieved budget performance by regulating cash flows through internal controls, cash flows within the business, and cash balances held by a business at a point in time ( Pandey, 2004).

In Africa, especially, in the Republic of South Africa, Municipalities operational finances are about one-fifth of overall Government spending. In 2010/11 Municipalities were also responsible for managing 15.9% of total Public sector infrastructure spending which is financed from Municipal own revenues, transfers from National and provincial Government, and borrowing and that, direct National transfers to Local Government grow by 13.4% annually. It was reported that, Municipalities own revenues were also growing strongly, particularly services charges which are budgeted to increase by 18.6% per year between 2010/11 and 2012/13. Generally, Municipal revenues held up well during the recession. This scenario reflects positive budget performance resulting from effective internal control that enhanced revenue management. (South Africa National Treasury Report, 2006/07-2012/13).

On the other hand, in Nigeria, financial control measured in terms of expenditure budgeted-actual variance and revenue budgeted-actual variance has no significant dynamic relationship with Government budget performance measured in terms of ratio of internally generated revenue to total revenue. It was recommended that Local Governments should device internal control models that will foster dynamic interaction between budget realization/implementation and financial performance (Oladeye & Olaoye, 2013).

In Uganda, financial estimates performances against the actual revenues stood at 39%; Central Government transfers (CGT) receipts against estimates stood at about 63.7%, Donor funds receipts against estimates 64.3% on average for the three years (2005 – 2008). This suggests significant performance. However, audit reports show that internal controls in Local Governments are widely violated or ignored. In addition, management control is sometimes bypassed; moreover there is little visible enforcement of regulations, especially at higher levels, which builds a culture of disrespect for the law and personal immunity. The report concluded that, internal audit is the first line of defense and is being decentralized and strengthened under guidance from the center, but its effectiveness ultimately depends on the Accounting Officers (Uganda Government Public Financial Management Performance Report, 2008).

In Koboko District, financial years 2011 /2012, 2012/2013 and 2013 /2014, the financial performance against the actual revenues received have not been to the budget expectation. For instance Local revenue receipts against budget estimates were about 31% for FY 2011/2012, 47% for FY 2012/2013 and 39% for FY 2013/2014 which greatly affected the budget performance (Accounts Department Report, 2014) and in the financial statements of 2011/2012, 2012/2013 and 2013/2014 it is stated that, budget implementation met significant challenges that the District needs adequate personnel at both the District and Sub -County levels to amicably handle budget implementation activities (Human Resource Record, 2012).

### **1.3 Problem Statement**

Ideally, internal control systems should be aligned to budget performance that puts in place, measures for Local Government Units to plan, initiate and execute policies (Local Government Act.Cap.243). On the basis of this, the Authorities of Koboko District Local Government

instituted measures such as widening local tax base through taxing local resources, lobbying for donor funds and Government grants, recruitment of trained staff, capacity building workshops are organized by the District, reporting deadlines set, control activities and checks by Auditors are in place to ensure good budget performance (Council Minute 03/2012). However, Koboko District Local Government has registered low budget performance as manifested by 61.4% in local revenue under collection, decline in Central Government grants by 6.4% and donor funds by 35.7%; (District Audited Report, FY.2011/12, 2012/13, 2013/14)). In addition, there has been shortage of technical staff by 65 % and high staff turnover rate of 15.2% annually (Koboko District Human Resource Report, 2013/2014). Despite these interventions, budget performance is still wanting in Koboko District Local Government. If this problem remains unsolved then, planning, initiating and executing policies with respect to generation and management of all revenues within the jurisdiction of Koboko District Local Government will affect service delivery and quality of life of the people. The scenario can be accounted for by various factors including internal control system. Therefore, this study will seek to establish whether internal control system can account for budget performance in Koboko District Local Government.

#### **1.4 General Objectives**

The purpose of this study was to investigate the relationship between internal control system and budget performance in Koboko District Local Government.

#### **1.5 Specific Objectives**

- To examine the effects of control environment on budget performance.
- To analyze the effects of control activities on budget performance.
- To establish the effects of monitoring and evaluation on budget performance.

## **1.6 Research Hypotheses**

The study tested the following hypotheses:

- Control environment positively affects on budget performance.
- Control activities positively affect budget performance.
- Monitoring positively affects budget performance.

## **1.7 Scope of the Study**

### **1.7.1 Geographical Scope**

The study was conducted in Koboko District Local Government which is located in the West Nile Region. It has a population of 229,900 (Census, 2014) .The area has been selected for the study because of the public outcry of inadequate budget performance that affects services delivery (Secretary of Finance Report to the Council, 2016)

### **1.7.2 Content Scope**

The study focused on the effect of internal control system on budget performance. Particularly on the aspects of control environment, control activities and monitoring and evaluation effects on budget performance in terms of revenue and expenditure performance in Koboko District Local Government.

### **1.7.3 Time Scope**

The study covered the period from 2013 to 2017, particularly from June, 2017 to July, 2017 because this is the period within which budget performance in the District was expected and was highly questionable.

## **1.8 Significance of the Study**

The study will benefit the following categories of people:

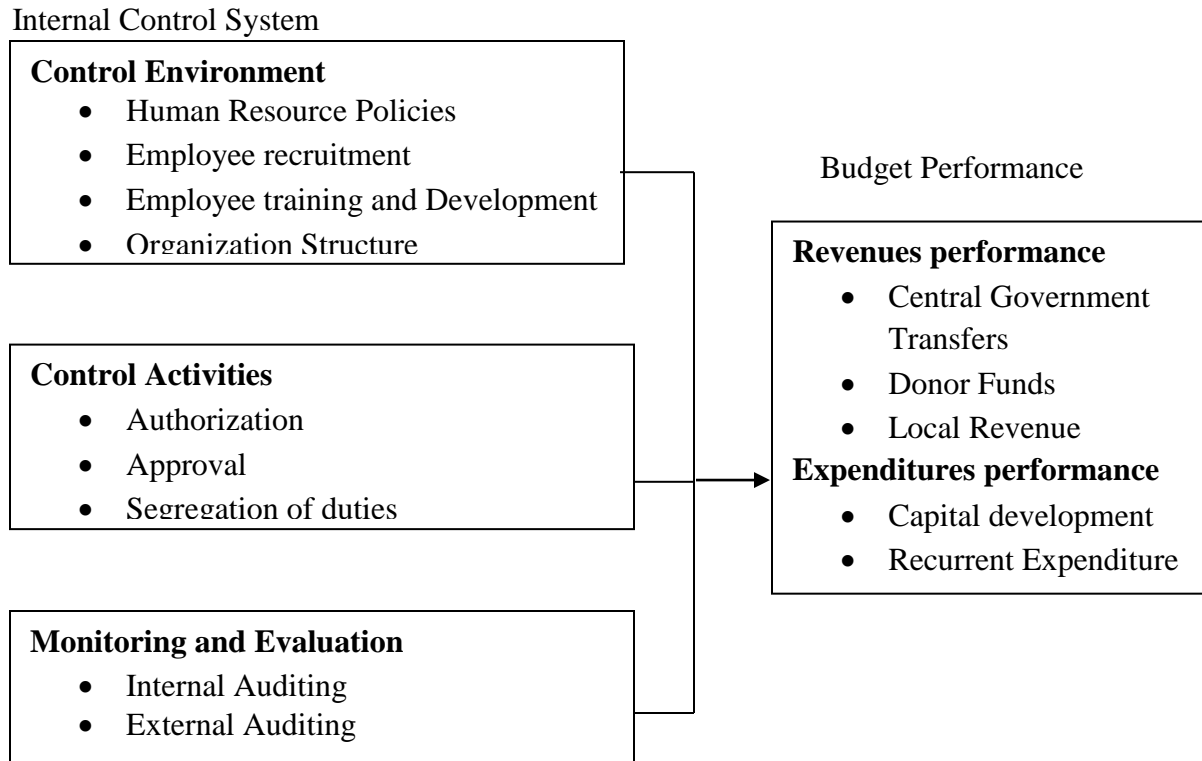
The findings of this study will benefit policy makers in that new laws may be enacted and old ones reviewed to improve internal control and performance.

It will benefit the stakeholders in Koboko District Local Government in that; they will manage the finances to achieve their budget objectives while taking in to consideration the factors affecting its preparation and compliance with applicable laws and regulation

The study findings will benefit interested Scholars who will wish to do further research in the field of internal control as they will make reference to the research findings during their studies.



## 1.9 Conceptual Framework



**Source:** *Author's own construct (2017).*

**Fig. 1.1 Conceptual Framework Showing the Relationship between Internal Control and Budget Performance.**

The conceptual framework in figure (1.1) above is diagrammatic presentation of a theory in form of a model (Onen & Oso, 2009). It is a visual picture that illustrates the interconnections between the independent variable (internal control system) and the dependent variable (budget performance). In the conceptual framework, internal control system is construed to mean control environment, control activities, monitoring and evaluation. While budget performance was conceptualized as revenues performance with dimensions such as central government transfers, donor funds and local revenue; expenditures performance with constructs of capital development

and recurrent expenditure. From the conceptual framework, it was hypothesized that, the attributes of internal control system: control environment, control activities, monitoring and evaluation positively affected budget performance in terms of revenues' performance and expenditures' performance in Koboko District Local Government if the elements are well implemented otherwise performance of budget will not be achieved.

### **1.9 Operational Definition of the Key Concepts**

**Internal Control System :** Process effected by management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

**Control Environment:** Discipline and structure of the organization; policies and procedures that help ensure management directives are carried out (COSO, 2006). In this study control environment is .constructed to mean human resource policies, employee recruitment, employee training and development and Organization Structure

**Monitoring and Evaluation:** Refer to assessing the quality of the system's performance over time (Shandia, 2014).In this study; monitoring is construed in terms of internal auditing and external auditing.

**Budget Performance:** refers to revenue performance (COSO, 2006).In this study it refers to Central Government transfers, donor funds and Local Revenue; expenditures performance concerning Capital development and Recurrent Expenditure.

### **1.10 Conclusion**

This chapter consists of a description of the study background in terms of the global, regional, national and local perspectives; the chapter also consists of the problem of the study, the study

objectives, the researcher's hypotheses, the study scope, significance of the study and the conceptual framework that showed how internal control system relates to budget performance

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, the researcher presents the review of the related literature on internal control system and budget performance. Basically the literature review will focus on control environment and budget Performance, control activity and budget performance, monitoring and budget performance then budget performance as a separate variable. The chapter consists of the major theory that will guide the study, the actual literature review which is done objective by objective and the summary of the review highlighting gaps and the lessons learnt.

#### **2.2. Theoretical Framework**

The study will be guided by the COSO (Committee of Sponsoring Tread Way) theory which was developed by the Committee of Sponsoring Organizations of the Tread way Commission (COSO).The theory was developed for evaluating internal controls. The theory postulates that, organizations identify and analyze risks to achieve financial performance objectives as a basis for determining how the risks should be managed and input, output of an organization's finance is influenced by the competency of the human resource, the human resource policy, the management philosophy, the operating style and the organization structure and that, control activities include approval, authorization, verification, reconciliation, reviews of operating performance, security of assets and segregation. The model has been adopted for this study because it is the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of

internal control. The model relates to the study variables in the way that, if internal controls are put in place and effectively implemented, financial performance in Koboko District will improve. The theory was developed in Europe and would better explain the internal control systems in Europe than in Africa. However, this theory still provides an important insight in explaining the study constructs of internal control system, control environment, control activities, monitoring and risk assessment. Hence, its relevance to the proposed study.

## **2.3 Actual Review of Related Literature**

### **2.3.1 Control Environment and Budget Performance**

Control Environment is the basic components of internal control, providing discipline and structure. The factors include the integrity, ethical values and competence of the entity's people, management's philosophy and operating style, the way management assigns authority, responsibility, organizes and develops its people. With competent staff recruited and trained, budget performance will be achieved (COSO, 2006). In this study, control environment refers to human resource policies and organization structure.

In a survey study of auditors, it was reported that, control environment has a significant implication for the behavior of employees as the most important ingredient of effective financial control. A study conducted in the USA established that, control environment affects an entire organization as it regulates the consciousness of all employees and influences the organization's commitment to ethical and honest behavior, effective internal controls and proper financial reporting that has a been accounting for performance of budgets ( Panny, 2011),

Similarly, the Committee of Sponsoring of Organizations contends that, the input, output and outcome of an organization's finance is influenced by the competency of the human resource. The human resource policy, the management philosophy, the operating style and the organization structure. But Committee of Sponsoring Organization focused on organizations in general. Yet the target of this study is local government-a case of Koboko District.

In Uganda, recruitment of staff in Local Governments is vested, constitutionally, in the hands of District Service Commission who are empowered to confirm and terminate appointments, effect transfers other than disciplinary proceedings (The Public Service Commission Regulation, 2009). This suggests the likelihood of corruption and nepotism other than qualifications, which can affect budget and finance performance since recruitment is done by District Service Commission. Besides that, the Uganda Public Service Standing Orders (2010) underscores the importance of human resource training and development for competency building and diligence to improve management of finance in the Districts. This view was corroborated by Mwakimas, Odhiambo and Byaruhanga (2014) who revealed that, human resource policies affect the financial performance of the organization; in this case, human resource policy affects the finance performance of Arua District. Furthermore, Ejoh and Ejom (2014) found out that, in Nigeria, inadequate training of finance staff in implementation of accounting and financial systems of an organization renders the internal control systems ineffective. Hence, leading to poor performance. However, their study focused on implementation of accounting and financial systems in general but overlooked budget performance which is a dependent variable in this study.

Another study done by Matamande et al. (2011) in Zimbabwe recommended that, before recruitment of staff, there should be strict follow up of people's background, adequate screening

of prospective employees before hiring and management supervisory checks should be conducted regularly. This suggests that recruitment of staff in the Financial Department in Koboko District Local Government, should consider attitude, integrity, honesty and ethical values for efficient performance.

The literature review on control environment and budget performance indicated that some of the aspects of control environment such as human resource policies, employee recruitment, employee training and development and organization structure were overlooked by the Scholars yet they could affect budget performance. Hence, creating a gap which this study intends to explore.

### **2.3.2 Control Activities and Budget Performance**

Control activities are policies and procedures designed by management to ensure that the objectives and the goals of an entity are not negatively impacted by internal and external risks (COSO, 2006). Control activities, according to COSO (2006), include approvals, authorization, and verification, and reconciliation, reviews of operating performance, security of assets and segregation of duties. In this study, control activity is construed as an action established by management through policies, procedures, techniques that help to ensure that management's directives to mitigate risk to the achievement of organization objectives, are carried out.

Legally, publically held corporations and Intuitions should put in place effective control activities and audit committees that should review, on periodic basis, the internal controls (American Law Institute, 2014). Because of that, it was found that in the USA, all Organizations report with reference to segregation functions, programs of selection and training of personnel, the results of an auditing function and Company's external auditor (Vershoor, 2009). This was

supported by Zabihollah (2011), who observed that, there should be effective internal audit procedures to ensure reliability of budget performance. However, Zabihollah did not suggest the audit procedures needed to ensure reliability of budget procedures which the study seeks to explore. Furthermore, McCarthy (2012), findings that, control mechanism such as external audits enhance the reliability of budget performance either directly or indirectly by increasing accountability of any information provider seems to support Zabihollah's view about the need for the existence of effective internal audit procedures.

Similarly, in Uganda, public organizations and Institutions are required to put in place and implement control activities to ensure effective budget performance. For example, the Local Governments are mandated to formulate, approve and execute balanced budgets. Reflecting all revenues to be collected or received by the Local Government and the appropriation for each year. While the District Councils prepare comprehensive and integrated development plans incorporating the plans of lower Local Governments for submission to the National Planning Authority. Local Government Budget Framework Paper (LGBFP, 2007).

In addition, local government council has budget desk composed of four technical officers whose duties. Among others, is to produce realistic budget estimates and development plans and ensure that planning is linked to the budget (LGBFP, 2010/2015). The LGBFP articulates the Local Governments three year budget strategy and is an important decision- making tool for the whole Local Government which helps to focus the debate on spending options in the Local Government.

Moreover, the Local Government Framework Paper (LGBFP) shows previous financial year's revenue performance against the revenue budget estimates and revenue projections for the next



three years, it also shows the sector un-funded priorities and reallocations of funding. The Department Heads are responsible for the execution of their estimates and are to participate in the preparation of the budget and budget framework paper (LGFAM, 2007).

The financial Act (2001) regulates procedure for a systematic and efficient budgeting process in Government and of which financial implementation in terms of budget, monitoring and evaluation is part. The work plans are drawn for the first year for implementing the budget and Heads of Departments carries out supervision, Executive Committee does the monitoring and evaluation and other councilors do constituency monitoring. Each Accounting Officer, in consultation with the relevant stakeholders, prepare a budget framework paper for the vote taking into consideration balanced development, gender and equity responsiveness and shall submit the budget framework paper to the Minister. The Minister prepares a budget framework paper consistent with the National Development Plan and with the charter of Fiscal Responsibility (The Public Finance Management Act, 2015).

The final indicative planning figures for central Government transfers are communicated to the Local Government by the Ministry of Finance by June after the parliament has approved the National budget and yet the Local Government budgets are approved by the council by 30<sup>th</sup> May of the previous year. This leads to approved budgets being amended before implementation and in most cases the Indicative Planning Figures (IPF) are lower than the finance that was planned for in the budget. In addition, the Central Government releases funds on a quarterly basis which affects the development programs.

A further, study conducted by Schaeffer (2005) in Uganda, revealed that ,for an organization to achieve an effective financial management system, it should have a standardized chart of

accounts, accounting system, transparent accountable external and internal audits, effective treasury and cash management system, budget policies formulation and execution and performance measurement.

Schaeffer (2006) posited that, for effective financial performance, the organization must work with respect to Local Government budgeting, accounting, cash and debt management; internal and external audit responsibilities should be designated; establish clear operating procedures between management sections of each implementing department; develop performance measurements that can be used to measure efficiency and effectiveness; present multi-year data to include prior, current and forecast; include all units that require Government resources in the budget formulation process; revenue mobilization and forecasts, expenditure forecast and control, budget execution and expenditure control and that the factors that influence escalation of expenditures are soft budget constraints, fragmented approaches to budgeting, creating future expenditure commitments by under provisioning, lack of transparency and systematic errors in budget forecasting

Lwanga and Mawejje (2014) revealed that, deficits in Uganda depend on the inflation both in the short and long run and that, Uganda's tax to Gross Domestic Product (GDP) ratio has stagnated between 11% and 13% since 1996. Yet Government spending has continued to grow. Financing the growing expenditure has therefore been through foreign aid and Government borrowing both internally and externally. This has, had negative consequences and led to budget cuts in the District Local Governments thereby affecting budget performance.

### **2.3.3 Monitoring /Evaluation and Budget Performance**

Monitoring and evaluation is the determination whether or not policies designed and implemented by management are being conducted effectively by employees and also ensure that significant control deficiencies are identified timely as well as the risks are rectified and the need for new control (COSO, 2006) . In this study, monitoring and evaluation refer to internal and external auditing. Shandia (2014), defines internal audit as an independent, objective assurance and consulting activity designed to add value and improve organizations financial performance; it helps an organization to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of budget, risk management, control and governance processes.

The definition recognizes two roles for Internal auditing, namely: to provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put in place; and to provide advice to management on governance risks and controls and Reinford (2012) states that, internal auditing activity is one of the main characters of the Control System.

Most internal audit professional argue that, an effective internal audit function correlates with improved budget performance and that, it helps to identify ways to improve efficiency and minimize losses from inadequately safeguarded organization assets all of which has significant effect on the achievement of the budget targets and that, internal audit is an inevitable tool of management for monitoring the performance of the finance (Beyanga, 2011).

Owenrich (2011) held the view that, Internal Auditing determines whether the organization's network of risk management, control and governance processes, as designed and represented by

Management, is adequate and functioning in a manner which ensures that risks are appropriately identified and managed; interaction with the various governance groups occurs as needed; significant budget information, managerial and operating information is accurate, reliable and timely; employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations; resources are acquired economically, used efficiently and adequately protected; programs, plans and objectives are achieved; quality and continuous improvement are fostered in the organization's control processes; significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Groonhil (2011) argues that, the Internal Audit activity assesses and makes appropriate recommendations for improving the governance process in accomplishment of : promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; effectively communicating risk and control information to appropriate areas of the organization; and effectively coordinating the activities of and communicating information among the board, external and Internal Auditors and management and that ,The Internal Audit activity evaluates the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities.

Hegson (2009) noted that, the internal audit function helps an organization improve operations, detect key problems in important mechanisms or processes and correct major problems. An internal evaluation also aids top management in ensuring that employees comply with corporate policies such as human resources procedures. An audit director plans testing activities at the beginning of the year, allocates resources to specific areas and assigns tasks to staff and junior Auditors. Internal auditors review segment processes and issue reports to senior management. The internal audit department evaluates specific areas throughout the year; those are "areas under

review." An audit manager allocates more resources to a segment or an area based on potential operating or financial risks.

While an audit specialist might focus on "high-risk" areas within the treasury Department because risks of losses exceed \$10 million. An Internal Auditor also may perform tests on an insurance Company's premium calculation Department to ensure that calculation methodologies adhere to corporate policies.

In USA, one of the key roles of internal audit is to assist the Board and/or its audit committee in discharging its governance responsibilities by delivering reviews of operational and financial performance and make recommendations for more effective and efficient use of resources (Cohen, 2013). However, in his study, Malbok (2009), considered internal audit and financial performance but not budget performance which is a dependent variable in the present study. Hence, creating a knowledge gap to be explored by this study.

In Uganda, the accounts of every Local Government, including Koboko District Local Government, Council and every Administrative Unit is audited annually by an External Auditor, the Auditor General, or by an Audit appointed by the Auditor General (National Audit Act, 2008). The Office of the Auditor General (OAG) is the Supreme Audit Institution (SAI) of Uganda. The provisions of the Constitution of the Republic of Uganda (1995) as amended under Article 163, sets out the appointment, mandate and removal of the Auditor General; to provide for the auditing of accounts of Central Government and Local Government Councils and that the Auditor General is empowered with the rights to access all documents and information necessary for reaching an audit opinion (LGFAR, 2007). The Auditor General audits the local Governments according to the legal framework that governs it.

The Internal Audit Department audits formulation, approval, execution and control of the budget process in accordance with the Local Government Internal Audit Manual (2007). The internal auditor reviews the composition of the budget desk, annual submission of Departmental Annual Work Plans and budgets, consolidation of Annual Budgets to ensure that, they fall within the budget framework and the approval of the annual plans and budgets of the entity (LGFAR, 2007) and in financial monitoring and control, the auditor is to examine the vote books confirming; that the vote books correctly record of the amounts as per approved budget estimates, the expenditure budgets have been adhered to, and have not been exceeded and also examine the estimates of revenue, compare actual collections with estimates while investigating significant variations particularly under collections.

The literature as reviewed on monitoring/evaluation and financial performance by the present researcher highlights the studies that were conducted on a similar theme but in context of other Countries whose findings may not be relevant to Ugandan situation and particularly in Koboko District.

#### **2.3.4 Budget Performance**

Budget performances in organizations' depend upon internal control that can provide only reasonable assurance not absolute assurance; the effectiveness of budget performance is encouraged by implementing a proper internal control system (Sulaiman et al, 2008).

Seknas (2007) asserts that, performance of budget is an important instrument for Governments to implement their programs which are, to some extent, influenced by budget management and measured on the foundation of good governance: transparency, participation, accountability and gender equity.

Newcomer and Caudler (2013) reported that, in the UK, Local Government budget performance amounts to over 37% of all public spending. The expenditure is mostly on providing Schools, social services and maintaining roads, but they also provide many other services which include payments for County Councils, District Councils, London and Metropolitan Authorities, Police and fire services and that, Overall, Local Government spending is paid for by three main sources: Central Government (61%), Business rates (17%) and Council tax (22%). The biggest single amount that Local Government receives in form of 'specific' Grants (54%) and a general Grant (7%) for local authorities and the police: is from the Central Government.

Shah (2006) conducted a study in Malaysia and revealed that, effective performance of Government budget was based on proper and precise recording of financial transaction, enhancing the accountability of chairman and treasurer, suggesting internal control system. But the study examined financial management and accountability practice in general and not internal control system which is a dependent variable in this study.

In Africa, in the Republic of South Africa, Municipalities operational budgets are about one-fifth of overall Government spending. In 2010/11 Municipalities were also responsible for managing 15.9% of total public sector infrastructure spending which is financed from Municipal own revenues, transfers from National and provincial Government, and borrowing for capital. Between 2010/11 and 2012/13, direct National transfers to Local Government increased by 13.4% annually. It was further shown that, Municipalities own revenues were also increasing robustly, particularly services charges which are budgeted to increase by 18.6% per year between 2010/11 and 2012/13. Generally, Municipal revenues held up well during the recession. This

scenario reflects an optimistic budget performance and internal control that enhanced revenue management.(South Africa National Treasury Report, 2006/07-2012/13).

In Nigeria, Oladeye and Olaoye (2013) carried out a similar study and concluded that, financial control measured in terms of expenditure budgeted-actual variance and revenue budgeted-actual variance has no significant correlation with Government budget performance measured in terms of ratio of internally generated revenue to total revenue. Hence, the study recommends that Local Governments should work out internal control models that will promote dynamic dealings between budget realization/implementation and budget performance.

In Uganda, the budget estimates performances alongside the actual revenues stood at 39%; Central Government transfers (CGT) receipts against estimates stood at about 63.7%, Donor funds receipts against estimates 64.3% on average for the three years (2005 – 2008). This suggests significant performance. However, audit reports show that internal controls in Local Governments are usually violated or ignored. In addition, management control is sometimes bypassed; moreover there is modest discernible enforcement of regulations, especially at higher levels, which builds a culture of disrespect for the law and personal protection. The report concluded that, internal audit is the first line of defense and is being decentralized and strengthened under guidance from the center, but its success ultimately depends on the Accounting Officers (Uganda Government Public Financial Management Performance Report, 2008).



## **2.4 Conclusion**

The key lessons learnt from the review is that Government has policies on budgeting and budget implementation but Koboko District Local Government still experiences poor financial performance. Yet there is lack of studies to confirm it. The indicative planning figures are prepared and submitted to the Ministry who in turn communicate the final figures to be used in the budget through the budget framework paper.; the quarterly release of funds retards the progress of works and fourth quarter releases may come towards the end of the financial year and yet Government policy advocates for the return of all unspent funds to the consolidated fund account by end of the year. But the reasons for the delay of fund releases were overlooked. This study will tend to address the above issues identified in the literature review. The major gap is that many of the scholars related internal control system to performance of organizations in general, yet the current proposed study, the researcher relates internal control system to budget performance in Koboko District Local Government. Also most of the studies were conducted in the perspective of other countries. Hence, the finding may not be pertinent to the situation in Uganda and specifically the situation in Koboko District Local Government.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the researcher presents the overall approach to study internal control system and budget performance in Koboko District Local Government. The chapter contains sub-sections such as; introduction, research design, study population, sample size and selection, sampling procedure and techniques. Also methods of data collection, instruments of collecting data, data quality control and assurance. Finally, data collection procedure, data analysis and presentation and measurement of instruments.

#### **3.2 Research Design**

The research design is the conceptual structure within which the research is conducted; it constitutes the blue print for the collection, measurement and analysis of data (Kothari, 2009). In view of this, the researcher will adopt a cross-sectional survey design. This is a design in which different categories of people will be studied at the same point in time. The researcher opted for the design because it facilitates rapid data collection, it helps a researcher to understand a population from part of it and it is economical (Amin, 2005). This design also permits obtaining information about preference, attitudes, practices and concerns from a sample of a population at a particular time.

### **3.3 The study population**

Amin (2005) defines a study population as a complete collection of all elements or individuals that are of interest in a particular investigation and where inferences are to be made. Has been broken down into accessible target population and accessible population The study populations included staff at the District Head Quarters and Koboko Municipal Council staff which provided a population size of 70. This included 19 members of District Technical Planning Committee, 13 members of District Executive Committee, 17 Town Council staff and 21 District politicians. The top people were selected because they deal with policy formulation and supervision. The lower cadres were selected because they implement the policies and are directly affected by budget performance

### **3.4 Area of the Study**

The study was conducted in Koboko District. Koboko District is located in West-Nile Region about 500Km from Kampal, the Capital City of Uganda. It is bordered by the Democratic Republic of Congo in the West, South Sudan in North, Yumbe District in the East and Maracha District in the South. Koboko District has a Population of 229,900 (Census, 2014). The main occupation of people is agriculture and business to a small extent.

### **3.5 Sample Size and Selection**

Since the population size (70) was large, the researcher used a sample size of 59 determined from Krejcie and Morgan Table (1970), Appendix I, of Sample Size Determination. Table 3.1, below shows categories of people who are to be the respondents and the sampling techniques.

**Table 3.1: Sample Size and Sampling Technique**

<b>Population category</b>	<b>Population Size</b>	<b>Sample Size</b>	<b>Sampling technique.</b>
District Technical Planning Committee members	19	16	purposive
District Executive Committee members	13	11	purposive
Town council staff	17	15	Simple random
Politicians	21	17	Simple random
<b>Total</b>	<b>70</b>	<b>59</b>	

**Source:** *Koboko District Local Government Record (2016)*

Simple Random Sampling was used to select the Municipal staff and the politicians of Koboko District Local Government, because it allows a researcher to draw a sample in a way that each unit of the population has an equal and independent chance of being included in the sample. Thus, avoiding biasness (Gupta, 2011).

### **3.6 Methods of Data Collection**

The researcher used questionnaires and documentary review and face to face interviews for collecting data.

#### **3.6.1 Questionnaire Survey**

Questionnaire was administered on District Technical Planning Committee members, District Executive Committee, Town council staff and Politicians for collecting quantitative data. In This method, the researchers developed a pre- formulated written set of questions to which respondents recorded their answers (Sekaran 2003). The researcher used this method because

the respondents were literate. In addition, biasness would be avoided and it will cover a wide area of the selected sample quickly.

### **3.6.2 Documentary Review**

Documentary review method necessitated studying relevant documents in form of reports, District Technical Planning Committee Minutes of meetings, relevant legal documents and administrative instruments issued from time to time to obtain data which could not easily be obtained through the other methods. Also information from the internet in form of journals, articles, reports and thesis were obtained. These were reviewed to obtain the needed information for this study. The method was employed because the documents contain vast amount of information. This provided cost effective method of gathering data (Denscombe, 2000).

### **3.6.3 Interview**

This was constructed to consist of structures questions to be administered by the researcher on the members of planning committee and the executive committee members, purposely to obtain focused information to supplement information that would be obtained through the questionnaires.

### **3.6.4 Instruments of Data Collection**

The researcher used two instruments to gather data. These included; questionnaires and documentary review checklist. These are discussed below:

#### **3.6.4.1 Questionnaire**

This is a research instrument that gathers data over a large sample (Kompo and Tromp 2006). The researcher used questionnaire to generate information from District Technical Planning Committee members, Council staff and the Politicians. The researcher preferred questionnaire

because of the nature of confidentiality of the instrument, it saves time and above all allows information to be collected from a large sample. The researcher developed the questionnaire on a Likert scale with a five response labeled strongly agree, Agree, Undecided, Disagree and strongly disagree. The respondent then selected response that best described his/her reaction to the statement. The response categories were weighed from scale 1 to 5. Likert scales are very flexible and can be constructed easily than other attitude scales (Amin, 2005).

### **3.7 Data Management and Analysis**

Data management involved, editing which was done to ensure accuracy by sorting out errors and omissions before grading for coding, data coding, in which symbols were aligned to the respondents' answers for easy understanding and tabulation it involved classifying and grouping of similar answers into meaningful categories and tabulation which involved data compiling in tabular form and corresponding figures, percentages or statistics were presented for easy analysis and interpretation. To analyze data that was collected, the researcher used computer software called Statistical Package for Social Scientist (SPSS version 21) for data entry and analysis of quantitative data. Analysis of closed-ended questions was done by using descriptive statistics and inferential statistics (regression analysis). The analyzed data was presented in the form of frequency tables, charts, and narratives where appropriate. The researcher analyzed open-ended questions descriptively. It involved analysis of graphs and texts.

#### **3.7.1 Reliability and Validity**

To control Reliability and validity of the research instruments, the researcher endeavored to attain reliability and validity coefficient of at least 0.7. Amin (2005) recommends at least 0.7 for a valid research. To ensure reliability, the researcher pre-tested the questionnaire instrument

once on 10 people of the study population. This was intended to determine the internal consistence of the instrument. The scores obtained from the pre-test were then correlated using Cronbach’s coefficient alpha since multiple response items were involved. The results are as shown in Table 3.2 below

**Table 3.2 Showing Reliability Index for Study Variables**

<b>Variables</b>	<b>Reliability Index</b>
Control Environment	0.982
Control Activities	0.962
Monitoring/Evaluation	0.964
<b>Overall Reliability</b>	<b>0.969</b>

*Source: primary data (2017)*

The overall reliability of the instrument showed Cronbach Alpha value of 0.969. This value was considered high enough by the researcher because according to Hair et al, (1984) for studies of this nature, Cronbach’s Alpha value greater than 0.60 are acceptable.

To ensure validity, the researcher then determined validity by computing the content validity index (C.V.I) .The researcher finally determined validity by computing the content validity index (C.V.I) which represented all questions rated relevant by the three experts divided by the total number of questions. The first expert rated the questionnaire instrument at 8/10 the second expert rated at 07/10 and the third expert rated the instrument at 09/10. Validity was then computed as below; using the formula:

$$\text{C.V.I (Content Validity Index)} = \frac{\text{Number of questionnaire itemes declared valid by experts}}{\text{Total number of questionnaire itemes}}$$

$$\text{C.V.I (Content Validity Index)} = \frac{8/10+7/10 +9/10}{30} = 24/30 = 0.8$$

The researcher considered this validity high enough because according to Amin (2005) and Kathuri and Pals as cited in (Oso & Onen, 2009) for survey of this nature validity of instruments of at least 0.7 is considered to be good enough. The researcher accordingly proceeded to collect data. Amin (2005) & Kathuri & Pals as cited in (Oso & Onen, 2009) recommend that, for a study survey, validity index of instruments of at least 0.7 is considered to be good enough.

### **3.8 Measurement of variables**

In this study, three levels of measurements were used: nominal scale, ordinal scale and interval scale (Mugenda and Mugenda, 2003).

#### **3.8.1 Nominal Scale**

In nominal scale the researcher grouped subjects into categories especially the background variables. These were then used to indicate the frequencies in each category.

#### **3.8.2 Ordinal Scale**

In ordinal scale the researcher measured responses ranked on a 5-point Likert Scale labelled 5-strongly Agree, 4-Agree, 3- Neutral, 2- Disagree, 1- Strongly Disagreed.

#### **3.8.3 Interval Scale**

The interval scale was used to compute the mean and the standard deviation of the responses Sekaran (2003).

### **3.9 Ethical Consideration**

According to De Vos et al. (2005), ethics means preferences that influence behavior. Ethics is mostly associated with morality, to deal with issues of rights and wrong among societies. Based on this understanding, the researcher followed ethical standards during the process of this study.



### **3.9.1 Protecting the Participants**

Every individual is entitled to the right to privacy and dignity. In this study, the researcher treated the respondents with respect and sought their cooperation through informed consent (Polit & Beck 2008). Amin (2005) and Saunders et al. (2009) argue that participants should be told of the research interest and should give permission to proceed. Accordingly, the researcher ensured that the participants' identities were protected so that the information collected does not harm them in any way. To ensure anonymity and confidentiality no participants' names were recorded in any form on the questionnaires (Polit & Beck, 2008).

### **3.9.2 Protecting the Right of the Institution**

The researcher requested for ethical clearance of the study from the authorities of Uganda Martyrs University. The researcher also requested for permission from Koboko District Authorities to conduct the study. The researcher abided by the agreements made for permission to conduct the study (Polit & Beck 2008).

### **3.9.3 Scientific Integrity of the Research**

The researcher respected the work of others by acknowledging all the sources that were referred to in this study. The researcher used objective methods to collect, analyze and report the study findings. Therefore, the methodology chosen was used based on the research objectives and not any other reason. The data was interpreted according to the methodological standards and not the researchers' wishes. The researcher maintained honesty when writing and reporting the findings by properly explaining the methods used and the reasons for doing so. No fabrication or

distortion of data was done (Polit & Beck 2008). The researcher will only report will reveal (Amin, 2005 Saunders et al. 2009 .

### **3.10 Limitations and Delimitations**

The study is likely to be limited by the following factors:

Biasness: This was solved by the researcher applying random sampling to ensure equal representation.

Inadequate number of respondents; some respondents hesitated to participate in the study for fear of giving sensitive information. This was solved by the researcher informing them of the study objectives and the benefits and assuring them of confidentiality.

Some respondents were not be able to participate because of their tight schedule of work. The researcher solved this by making appointments with them and drawing a programme.

Time Limitations: the researcher solved this problem by proper time management strict following of the budgeted time.

Financial Constraint: This attempted to affect the progress of the study in terms of typesetting, stationery, binding and printing. The researcher handled this problem by securing financial support from friends and relatives

### **3.11 Conclusion**

This chapter consist of a description of the methodology that was be used for the study. In the chapter, the researcher described, the study design, the study population, area of the study, sample size and selection ,sampling techniques, data collection methods, data management and analysis, reliability and validity ethical considerations and limitations of the study.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.0 Introduction

In this chapter, the researcher presents the data collected, analyzes and interprets it in accordance with the study objectives set earlier. Kruger et al, (2005) mentioned that, the purpose of data analysis is to categorize order, manipulate, and summarize data to an intelligible and interpretable form in order to provide answers to the research objectives and be able to draw conclusions from the data. Accordingly, this chapter is organized as follows: response rate, presentation of the demographic characteristics of the respondents. Data analysis, interpretation of the descriptive statistics including qualitative data analysis and inferential statistics that were used.

#### 4.1 Response Rate

The response rate is the rate of participation in the study. According to Polit and Beck (2008) the response rate is calculated by dividing the number of persons participating in the study by the number of persons sampled. Table 4.1 shows the response rate for this study

**Table 4.1: Response Rate for the Study**

Total number of questionnaire sent out	Total number of questionnaires returned	Response Rate
59	52	88.1%

As shown in the Table 4.1 the response rate for this study was 88.1%, which the researcher considered to be very good. This is justified by Blaikie (2009) who argues that, samples with response rate above 50% are regarded to be good enough. On the other hand Amin (2005) noted

that for survey studies of this nature a response rate of 70% is considered valid. This therefore means that the findings of this research can be considered valid. This good participation is probably an indication that the study was interesting to the participants because of they were informed and understood the significance of the findings of the study.

#### 4.2 Demographic Information

The study sought to establish the demographic characteristics of the respondents in relation to internal control system and budget performance in Koboko District Local Government. The findings are summarized and presented in tables and charts as below:

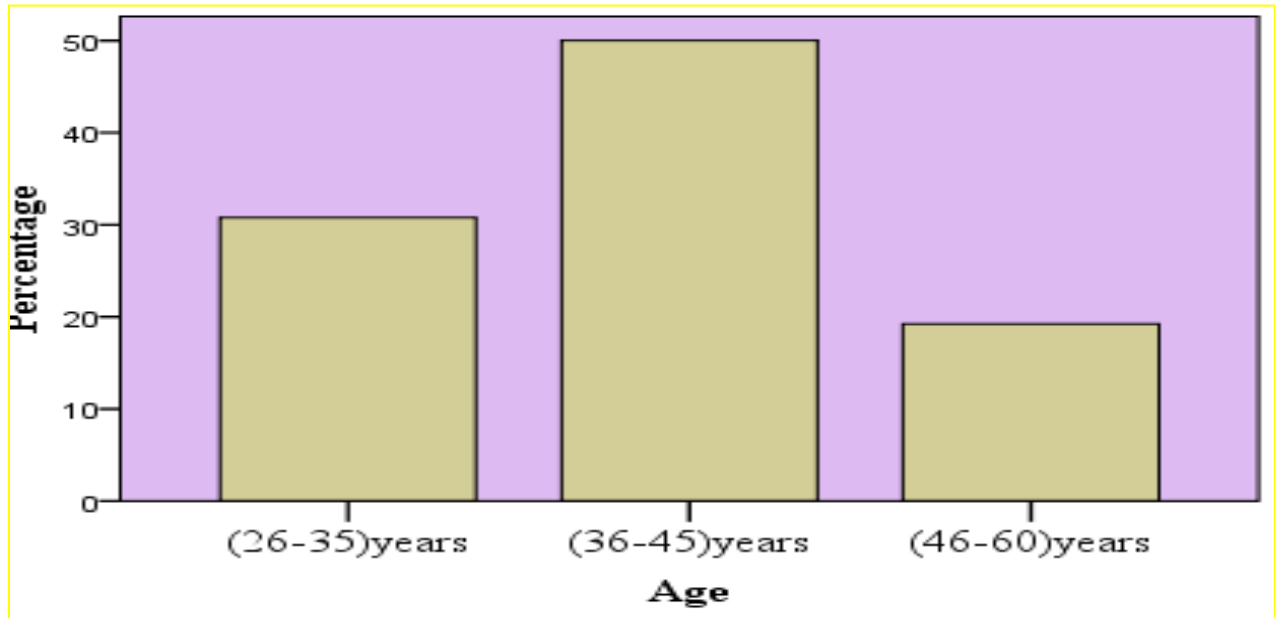
**Table 4.2 :Distribution of Respondents by Gender**

Gender	Frequency	Valid Percentage	Cumulative Percentage
Valid Male	44	84.6	84.6
Female	08	15.4	100.0
<b>Total</b>	<b>52</b>	<b>100.0</b>	

*Source: Primary Data (2017)*

Table 4.2 shows that the majority (84.6%) of the respondents who participated in the study were male compared to 15.4% of them who were female. This is in agreement with the Circular standing Instruction (2011) on guidelines for gender mainstreaming in human resource management which states that analysis of staffing level as at March 2011 indicates that men were more , about 67% compared to women who were 33%.

**Figure 4.1: Bar Chart Showing Distribution of Respondents by Age**



The findings from figure 4.1 indicate that, 50% of the respondents constituting the majority were aged between (36 -45) years, followed by those aged between 26 years to 35 years as shown by 30.8%. The respondents who were within the age bracket (46-60) years made up only 19.2%. There were no respondents aged below 25 years. The majority response implies that, employees of the Local Government are youth who could work actively to achieve performance.

**Table 4.3 : Distribution of Respondents by Education Level**

	Qualification	Frequency	Valid Percentage	Cumulative Percentage
Valid	Certificate	6	11.5	11.5
	Diploma	29	55.8	67.3
	Degree	12	23.1	76.9
	Post-Graduate	05	9.6	100.0
	PhD	00	00	
	<b>Total</b>		<b>52</b>	<b>100.0</b>

*Source: Primary Data (2014).*

Table 4.3 shows that, majority (55.8%) of the respondents had diplomas, followed by 23.1% of them who had degrees, 11.5% had certificates and only few (9.6%) of them had Post Graduate Diploma. There were no PhD holders. This implies that all the respondents were educated. However, there is need for further studies since few of them hold degrees and very few hold post-graduate diploma.

**Figure 4.2: Pie Chart Showing Distribution of Respondents by Work Experience**

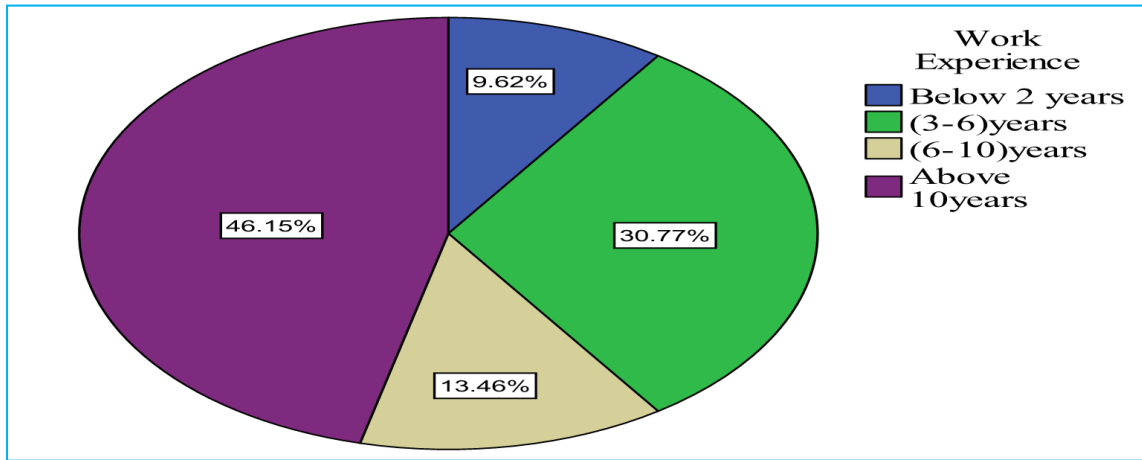


Figure 4.2 above illustrates that, majority of the respondents (48.15 %) had more than 10 years of work whereas 30.77% of them had work experience between (3 -6) years whereas 13.48% had (6-10) years experience and only 9.52% had work experience of less than 2 years. The response of the majority Suggests that, generally the respondents were experienced. Therefore, the question of experience regarding performance did not apply.

**Table 4.4 : Distribution of Respondents by Employment Status.**

Status	Frequency	Valid Percentage	Cumulative Percentage
Political	3	5.8	5.8
Permanent	46	88.5	94.2
Probation	3	5.8	100.0
<b>Total</b>	<b>52</b>	<b>100.0</b>	

*Source: Primary Data (2017)*

The results from Table 4.4 above indicate that, most of the respondents were permanently employed as indicated by 88.5% response compared to 5.8% who were on probation and another 5.8% who were politically appointed. This implies that most of the employees were appraised and confirmed. They could perform better.

### **4.3 Control Environment and Budget Performance**

The first objective of the study was to examine the effect of control environment on budget performance in Koboko District Local Government. The responses of the respondents are summarized in table 4.5 below. The respondents had to indicate whether they strongly agree (SA), agree (A), undecided (NS), disagree (DA) or strongly disagree (SA) with the statements. For the purpose of analysis and discussion both strongly disagree and disagree were combined to give a response of disagree and strongly agree and agree were combined as agree. The mean values are interpreted on the basis of the mean range on the Likert Scale (Appendix v)



**Table 4.5: Descriptive Statistics on Control Environment.**

Control Environment	Percentage Responses					Mean	Std. Deviation
	SA	A	NS	DA	SDA		
Koboko District Local Government has a clear organization structure	24 46.2%	21 40.4 %	02 3.8%	05 9.6%	00 00%	4.23	.921
The Organization structure is periodically reviewed for relevance.	21 40.4%	24 46.2 %	00 00%	07 13.5%	00 00%	4.13	.971
Staff recruitment is based on human resource policies	26 50%	26 50%	00 00%	00 00%	00 00%	4.50	.505
The District has competent staff	14 26.9%	25 48.1 %	06 11.5%	07 13.5%	00 00%	3.88	.963
Staff recruitment is done by the District Service Commission	21 40.4%	24 46.2 %	05 9.6%	02 3.8%	00 00%	4.23	.783
The District recruits employees on merit	24 46.2%	24 46.2 %	04 7.7%	00 00%	00 00%	4.38	.631

The District has staff capacity building programmes	07 13.5%	26 50%	12 23.1%	07 13.5%	00 00%	3.63	.886
There is segregation of Staff duties in the District	24 46.2%	21 40.4 %	02 3.8%	05 9.6%	00 00%	4.23	.921
The staff have training Programmes	26 50%	14 26.9 %	07 13.5%	05 9.6%	00 00%	4.17	1.004
There is Delegation of Duties to Staff in the District	22 42.3	23 44.2 %	05 9.6%	02 3.8%	00 00%	4.25	.789
<b>Key: Strongly Agree (SA); Agree (A); Neutral (N); Disagree (DA); Strongly Disagree (SDA)</b>							

*Source: Primary Data (2017)*

The results from table 4.5 indicate that, most of the respondents (86.6%) agreed that Koboko District Local Government has a clear organization structure compared to 9.6% of the respondents who disagreed and only 3.8% were undecided. The majority response corresponds to a mean value of 4.23 suggesting that, the respondents rated the organization structure highly rating with a standard deviation value of 0.931 indicating difference of opinion of the respondents. The response of most respondents implies that the organization of Koboko District Local Government was well structured and therefore performing well.

In addition, the Organization structure was periodically reviewed for relevance as shown by the majority (86.6%) of the respondents who agreed corresponding to a high mean value (4.13)

while only 14.3% of the respondents disagreed with the view as reflected by a standard deviation value (.971) indicating difference of opinion. The response of the majority implies that the organization structure enhanced efficiency and effectiveness of the budget performance.

Furthermore, all the respondents 52(100%) corresponding to a very high mean value(4.50) agreed that, Staff recruitment was based on human resource policies which resulted in attracting competent staff as indicated by 75% of the respondents compared to 13.5% who disagreed while 11.5% of them remained undecided. Respondents rated staff competency in Koboko District Local Government highly with a mean score of 3.88 and a deviation of 0.963 from the mean implying difference of opinion of the respondents. In addition Staff recruitment is done by the District Service Commission as evidenced by most of the respondents (86.6%) who agreed as compared to 3.8% who disagreed while 9.6% of them remained undecided. Suggesting that the right recruitment procedures were followed. This was rated high with a mean score value of 4.38 and variation of 0.783 from the mean indicating that, respondents varied in their opinions on the statement. In addition, the District recruits employees on merit as shown by 92.4% of the respondents who agreed on the statement while 7.7% disagreed .The majority response implies that, Koboko District Service Commission recruits valuable employees for better performance. The mean score value of 4.38 indicates a very high rating by the respondents although there was difference of opinion among them as evidenced by a standard deviation value of 0.631 from the mean. Furthermore, when respondents were asked the District had staff capacity building programmes, majority of respondents (63.5%) agreed on the statement, while 13.5% disagreed and 23.1% remained undecided. The response of the majority implies that Koboko District Local District is concerned with increasing staff competence.

Regarding whether there was segregation of staff duties, majority (86.6%) of the respondents agreed on the statement while 9.6% of them disagreed and only 3.8% remained undecided. The response of the majority implies that there is job specification in Koboko District Local Government which was rated very high (mean score value = 4.23, Std.Deviation= 0.921) .

On whether the staff in Koboko District Local Government have training Programmes, majority of the respondents (76.9%) of them agreed compared to 9.6% who disagreed as 13.6% remained neutral. Majority response confirms that there is capacity building program in Koboko District Local Government. The mean value of 4.17 indicates that, respondents rated the statement very high although with a difference of opinion as shown by a standard deviation value (1.004). This finding is in conformity with interview results for example, one of the officers remarked that:

*“Yes, the staff benefit from capacity building grant in form of facilitation for accommodation, transport and stationery for those doing CPA Exams and tuition for other staff pursuing post Graduate studies .”* (Head of Human Resource Department, 19<sup>th</sup> July, 2017)

The majority response suggests that staff training influenced budget performance in Koboko District Local Government. Further still, the management delegated duties to the staff as shown by 86.5% of the respondents compared to only 3.8% who disagreed while 9.6% of them remained undecided. The majority response implies that management prepared the staff for future responsibilities. Delegation of duties was rated very high (mean score value = 4.25, Std.Deviation= 0.789).

#### **4.4 Control Activities and Budget Performance**

The second objective of the study was to analyze the effects of control activities on budget performance in Koboko District Local Government. The responses of the respondents are summarized in table 4.7 below.

**Table 4.6: Descriptive Statistics Summary of Responses on Control Activities.**

<b>Control Environment</b>	<b>Percentage Responses</b>					<b>Mean</b>	<b>Std. Deviation</b>
	<b>SA</b>	<b>A</b>	<b>NS</b>	<b>DA</b>	<b>SDA</b>		
Accountants of Koboko District follow the Local Government Act procedures during preparation of financial statement.	21 40.4%	31 59.6 %	00 00%	00 00%	00 00%	4.40	.495
The District is mandated to formulate and approve balanced budgets.	12 23.1%	29 55.8 %	00 00%	11 21.1%	00 00%	3.81	1.030
The District has a functional budget desk that is consulted on budget processes.	10 17.2%	26 50%	08 8.6%	03 5.8%	00 00%	3.67	1.08
The District finance committee reviews financial management practices.	5 9.6%	32 61.5 %	10 19.2%	05 9.6%	00 00%	3.71	.776
The District finance committee guides on financial management.	10 19.2%	40 76.9 %	00 00%	02 3.8%	00 00%	4.12	.583
Ministry of Local Government inspects and monitors Local Government financial performance.	00 00%	34 65.4 %	14 26.9%	00 00%	04 7.7%	3.50	.852

Local revenue mobilization programs are efficiently implemented in the District.	02 3.8%	02 3.8%	14 26.9%	34 65.4%	00 00%	2.46	.753
The District Local Government Public Accounts Committee review budget performance on periodic basis.	10 19.2%	27 51.9 %	10 19.2%	10 19.2%	00 00%	3.71	.9997
The District approves budgets timely	05 9.6%	27 51.9 %	10 19.2%	10 19.2%	00 00%	3.52	0.918
In the District, payments are done after authorization by responsible persons.	32 61.5%	10 19.2 %	05 9.6%	05 9.6%	00 00%	4.33	1.004
<b>Key: Strongly Agree (SA); Agree (A); Neutral (N); Disagree (DA); Strongly Disagree (SDA)</b>							

Source: Primary Data (2017)

The results from 4.6 indicate that all the respondents (100%) agreed that, accountants of Koboko District follow the Local Government Act procedures during preparation of financial statement. The mean value of 4.40 suggests that, respondents rated the statement very high with variation in their opinions as shown by standard deviation value of 0.415. The majority response implies that the employees of Koboko District Local Government comply with budget preparation procedures to achieve performance.

When the respondents were asked whether the District was mandated to formulate and approve balanced budgets, majority of the respondents (78.9%) agreed with the statement while 21.1%

disagreed. Respondents rated the statement highly with mean value (3.81) and standard deviation value (1.030). In addition, one officer remarked that;

*“You know we are understaffed so this has affected the functionality efficiency of the budget desk”.*  
(Internal Auditor, 21<sup>st</sup> July 2017).”

The majority response suggests that, in Koboko District Local Government, budget is prepared in consultation with the relevant authorities. This is supported by the majority (67.2%) of the respondents who agreed that the District has a functional budget desk that is consulted on budget processes while 5.8% disagreed and only 8.6% were undecided. Respondents rated the functioning of the budget desk high with mean score value of 3.67 and a deviation of 1.08 from the mean suggesting that respondents differed in their opinions.

This finding concurs with face to face interview result with a member of the budget desk who reported that:

*“Authorization and approval are the mandate of the Councils and relevant committees who review or scrutinize the budget submitted by the Heads of Department. But I must say, the only challenge is staffing issue that cuts across all the Departments and also the new Public finance management Act reduced the cycle of budgeting.”* (Head of Planning Unit, 20<sup>th</sup> July, 2017).

This implies that in Koboko District Local Government, there is evidence of authorization, approval and budget reviews. In addition, majority of respondents (71.1%) agreed that, The District finance committee reviews financial management practices. This was rated high as indicated by a mean value of 3.71 with a standard deviation value of 0.776 while 9.6% of the



respondents disagreed and 19.2% of them remained undecided. The response of the majority suggests that the Ministry of Local Government has in place measures and implements those measures to control Local Government budget performance.

Similarly, most of respondents (96.1%) agreed that, the District finance committee guides on financial management compared with only 3.8% of the respondents who disagreed. The mean value of 4.12 indicates that, respondents rated the statement highly with variation in their opinions as shown by a standard deviation value (0.583).

However, Ministry of Local Government inspects and monitors Local Government financial performance as indicated by 65.4% compared with 7.7% who disagreed. Respondents rated the statement high (mean value 3.5) and standard deviation of 0.852. Concerning whether Local revenue mobilization programs were efficiently implemented in the District, majority (65.4%) of the respondents disagreed while 7.7% agreed and 26.9% remained neutral. This was rated low with mean value = 2.46 and standard deviation of 0.753 indicating that, respondents varied in their opinions on the statement.

In addition, the District Local Government Public Accounts Committee review budget performance on periodic basis as indicated by majority (71.1%) of the respondents while 19.2% disagreed as 9.6% of them remained undecided. This suggests regular monitoring of the budget by the Public Accounts Committee. Respondents rated the statement high (mean= 3.71, Std.Deviation = 0.997)

Concerning whether, the District approves budgets timely as evidenced by 61.5% of the respondents who agreed compared to 19.2% who disagreed while another 19.2% of them

remained undecided. Majority response suggests efficiency in the budget process. This was rated high by the respondents (mean score value = 3.52 and Std. Deviation = 0.918).

When respondents were asked whether in the District, payments are done after authorization by responsible persons, most of the respondents (80.7%) agreed while 9.6% disagreed and another 9.6% remained undecided. The response of the majority implies that, management follow payment procedures. This was rated very high by the respondents as indicated by the mean score value of 4.33 on the mean range Likert Scale (Appendix v)

#### 4.5 Monitoring and Evaluation

The third objective of the study was to establish the effects of monitoring and evaluation on budget performance in Koboko District Local Government.

**Table 4.7: Descriptive Statistics Summary on Views of Respondents' Regarding Monitoring/ Evaluation**

Monitoring and Evaluation	Percentage Responses					Mean	Std. Deviation
	SA	A	NS	DA	SDA		
Internal audit department ensures the effectiveness of internal control system in Koboko District Local Government.	14 26.9%	33 63.5 %	05 9.6%	00 00%	00 00%	4.17	.585

Internal audit department ensures effective budget implementation.	17 32.7%	35 67.3 %	00 00%	00 00%	00 00%	4.33	.474
Internal Audit Department advises the staff on financial management	10 19.2%	09 17.3 %	19 36.5%	14 26.9%	00 00%	3.39	1.073
Internal Audit Department advises the staff on risk avoidance.	08 15.4%	36 69.2 %	05 9.6%	03 5.8%	00 00%	3.94	.698
The Public Accounts committee recommendations are strictly adhered to.	15 28.8%	26 50%	08 15.4%	03 5.8%	00 00%	4.02	.828
The Internal Audit Department effectively monitors Internal controls instituted by Management.	26 50%	24 46.2 %	02 3.8%	00 00%	00 00%	4.46	.576
Political leaders are involved in monitoring of programs and projects.	00 00%	16 30.8 %	10 19.2%	20 38.5%	06 11.5%	2.69	1.039
Technical staff participates in monitoring of projects and programmes.	10 19.2%	27 51.9 %	10 19.2%	00 00%	05 9.6%	3.71	1.091

The Internal Audit Department ensures that employees act in compliance with Local Government policies	21 40.4%	29 55.8 %	02 3.8%	00 00%	00 00%	4.37	0.561
In Koboko District the Auditor General access all documents and in formation necessary for reaching an audit opinion.	14 26.9%	33 63.5 %	05 9.6%	00 00%	00 00%	4.17	0.585
<b>Key: Strongly Agree (SA); Agree (A); Neutral (N); Disagree (DA); Strongly Disagree (SDA)</b>							

Source: Primary Data (2017)

The results from table 4.7 above indicate most (90.4%) of the respondents, agreed that Internal audit Department ensured the effectiveness of internal control system in Koboko District Local Government while only 9.6% of the respondents remained undecided. Respondents rated the effectiveness of the internal control system high with a mean value of 4.17 and a Std.Deviation value of 0.585 indicating variation of respondents' opinion. In addition, all the respondents (100%) agreed that. Internal Audit Department ensured effective budget implementation. This was rated very high (mean score value = 4.33 and a standard deviation value of 0.474) by the respondents. In addition, Internal Audit Department advises the staff on financial management as indicated by 36.5% of the respondents who agreed compared to 26.9% who disagreed on the statement. This implied that, the Internal Audit Department implement their mandate effectively. The statement was rated moderately with a mean value of 3.29 and a Standard. Deviation value of 1.073.

Furthermore, the Internal Audit Department advises the staff on risk avoidance as indicated by 84.6% of the respondents who agreed compared to 5.8% who disagreed and 9.6% of the respondents remained neutral. Respondents rated high the advise given by the Internal Audit Department as shown

by the mean score value (3.94) and standard deviation value of 0.698 indicating variation of respondents opinion.

Besides that, when respondents were asked whether the Public Accounts committee recommendations are strictly adhered to, majority (78.8%)of the respondents agreed whereas only 5.8% of them disagreed and 15.4% remained undecided. Respondents rated adherence on recommendations of DPAC highly with a mean score value of 4.02 and Std. Deviation of 0.828. The majority response implies that Koboko District Local Government implements the recommendations of the District Accounts Committee to improve budget performance.

On whether the the Internal Audit Department effectively monitors Internal controls instituted by Management. , most of the respondents agreed with the statement as reflected by 96.2% of the responses compared to only 3.8% of them who remained neutral. This was rated very high with a mean value of 4.46 and a deviation of 0.576 from the mean indicating difference of respondents' opinion. On the contrary political leaders were not involved in monitoring of programs and projects, as evidence by 50% of the respondents who disagreed although 30% of them agreed while 19.2% remained undecided. The none involvement of the political leaders was rated moderately by the respondents as shown by (Mean score value = 2.69, Std.Deviation = 1.039).

Interestingly, the technical staff participated in monitoring of projects and programmes as evidenced by the majority (71.1%) of the respondents who agreed compared to 9.6% who disagreed while 19.2% remained undecided. Respondents rated highly the involvement of the technical staff in monitoring projects (mean score value = 3.71; Std.Deviation value = 1.091).

Further still, when respondents were asked whether the Internal Audit Department ensured that, employees acted in compliance with Local Government policies, most of the respondents (96.2%) of

the respondents agreed while 3.8% remained neutral. This was rated very high (mean value = 4.37; Std.Deviation = 0.561) .Besides, that In Koboko District the Auditor General access all documents and in formation necessary for reaching an audit opinion as indicated by most of the respondents who constituted 90.4% while only 9.6% of them remained undecided. Respondents rated this highly with mean value (4.17) and standard deviation value of 0.585 suggesting variation of respondents' opinions on the statement.

#### **4.7 Budget Performance**

The study set out to generate respondents' views on the dependent variable (budget performance). The summary of the responses are provided in the Table 4.11 below.

**Table 4.8: Descriptive Statistics Summary on Views of Respondents on Budget**

**Performance.**

Performance	Percentage Responses					Mean	Std. Deviation
	SA	A	NS	DA	SDA		
Management of Koboko District Local Government realize efficient revenue collection..	8 15.4%	22 42.3 %	09 17.3%	07 13.7%	6 11.5%	3.37	1.237
Expenditures are within the Local Government Act.	00 00%	28 53.8 %	10 19.2%	13 25%	1 1.9%	3.25	0.905
Management of Koboko District Local Government pays the staff timely.	19 36.5%	32 61.5 %	00 00%	00 00%	1 1.9%	4.31	0.673
Koboko District Local budget Projects are financed to completion.	07 13.5%	10 19.2 %	21 40.4%	10 19.2%	4 6.9%	3.12	1.114
The budget allows construction of infrastructure in the District.	00 00%	31 59.6 %	2 3.8%	19 36.5%	00 00%	3.23	0.962

Koboko District Local Government realizes increase in local revenue collection.	5 9.6%	29 55.8 %	7 13.5%	5 9.6%	6 11.5%	3.42	1.161
Koboko District local Budget objectives are always achieved.	5 9.6%	13 25%	10 19.2%	15 28.8%	9 17.3%	2.81	1.269
All voted moneys are absorbed appropriately.	13 25%	33 63.5 %	00 00%	5 9.6%	1 1.9%	4.00	0.907
Koboko District Local Government Budget encourages provision of social services.	10 19.2%	13 25%	10 19.2%	16 30.8%	3 5.8%	3.21	1.242
There is increase in Central Government transfers due increased budget performance.	10 19.2%	29 55.8 %	00 00%	2 3.8%	4 7.7%	3.75	1.064
<b>Key: Strongly Agree (SA); Agree (A); Neutral (N); Disagree (DA); Strongly Disagree (SDA)</b>							

*Source: Primary Data (2017)*

The findings from table 4.8 indicate that, Management of Koboko District Local Government realized efficient revenue collection as indicated by 57.7% of the respondents who agreed compared to 25% who disagreed while 17.3% of them remained undecided. The revenue collection was rated moderate with a mean value of 3.37 and a deviation of 1.237 from the mean indicating variation of opinion of the respondents. The majority response implies that the



revenue collection facilitated achievement of budget objectives and therefore budget performance.

When respondents were asked whether expenditures were within the Local Government Act, majority (53.8%) of the respondents agreed on the statement compared to 26.9% who disagreed (mean value of 3.25 and Std. Deviation of 0.905). The moderate mean value suggests moderate expenditures.

Regarding whether management of Koboko District Local Government pays the staff timely, most of the respondents (98.1%) agreed while only 1.9% disagreed. This was rated very high as indicated by the mean value of 4.31 and a Std. Deviation of 0.673. In addition when respondents were asked whether Koboko District Local budget Projects are financed to completion, majority (40.4%) of the respondents remained neutral while 32.7% agreed and 26.1% disagreed. This was rated moderately (Mean = 3.12 and Std. Deviation = 1.114).

Furthermore, the results indicate that the budget allowed construction of infrastructure in the District as shown by (59.6%) of the respondents compared to 36.5% of them who disagreed and only 3.8% who remained undecided. The mean value of 3.23 indicates moderate rating on the statement by respondents with a Std. Deviation of 0.962. Besides that, Koboko District Local Government realized increase in local revenue collection as evidenced by 65.4% majority response (mean value of 3.42 and Std. Deviation = 1.161), implying that the budget was performing well.

Further still, when respondents were asked whether Koboko District local Budget objectives were always achieved majority of respondents (46.1%) disagreed while 34.6% of them agreed

and only 19.2% remained undecided. Respondents rated achievement of budget objectives moderately with a mean value of 2.81 and Std.Deviation= 1.269.

Concerning whether all voted moneys were absorbed appropriately, most of respondents 88.5% agreed while 11.5% of them disagreed. Respondents rated money absorption by the District very high (mean value of 4.00, Std. Deviation= 0.907).

Also, Koboko District Local Government Budget encouraged provision of social services as indicated by majority, 44.2% ( moderate mean value of 3.21) compared to 36.6% who disagreed. Additionally, there was increase in Central Government transfers due increased budget performance as reflected by 75% majority with a high mean value of 3.75 and a Std. Deviation of 1.064 compared to 3.75% who disagreed while 11.5% remained undecided.

**Table 4.9: Internal Control System on Budget Performance**

**Pearson Correlations**

		Internal Control System	Budget Performance in Local Governments
Internal Control System	Pearson Correlation	1	.229*
	Sig. (2-tailed)		.032
	N	52	52

Budget Performance in Local Governments	Pearson Correlation	.229*	1
	Sig. (2-tailed)	.032	
		52	52

*Source; primary data (2017) \*.Correlation is significant at the 0.05 level (2-tailed).*

Table 4.9 above shows Pearson’s correlation coefficient ( $r = 0.299$ ,  $p \leq 0.05$ ) between Internal Control System and Budget performance in Local Governments. A case of Koboko District suggesting that there was a positive significant relationship between the variables. This further reveals that Internal Control System determines Budget Performance. This is in agreement with (Emery et al. 2004) that Internal Control System relates to Budget performance of Local Governments.

**Test of Hypothesis One (Control Environment positively Affects Budget Performance in Koboko District Local Government)**

The researcher set out to test the hypothesis that Control environment positively affects budget performance in Koboko District Local Government. To verify the hypothesis, a regression analysis was run, the SPSS (Statistical Package for Social Scientists Version 17.0) output is indicated in Table 4.10 that follows.

**Table 4.10: Model Summary Showing Effect of Control Environment on Budget Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.852 <sup>a</sup>	.725	.720	.624	.000

a. Predictors: (Constant), Control Environment

Table 4.10 above indicates the model summary of the regression is significant (P-value  $0.00 < 0.05$  level of significance). We reject the null hypothesis and conclude that control environment positively affects budget performance. This result supports the researcher's hypothesis. In addition the model summary table indicates that the Adjusted R square is 0.72 or 72%. This finding implies that change in control environment affects up to 72 % of the variations in the dependent variable (budget Performance). This further means that the remaining 28% is unexplained variability not included in the model summary

**Test of Hypothesis Two (Control Activities positively Affects Budget Performance in Koboko District Local Government)**

The researcher sought to test the hypothesis that control activities positively affect budget performance in Koboko District Local Government. To verify the hypothesis, a regression analysis was run; the results of these are shown in table 4.11 that follows.

**Table 4.11: Model Summary Showing Effect of Control Activities on Budget Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.922 <sup>a</sup>	.849	.846	.462	.000

a. Predictors: (Constant), Control Activities

The regression analysis results (table 4.11) show the adjusted R Square (.846) which is 84.6%, and the p-value (.000) < 0.05(significant level). Implying that, control activities significantly affect positively 84.6% of budget performance in Koboko District Local Government .The remaining percentage (16.4%) is the unexplained variability. Hence, the effect of control activities on budget performance in Koboko District is statistically significant

### **Hypothesis Testing**

The researcher sought to test the hypothesis that monitoring and evaluation positively affect budget performance in Koboko District Local Government. To verify the hypothesis, a regression analysis was run; the results of these are shown in table 4.12 that follows.

**Table 4.12: Model Summary Showing Effect of Monitoring and Evaluation on Budget Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.888 <sup>a</sup>	.788	.784	.547	.000

a. Predictors: (Constant), Monitoring and Evaluation

The regression analysis results (table 4.12) shows the adjusted R Square (.784) which is 78.4%, and the p-value (.000) < 0.05(significant level). Implying that, monitoring and evaluation significantly affect positively 78.4% of budget performance in Koboko District Local Government .The remaining percentage (16.4%) is the unexplained variability. Hence, the effect of control activities on budget performance in Koboko District is statistically significant

**Table 4.13: Shows the multiple regressions between the three dimensions (Control environment,Control activities and Monitoring and Evaluation) and Budget Performance of Local Governments.**

Model	R	R Square	Adjusted Square	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
				B	Std. Error	Beta		
				(Constant)				
Control activities	.695 <sup>a</sup>	.315	.345	.435	1.117	.454	.780	.001
Monitoring and evaluation	.509 <sup>a</sup>	.259	.253	-.844	1.061	-.315	-.804	.004
Control environment	.615 <sup>a</sup>	.277	.285	.365	.591	.154	.624	.005

a. Dependent Variable: Budget performance

The t statistics helped the researcher to determine the relative importance of each variable in the model. The findings revealed that there was positive high relationship between control activities and Budget performance with a coefficient value of R 0.695<sup>a</sup>. The control activities adjusted R Square value was 0.345 which indicates a 34.5% effect on Budget performance. The study

further indicated that there was positive moderate relationship between monitoring and evaluation and Budget performance with a coefficient value of R 0.509<sup>a</sup>. The monitoring and evaluation adjusted R Square value was 0.259 which indicates a 25.9% effect on budget performance. The final result revealed that there was positive moderate relationship between control environment and Budget performance with a coefficient value of R 0.615<sup>a</sup>. The control environment adjusted R Square value was 0.277 which indicates a 27.7% effect on Budget performance. From the above findings, the study therefore noted that control activities is the most influential factor as far as Budget performance of Local Governments is concerned. The study also found that there was a positive relationship between Budget performance and control environment, monitoring and evaluation.



## CHAPTER FIVE

### SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

The researcher originally set out to examine the effect of control environment on budget performance in Koboko District Local Government. In this chapter, the researcher therefore presents the summary of the study, discusses the major findings. Generated conclusions and makes recommendations in line with the study objectives set earlier on.

#### 5.1 Summary of the Findings

In this section, a summary of the study findings were presented as below:

##### 5.1.1 Control Environment and Budget Performance.

The study found out that, control environment has a positive effect on staff performance (p-value  $0.000 < 0.05$  significance level). The Adjusted R square is 0.72 or 72% which implied that control environment affected up to 72 % of the variations in the budget Performance. The major findings were that Koboko District Local Government had a clear organization structure periodically reviewed, staff recruitment was based on human resource policies as a result the District has competent staff moreover the recruitment is done by the District Service Commission who recruits employees on merit. In addition, the District has staff capacity building programmes and There is segregation and delegation of duties. The District has training Programmes for their staff.

##### 5.1.2 Control Activities and Budget Performance.

The study found out that control activities has a positive effect on budget performance (p-value  $0.000 < 0.05$  significance level). The results show the adjusted R Square (.846) which is 84.6%

implying that control activities positively affects budget performance in Koboko District Local Government by 84.6%. The major findings were that the accountants of Koboko District follow the Local Government Act procedures, the District is mandated to formulate and approve balanced budgets as a result The District has a functional budget desk, the District finance committee reviews financial management practices and guides on financial management. In addition, the Ministry of Local Government inspects and monitors Local Government financial performance, The District Local Government Public Accounts Committee reviews budget performance periodically, the budget is approved timely and payments are done after authorization by responsible persons. However, the Local revenue mobilization programs are not efficiently implemented in the District.

### **5.1.3 Monitoring, Evaluation and Budget Performance.**

The study established that monitoring has a statistically significant effect on staff performance (p-value  $0.000 < 0.05$  significance level). The Adjusted  $R^2 = 0.784$  or 78.4% which implied that monitoring/evaluation positively affected budget performance by 78.4%. Hence, 78.4% change in budget performance was due to monitoring and evaluation by management. The major findings were that Internal Audit Department ensures the effectiveness of internal control system, effectively monitors Internal controls instituted by Management and effective budget implementation, advises staff on financial management and on risk avoidance. In addition, the Public Accounts committee recommendations are strictly adhered to. The Technical staff participates in monitoring of projects and programmes compared to the Political leaders. The Auditor General access all documents and information necessary for reaching an audit opinion.

## **5.2.0 Discussion of the Study Findings**

Discussion is organized following the study objectives which the researcher set earlier on. In the course of the discussions, an attempt is made to cross reference the implications of the findings with the existing literature.

### **5.2.1 Control Environment and Budget Performance in Koboko District Local Government**

In examining the effects of control environment on budget performance in Koboko District Local Government, the findings of the study from regression analysis result (Table 4.10), indicated that control environment had a positive significant effect on budget performance (p-value  $0.000 < 0.05$  significance level). The Adjusted R square is 0.72 or 72% implied that, control environment affected up to 72 % of the variations in the budget Performance.

These results are in agreement with the findings from the descriptive statistics (Table 4.5) where majority of respondents (86.6%) corresponding to a high mean value of 4.23, agreed that, Koboko District Local Government had a clear organization structure to achieve budget performance. The study also found out that The Organization structure was periodically reviewed as indicated by 86.6% of the respondents who agreed equivalent to a high mean value of 4.13. Furthermore, all (100%) of the respondents corresponding to a very high mean value of 4.5 agreed that, staff recruitment was based on human resource policies . This agrees with COSO, (2006) report that, if competent staff recruited and trained, budgets will be properly prepared and executed and further supported by the Uganda Public Service Standing Orders (2010) which underscores the importance of human resource training and development for competency building and diligence to improve management of budgets in the Districts.

The study established that, the District had competent staff as indicated by the majority ( 75%) of the respondents (mean value of 3.88 ). In addition, staff recruitment was always done by the District Service Commission as evidenced by 86.6% of the respondents and a high mean value of 4.23. The study revealed that the District recruits employees on merit as indicated by 92.4% of the respondents which employees were later empowered through the District capacity building programs as indicated by 63.5% majority response. These findings of the study was corroborated by Mwakimasinde, Odhiambo and Byaruhanga (2014) who revealed that, human resource policies affect the financial performance of the organizations, in this case, budget performance of Koboko District Local Government. In support of the results of this study Ejoh and Ejom (2014), also found out that, inadequate training of finance staff in implementation of accounting and financial systems of an organization renders the internal control systems ineffective. Hence, leading to poor performance. This suggests that employees' capacity building through training on financial systems is essential for budget performance

. These findings were further supported by Zabihollah (2001), who contends that, there should be effective internal audit to ensure reliability of budget performance. Jansen (2003), findings in support of Zabihollah (2001), revealed that, control mechanism such as audits enhances the reliability of budget performance either directly or indirectly by increasing accountability of any information provider

### **5.2.2 Control Activities and Budget Performance in Koboko District Local Government**

The study sought to analyze the effects of control activities on budget performance in Koboko District Local Government. The findings from regression analysis result (Table 4.11) indicated that control activities had a positive effect on budget performance (p-value  $0.000 < 0.05$  significance level). The Adjusted R square is 0.846 implied that control activities affected up to

84.6 % of the variations in the budget Performance. These results are in line with the findings from the descriptive statistics (table 4.6) which indicated that 100% of the Accountants of Koboko District follow the Local Government Act procedures ( mean value 4.40) and The District is mandated to formulate and approve balanced budgets as shown by 78.9% of the respondents(mean value 3.81). The findings conform to the budget Act (2001) that regulates procedure for a systematic and efficient budgeting process in Local Governments in Uganda and of which budget implementation, monitoring and evaluation is part. Also, Local Government Act(Cap.243, 1997) which holds that, public organizations and Institutions are required to put in place and implement control activities to ensure effective budget performance and that Local Governments are mandated to formulate, approve and execute balanced budgets, Reflecting all revenues to be collected or received by the local government and the appropriation for each year.

The Committee of Sponsoring Organization (COSO, 2006) agrees with the study results that control activities include approvals, authorization, and verification, and reconciliation, reviews of operating performance, security of assets and segregation of duties. Similarly, the findings of this study appear to be in line with the view of Scott (1983) which contends that it is globally a legal requirement that, publically held corporations Institutions should put in place effective control activities and audit committees that should review, on periodic basis, the internal controls.

The study revealed that the District finance committee reviews financial management practices and guides on Local Government budgets as reflected by 71.1% (mean value of 3.71) of the respondents and Ministry of Local government inspects and monitors local government budget performance as also reflected by 65.4% of the respondents. In line with the finding of this study, LGFAM, (2007) found out that, the Head of Finance in Koboko Local Government prepares the

budget and produces timely financial reports .However, 65.4% % of the respondents showed that Local revenue mobilization programs were not efficiently implemented in the District.

Finally, majority of respondents (80.7%) and mean value of 4.33 showed that, In the District, payments are done after authorization by responsible persons. This is in accordance with the Constitution of Uganda (1995) and financial regulation which highlights that the District Councils prepare comprehensive budget, regulates expenditure and integrates development plans incorporating the plans of lower local governments for submission to the National Planning Authority.

### **5.2.3 Monitoring/Evaluation and Budget Performance in Koboko District Local Government.**

In establishing the effects of monitoring/evaluation on budget performance in Koboko District Local Government, the study findings revealed that, monitoring/evaluation has positive effect on staff performance (p-value  $0.000 < 0.05$  significance level). The Adjusted  $R^2 = 0.784$  which implies that, monitoring affected budget performance by 78.4%. These findings are consistent with the results from the descriptive statistics (table 4.7) which indicated that the Internal Audit Department ensured the effectiveness of internal control system as shown by 90.4% of the respondents a high mean value of 4.17 and ensured effective budget implementation as indicated by all the respondents(100%).These results corroborated by the views of Shanduka (2004) who contends that, internal audit is an independent, objective assurance and consulting activity designed to add value and improve organizations budget performance and that it helps an organization to accomplish its objectives by bringing a systematic disciplined approach to

evaluate and improve the effectiveness of budget, risk management, control and governance processes.

In support of this view and also the study findings, Reinford (2004) and Beyang (2011) concurred that internal auditing activity is one of the main characters of the Control System and is an inevitable tool of management for monitoring budget performance. This implies that monitoring as a component on internal control, is essential in achieving budget performance.

The study revealed that Political leaders were less involved in monitoring of programs and projects compared to the Technical staff participates in monitoring of projects and programmes. This finding agrees with Owenrich (2001) who posited that, Internal Auditing determines whether employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations; resources are acquired economically, used efficiently and adequately protected; programs, plans and objectives are achieved; quality and continuous improvement are fostered in the organization's control processes; significant legislative or regulatory issues impacting the organization are recognized and addressed properly. Similarly, in support of this study outcome , Hudson (2009) noted that, the internal audit function helps an organization improve operations, detect key problems in important mechanisms or processes and correct major problems and internal evaluation aids top management in ensuring that employees comply with corporate policies, such as human resources procedures.

These results are consistent with LGFAR, (2007) which stipulates that in Uganda, the accounts of every Local Government, Council and every Administrative Unit is audited annually by an External Auditor, the Auditor General, or by an Audit appointed by the Auditor General (National Audit Act, 2008). The Office of the Auditor General (OAG) is the Supreme Audit

Institution (SAI) of Uganda. The findings conform to the provisions of the Constitution of the Republic of Uganda (1995) as amended under Article 163, that empowers the Auditor General with the rights to access all documents and information necessary for reaching an audit opinion (LGFAR, 2007). The Auditor General audits the local governments according to the legal framework that governs it.

### **5.3 Conclusions**

In this section, the researcher presents the major conclusions of the study objective by objective as follows:

Regarding the effects of control environment on budget performance, it was concluded that control environment positively affected budget performance in Koboko District Local Government and that the District Local Government had clear organization structure to enable achievement of budget performance. Human resource policy was based on staff commitment, competency, motivation and development intended for skilled workforce.

Concerning, the effect of control activities on budget performance, the researcher concluded that, control activities positively affected budget performance in Koboko District Local Government in terms of authorization, approval, segregation of duties and performance review. The study further concludes that staff followed budget preparation procedures. Budgets are timely prepared as well as financial reports.

In respect to monitoring and evaluation, the researcher concluded that monitoring/evaluation positively affected budget performance in that the Internal Audit Department ensured the effectiveness of internal control system, effectively monitors Internal controls and effective budget implementation, advises staff on financial management and on risk avoidance. In



addition, the Public Accounts committee recommendations are strictly adhered to. The Technical staff participates in monitoring of projects and programmes compared to the Political leaders. The Auditor General access all documents and information necessary for reaching an audit opinion.

#### **5.4.0 Recommendations**

From the analysis of the findings and the conclusions drawn above, the following are the recommendations for the improvement of budget performance in Koboko District Local Government.

- Koboko District Local Government should recruit manpower that measure to the culture of the Organization not only using qualifications and experience. That can be achieved through the help of the human resource Department, manpower training and development should be fully supported by use of mentoring, seminars and workshops besides continued sponsorship to increase staff employability.
- Concerning Control activities, the study recommends that Integrated Financial Management System (IFMS) should be introduced to facilitate payments, controls of cash flows and budget discipline. Communication should be effectively managed within the District by instituting a clear communication structure from top to bottom and vice versa and introduction of two signatories in the office of the Chief Administrative Officer and the Finance Department as this will facilitate financial transactions and efficient service delivery.

- On monitoring and budget performance, the study recommends that external auditing should be done more than once a year to reduce workload and maintain continued monitoring for consistent performance of the budget. The study also recommends that the Audit Department should be empowered with adequate staff and funding to facilitate their routine functions. In that way budget performance will be achieved in Koboko District Local Government.

### **5.7 Areas Recommended For Future Research**

- There is need to carry out further research on other dimensions of internal control systems such as: organization environment and budget prospects.
- Further research can also be done on the internal control systems and budget performance in other Districts of Uganda for comparative studies.
- More research can still be done on the same area by exclusively adopting qualitative approach as it allows an in-depth probing and generation of theory or theories subject to testing.

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**Appendix I:**

**Questionnaire for District Technical Planning Committee Members , Town council staff , and Politicians**

I am a student of Uganda Martyrs University undertaking a study on Internal Control System and Budget Performance in Koboko District Local Government as a requirement for the award of Bachelor’s Degree of Science in Accounting and Finance. You have been selected as one of the respondents to this questionnaire for the study and the information you give is going to be used purely for academic purposes and will be treated with utmost confidentiality.

Thank you

Gadi Dada Stephen

(Student)

**SECTION A. Demographic Information**

**Instruction:** Tick in the box with the description that best represents your response.

A .What is your gender?

1. Male

2. Female

B. Your age?

1. Below 25 years  2. (26-35) years  3. (36- 45) years  4.(46- 60)years

C. What is your highest level of Education?

1. Certificated  2. Diploma 3.Degree 4. 5.Post Gradua

5.Master  6.PhD

D. The years you have served in the Organization?

1. Below 2 years     2. (3-5) years     3. (6-10) years     4. Above 10 years

E. What is your employment status?

1. Political     2. Permanent     3. Probation

4. Contract

**SECTION B: Control Environment**

**Instruction:** Please, indicate your opinion by ticking in the box to show whether you **Strongly Agree(SA)-5 ; Agree(A)-4 ; Not Sure(NS)-3; Disagree(DA)-2 and Strongly Disagree(SDA)-1, with the following statements.**

Statement	Responses				
	SA	A	NS	DA	SDA
	5	4	3	2	1
1. Koboko District Local Government has a clear organization structure					
2. The Organization structure is periodically reviewed for relevance.					
3 Staff recruitment is based on human resource policies.					
4. The District has competent staff.					
5. Staff recruitment is done by the District Service					

Commission					
6. The District recruits employees on merit.					
7. The District has staff capacity building programmes.					
8. There is segregation of Staff duties in the District.					
9. The staff have training Programmes.					
10. There is Delegation of Duties to Staff in the District.					

### SECTION C: Control Activities

**Instruction:** Please, indicate your opinion by ticking in the box to show whether you **Strongly Agree(SA)-5 ; Agree(A)-4 ; Not Sure(NS)-3; Disagree(DA)-2 and Strongly Disagree(SDA)-1,with the following statements.**

Statement	Responses				
	SA	A	NS	DA	SDA
1. Accountants of Koboko District follow the Local Government Act procedures during preparation of financial statement.					
2. The District is mandated to formulate and approve balanced budgets.					
3. The District has a functional budget desk that is consulted					

on budget processes.					
4. The District finance committee reviews financial management practices.					
5. The District finance committee guides on financial management.					
6. Ministry of Local Government inspects and monitors Local Government financial performance.					
7. Local revenue mobilization programs are efficiently implemented in the District.					
8. The District Local Government Public Accounts Committee review budget performance on periodic basis.					
9. The District approves budgets timely					
10. In the District, payments are done after authorization by responsible persons.					

**SECTION D: Monitoring and Evaluation.**

**Instruction:** Please, indicate your opinion by ticking in the box to show whether you **Strongly Agree(SA)-5 ; Agree(A)-4 ; Not Sure(NS)-3; Disagree(DA)-2 and Strongly Disagree(SDA)-1, with the following statements.**

Statement	Responses				
	SA	A	NS	DA	SDA
1. Internal audit department ensures the effectiveness of internal control system in Koboko District Local Government.					
2. Internal audit department ensures effective budget implementation.					
3. Internal Audit Department advises the staff on financial management					
4. Internal Audit Department advises the staff on risk avoidance.					
5. The Public Accounts committee recommendations are strictly adhered to.					
6. The Internal Audit Department effectively monitors Internal controls instituted by Management.					
7. Political leaders are involved in monitoring of programs and projects.					
8. Technical staff participates in monitoring of projects and programmes.					

9. The Internal Audit Department ensures that employees act in compliance with Local Government policies					
10. In Koboko District the Auditor General access all documents and in formation necessary for reaching an audit opinion.					

### SECTION E: Budget Performance

Statement	Responses				
	SA	A	NS	DA	SDA
1. Management of Koboko District Local Government realize efficient revenue collection..					
2. Expenditures are within the Local Government Act.					
3. Management of Koboko District Local Government pays the staff timely.					
4. Koboko District Local budget Projects are financed to completion.					
5. The budget allows construction of infrastructure in the District.					
6. Koboko District Local Government realizes increase in local revenue collection.					
7. Koboko District local Budget objectives are always achieved.					



8. All voted moneys are absorbed appropriately.					
9. Koboko District Local Government Budget encourages provision of social services.					
10. There is increase in Central Government transfers due increased budget performance.					

## **Appendix II:**

### **Interview guide for District Executive Committee members.**

1. What is the staff establishment of the District?
2. How is the capacity of the staff built?
3. What is the procedure of budget execution in the District?
4. What is the experience of local revenue collection?
5. What are the challenges faced by internal Audit Department?
- 6., How is budget performance in the District?
7. What risky situations has the District faced?

### **Appendix III:**

#### **Documentary Analysis Guide**

The researcher reviewed the following documents to get the required information for the study.

1. Approved budget estimates for the financial years 2011/2012, 2012/2013 and 2013/2014.
2. Final accounts for the three financial years
3. Audited accounts for the three financial years.
4. Council minutes for approving and reviewing the district budgets for the three financial years.
5. Policy documents.

**Appendix 1V:**

**Krejcie and Morgan's Table to Determine Sample Size.**

Sample size (S) required for the given population size (N)

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	256	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377

75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384

Note: From R.V Krejcie and D.W. Morgan (1970), determining the sample size for research activities, educational and psychological measurements.

## APPENDIX V

### Likert Scale Showing Mean Range

<b>Descriptive</b>	<b>Mean Range</b>	<b>Scale</b>	<b>Interpretation</b>
Strongly Agree	4.20-5.00	5	Very High
Agree	3.40-4.19	4	High
Not sure	2.60-3.39	3	Moderate
Disagree	1.80-2.59	2	Low
Strongly Disagree	1.00-1.79	1	Very Low

*Source: Rensis Likert (1932)*