

**THE EFFECT OF INTERNAL CONTROL SYSTEMS ON THE FINANCIAL
PERFORMANCE OF A REVENUE COLLECTION FIRM**

A CASE STUDY UGANDA REVENUE AUTHORITY (URA)

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DEDICATION

This research work is dedicated to God, my parents Mr. and Mrs. Ahimbisibwe and my siblings Linda, Brenda, Walter and Amanda.

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TABLE OF CONTENTS.

DECLARATION.....	I
APPROVAL	II
DEDICATION.....	III
ACKNOWLEDGEMENT.....	IV
TABLE OF CONTENTS.	V
LIST OF TABLES	VIII
LIST OF FIGURES	IX
ABBREVIATIONS.....	X
ABSTRACT.....	XI
CHAPTER ONE.	1
INTRODUCTION.....	1
1.0 INTRODUCTION.....	1
1.1 BACKGROUND OF THE STUDY.....	1
1.1.1 INTERNAL CONTROL SYSTEM.....	1
1.1.2 REVENUE COLLECTION.....	2
1.1.3 UGANDA REVENUE AUTHORITY.....	2
1.2 STATEMENT OF THE PROBLEM.....	3
1.3 OBJECTIVE OF THE STUDY.	4
1.3.1 SPECIFIC OBJECTIVES OF THE STUDY.	4
1.4 RESEARCH QUESTIONS.....	4
1.5 SCOPE OF THE STUDY.....	4
1.5.1 CONTENT SCOPE.....	4
1.5.2 GEOGRAPHICAL SCOPE.....	5
1.5.3 TIME SCOPE.....	5
1.6 SIGNIFICANCE OF THE STUDY	5
1.7 CONCEPTUAL FRAMEWORK	5
CHAPTER TWO	7
LITERATURE REVIEW.	7
2.1 INTRODUCTION.....	7
2.2 INTERNAL CONTROLS.....	7
2.3 CONTROL ENVIRONMENT.....	9
2.4 RISK ASSESSMENT.....	9
2.5 CONTROL ACTIVITIES.....	10
2.6 ASSURANCE SERVICES.....	10
2.7 ADVISORY SERVICES.....	11

2.8 RISK.	11
2.9 ORGANIZATIONAL PERFORMANCE.	12
2.10 ACCOUNTABILITY.	12
2.11 INTERNAL AUDIT.	14
2.12 ACHIEVING SET TARGETS THROUGH INFORMATION AND COMMUNICATION.	16
2.13 MONITORING AND EMPLOYEE APPRAISALS.	16
2.14 CONCLUSION.	16
CHAPTER THREE.	17
RESEARCH METHODOLOGY.	17
3.1 INTRODUCTION.	17
3.2 RESEARCH DESIGN.	17
3.3 AREA AND SCOPE OF THE STUDY.	17
3.4 POPULATION.	18
3.5 SAMPLE SIZE.	18
3.6 SAMPLING DESIGN.	18
3.7 DATA COLLECTION.	18
3.7.1 SOURCES OF DATA.	19
3.8 DATA INSTRUMENTS.	19
3.8.1 QUESTIONNAIRE.	19
3.8.2 INTERVIEWS.	19
3.9 DATA PROCESSING AND ANALYSIS.	19
3.10 LIMITATIONS TO THE STUDY.	20
3.11 ETHICAL CONSIDERATIONS.	20
CHAPTER FOUR.	22
DATA PRESENTATION AND DISCUSSION OF FINDINGS	22
4.1 INTRODUCTION.	22
4.2 QUANTITATIVE DATA PRESENTATION AND DISCUSSIONS.	22
4.2.1 GENDER CHARACTERISTICS OF RESPONDENTS.	23
4.2.2 EDUCATION CHARACTERISTICS OF RESPONDENTS.	23
4.2.3 DESCRIPTION OF THE POSITIONS OF RESPONDENTS IN THE ORGANIZATION.	24
4.2.4 DESCRIPTION OF AGE GROUPS OF RESPONDENTS.	27
4.2.5 RESPONDENTS YEARS OF SERVICE.	27
4.3 WHAT IS THE PERFORMANCE OF THE INTERNAL CONTROLS IN URA?	28
4.3.1 ACCURACY AND VALIDITY OF CONTROL MEASURES IN UGANDA REVENUE AUTHORITY.	28
4.3.2 SECURITY OF THE AUTHORIZATION PROCEDURES.	30
4.3.3 MAINTAINING RELIABLE CONTROL SYSTEMS.	31
4.4 EXAMINING THE EFFECT OF INTERNAL CONTROLS ON THE FINANCIAL PERFORMANCE OF URA.	32
CHAPTER FIVE.	35
DISCUSSION OF FINDINGS, RECOMMENDATIONS AND CONCLUSION.	35

5.1 INTRODUCTION.....	35
5.2 DISCUSSION OF FINDINGS	35
5.2.1 TO ASSESS THE ACCURACY AND VALIDITY OF PREVENTION AND DETECTION OF ERROR AND FRAUD METHODS IN PLACE AT URA.	35
5.2.2 TO EXAMINE THE COMPLETENESS AND SECURITY OF THE AUTHORIZATION PROCEDURES TO ENSURE OPTIMAL USE OF THE AUTHORITY’S RESOURCES.....	35
5.2.3 TO IDENTIFY THE MEASURES NECESSARY TO MAINTAIN RELIABLE CONTROL SYSTEMS WHICH IN TURN ENSURE SAFEGUARDING OF THE COMPANY’S ASSETS.	36
5.3 EXAMINING THE INTERNAL CONTROL.	36
5.3.1 CONTROL ENVIRONMENT.	36
5.3.2 RISK ASSESSMENT.....	36
5.3.3 CONTROL ACTIVITIES.....	37
5.3.4 INFORMATION AND COMMUNICATION.....	37
5.3.5 MONITORING AND EMPLOYEE APPRAISALS	37
5.3.6 ADVISORY SERVICES.	37
5.3.7 ASSURANCE SERVICES.	37
5.4 ASSESSING THE PERFORMANCE OF URA.	38
5.4.1 COLLECTION TARGETS	38
5.5 FURTHER ANALYSIS	38
5.6 CONCLUSION.	39
5.7 RECOMMENDATIONS.	39
5.8 LIMITATION OF THE STUDY	40
5.9 SUGGESTION FOR FURTHER RESEARCH.	40
REFERENCES	41
APPENDICES	45
APPENDIX I: QUESTIONNAIRE	45
APPENDIX 2	50
WORK PLAN/ TIME FRAME WORK.....	50
APPENDIX 3	51
BUDGET.....	51

LIST OF TABLES

TABLE 3.1: SHOWING SAMPLE SIZE DISTRIBUTION.	18
TABLE 4.1: GENDER CHARACTERISTICS OF RESPONDENTS.	22
TABLE 4.2: EDUCATION LEVELS OF RESPONDENTS.....	23
TABLE 4.3: POSITION HELD IN THE ORGANIZATION.	25
TABLE 4.4: AGE GROUPS OF RESPONDENTS.....	26
TABLE 4.5: YEARS OF SERVICE.....	27
TABLE 4.6: URA HAS A STRONG ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM IN PLACE.....	29
TABLE 4.7: URA HAS A WELL ELABORATE ORGANIZATION STRUCTURE IN URA.	29
TABLE 4.8: SYSTEMS HAVE BEEN PUT IN PLACE TO CORRECT AND AVOID ERRORS.	29
TABLE 4.9: POLICIES AND PROCEDURES EXIST TO ENSURE CRITICAL DECISIONS ARE MADE WITH APPROPRIATE APPROVAL.	30
TABLE 4.10: COLLECTION TARGETS ARE MET AND ARE WELL DOCUMENTED.	30
TABLE 4.11: REVENUE LOSS AND RISKS HAVE BEEN IDENTIFIED BY MANAGEMENT.	31
TABLE 4.12: THERE IS PROPER AND CLOSE SUPERVISION OF JUNIOR STAFF AT URA.	31
TABLE 4.13: THERE ARE ELABORATE MECHANISMS PUT IN PLACE TO ADDRESS WEAKNESSES OF CONTROLS.	32
TABLE 4.14: SENSITIVE INFORMATION IS RESTRICTED TO CERTAIN EMPLOYEES ONLY.....	32
TABLE 4.15: SPEARMAN’S CORRELATION ON THE EFFECT OF INTERNAL CONTROL FUNCTION ON THE	33

LIST OF FIGURES

FIGURE 1.....	6
FIGURE. 4.1:GENDER FREQUENCY.....	23
FIGURE 4.2: EDUCATION LEVEL OF RESPONDENTS	24
FIGURE 4.3: POSITION HELD BY RESPONDENTS	25
FIGURE. 4.4: AGE GROUP REPRESENTATION	26
FIGURE 4.5: PERCENTAGE YEARS OF SERVICE.....	28
FIGURE 4.6.....	34

ABBREVIATIONS.

COSO-	Committee of Sponsoring Organizations of the Tread way Commission.
URA-	Uganda Revenue Authority.
SPSS-	Statistical Package data for Social Sciences
IPMS-	Integrated Test Management System.
APC-	Auditing Practices Committee.
FASB-	Financial Accounting Standards Board.
BOD-	Board of Directors

ABSTRACT

The Uganda Revenue Authority was formed at a time when revenue collection was very low and the need to expand the tax base was necessary. URA then embarked on an ambitious project of reviewing its operations and coming up with internal control mechanisms to enhance revenue collection. The objective of this study therefore was to closely look at the internal controls in operation at Uganda Revenue Authority with a view to establish whether such internal controls have produced any meaningful results in increased collected revenue. The study was carried out to determine whether internal controls affect the financial performance of URA. The specific objectives were to examine the internal controls, assess the financial performance of URA, and establish the relationship between internal controls on performance of URA. Descriptive and analytical research designs were used to examine the findings to come up with conclusions. The research was conducted using both qualitative and quantitative approaches. Questionnaires were used on a population of 38 respondents in gathering primary data for the study. A cross sectional research survey design was used to employing both qualitative and quantitative techniques. Qualitative data was gathered using questionnaires while quantitative data was by extracts from secondary data for a period of 2016-2017. Stratified sampling was used and all the population was sampled

The data collected was then analyzed and findings have revealed that the five components of control environment, accountability, control activities, information and communication and monitoring must be available for internal controls to work. The study established that weak internal controls have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study therefore concludes that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in URA. Data was analyzed by use of SPSS. The effect of internal control on performance was performed. The main findings were that internal control had a significant positive effect on performance in terms of control environment, risk assessment, control activities, information and communication, monitoring and advisory services.

Lastly a few recommendations were given especially in the accounting department to further aid the organization in making improvements on the various weakness that were identified.

CHAPTER ONE.

INTRODUCTION.

1.0 Introduction.

This chapter presents the background of the study, statement of the problem, main objectives of the study, specific objectives of the study, research questions, scope and significance of the study, illustrates the conceptual framework as the basis of the research.

1.1 Background of the study.

1.1.1 Internal Control System.

According to Hamed (2009), Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business. Internal Control System is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information (Keitany, 2000). Hongming and Yanan (2012), adds that Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business. Whittington (2001) has defined that a system of internal control extends beyond those matters which relate directly to the functions of accounting and the financial statements. In addition, he notes that internal control is a systematic procedure which will lead to evaluate the degree of correlation between those established criteria and the real results of the business. Internal Control, as defined from the APC (Auditing Practices Committee, 1980), is an independent examination and certification from an inspector appointed by the business to control the finances according to the legal framework established each time. From the forgoing therefore, the objective purpose of Internal Control is on the one hand, the allowance of specific and high level of services offered towards the management, and on the other hand, the allowance of assistance towards the members of the organization for the most effective practicing of their duties. Internal Control Systems are being implemented in businesses as tools that add up value to the company. In this way, we can achieve a systematic approach towards the most effective operation of the organization, as a unity (Schleifer and Greenwalt, 1996). Finally, as mentioned by the COSO report

internal control is defined as a procedure which offers fundamental security to the business concerning the credibility of financial affairs. The report defines internal control and describes a framework for internal control. But the difference of this report is that it also provides criteria for the management to utilize so as to evaluate controls.

Any entity of whichever form or size should put in place its own system of controls in order to achieve its objectives. (Mwindi, 2008). A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012).

1.1.2 Revenue Collection.

Awitta (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. The Financial Accounting Standard Board (FASB) Concept Statement 6, Elements of Financial Statements (December 1985) have defined revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitutes the entity's ongoing major or central operations. In addition, Hongreen (2002) described revenue as inflows of asset (almost always cash or accounts receivables) received for products or services provided to customers. However, Uganda Revenue Authority have referred revenue to mean taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule. This research paper is intended to look into the correlation between internal controls and revenue collection in Uganda Revenue Authority.

1.1.3 Uganda Revenue Authority.

The Uganda Revenue Authority was established by the URA statute of 1991 and set up in September of the same year as a central body for the assessment and collection of specified revenue, to administer and enforce the laws relating to such revenue and provide for related

matters. This statute incorporated all the laws that were in force then regarding tax collection. The new organization (URA) amalgamated the 3 tax departments that were responsible for all the taxes collected by the central government of Uganda. The departments were customs and excise, Inland Revenue and income tax department. The URA was created as a quasi-autonomous with a Board of Directors appointed by and responsible to the Minister of Finance. The URA statute grants a considerable degree of independence to the board in terms of control over day to day operations.

Among the objectives, URA was to improve the standard of tax administration and correct the weaknesses that characterized the old tax administration.

1.2 Statement of the Problem.

Slanislav (2006) highlighted that the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to losses in the banking industry, thereby limiting damage to the organization. This same idea is reflected in Kaplan (2007), that, poor standards of corporate governance had led to insufficient controls being in place to prevent wrong doing in the United States in the 1990s, as demonstrated by the collapse of Enron and WorldCom.

The incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the company's ability to effectively collect revenue but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, service delivery is unsatisfactory and degenerating. For the enhancement of the attainment of the mission and goals of the company, it is therefore necessary that these hindrances be removed. The management of the company should familiarize themselves with internal control procedures that will ensure effective service delivery and the desired revenue generation. (Efozie 2010).

Despite the internal controls that exist in Uganda Revenue Authority, collection remains below target and resources are poorly managed. This may be because the internal controls

that are in the organization are weak or are undermined by the employees. According to Auditor Generals reports on Uganda Revenue Authority for the financial year ended 2015 to date, there are still number of irregularities, misappropriation of funds false accounting and over stating of expenditures assigned to attendees of various workshops organized by the Uganda Revenue Authority. Thus there is need to institute an effective Internal Control system.

1.3 Objective of the study.

The main objective of this study was to evaluate internal controls which have been put in place by Uganda Revenue Authority and their impact on revenue collection and in doing so uncover the dependent and independent variables.

1.3.1 Specific objectives of the study.

- i. To assess the accuracy and validity of the methods of prevention and detection of error and fraud in place at Uganda Revenue Authority.
- ii. To examine the completeness and security of the of the authorization procedures to ensure optimal use of the authority resources.
- iii. To identify the measures necessary to maintain reliable control systems which in turn ensure safe guarding of the company's assets.

1.4 Research Questions.

- i. How important are the internal controls in place at URA for revenue collection?
- ii. How can the internal controls in place at URA be improved and used to ensure effective and transparent revenue collection and management?
- iii. What is are the relationship between internal controls and financial performance of these organizations?

1.5 Scope of the study

1.5.1 Content scope.

The study concentrated on an in depth analysis of the relationship between internal control and the financial performance in terms of revenue collection of a public organization. The scope covered areas of advisory services, monitoring, control system evaluation, assurance, risk management, information and communication.

1.5.2 Geographical scope.

The study covered Uganda Revenue Authority in Uganda concentrating on the head offices at the headquarters located in the URA Building Complex, located at M193-M194, Kinnawataka Road, Nakawa Industrial Area in the Nakawa Division of the city of Kampala.

1.5.3 Time scope.

The study focused on information gathered from 2011-2017. This is the time scope for the data because this was considered to be relevant and reliable information.

1.6 Significance of the study

The results from this study will be greatly useful to the Financial departments of various organizations which are subdivided into various sectors like budgeting costing performance analysis to mention but a few.

The study will highlight the significant contribution of internal control to the organization's performance, contribute to the existing literature and reference material on Uganda Revenue Authority for those interested in further research, offer pre requisites and factors that enabled further increase in the contribution of internal control systems.

1.7 Conceptual framework

The Internal Control conceptual framework components comprise of dependent and independent variables. The effectiveness of an internal control framework is the dependent variable. This is achieved by the presence and proper functioning of all the predefined independent variables in relation to each category of the organization's objectives. Owusu (2012). Proper functioning of independent variables provides reasonable assurance of proper functioning of dependent variable. The organization realizes preset objectives of efficient and effective operations, collection of accurate, reliable and informative financial reports that comply with relevant legal and regulatory requirements. The independent variables i.e Set targets, Monitoring and employee appraisals internal audit and accounting are in this case the most influential ones on effective revenue collection.

Independent variables

- Set targets
- Monitoring/ employee appraisals
- Internal audit
- Accounting

Dependent variables

- Effective revenue collection

Government interference

Figure 1.

Source: COSO Internal Control Framework.

CHAPTER TWO

LITERATURE REVIEW.

2.1 Introduction

This research was intended to assess the effect of internal controls on revenue collection with emphasis on Uganda Revenue Authority. The review of available literature therefore attempted to establish whether there is a correlation between Internal Control as an independent variable and revenue collection as a dependent variable. The review particularly focuses on; accountability, Internal Audit, Control activities, Information and Communication and monitoring the main components of Internal Control as proposed by Committee of Sponsoring Organizations of the Tread way Commission, COSO. The review examines the common systems of internal controls employed by the organizations. In literature research, the researcher indulged in a process of extracting data from material that had been previously written about the subject. For this research, a literature review was conducted based on a variety of public administration books, journals, and financial websites auditing firms' reports in addition to Uganda Revenue Authority declaration reports and article publications.

2.2 Internal Controls.

Puttick (2001) has asserted internal controls as a set of organizational policies and approved internal processes (internal controls) crafted by management of an organization to ostensibly achieve management's primary objective of ensuring that the business operates flawless. He further explained that a business is said to be running smoothly if they are able to stick to the management policies, to protect the organization assets, set up a system that would stop and eradicate manipulation of the accounting information. Kenneman (2004) describes internal control as those mechanisms that are in place to either prevent errors from entering the process or detecting errors once they have. He explains, in simple terms that, internal control can be defined as those processes that management relies on to make sure things don't get goofed up. (Mwindi, 2008). Internal control is a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the area of: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulation (The Committee of Sponsoring Organizations of the Tread way Commission (COSO)). Expanding

on the COSO definition, Financial Management Journal (2005), said Internal control represents an organization's plans, methods, and procedures used to meet its missions, goals, and objectives and serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement. (Esmailjee, 1993).

Internal controls have existed from ancient times. Michino (2011) reported that "in Hellenistic Egypt there was a dual administration with one set of bureaucrats charged with collecting taxes and another with supervising them. Brink (2009) contends that, internal control as a concept has existed as early as there have been substantive relationships. He added, its origin can be documented and traced back to civilized communities that existed around 5000 B.C. The governments of these empires imposed a number of taxes on individuals and business. For the proper accounting and collection of these taxes, an elaborate system of checks and counterchecks was established. Such early internal control systems were designed primarily to minimize errors and safeguard state property from dishonest tax collectors. He continued that, the Mesopotamian civilizations, which existed about 3000 B.C., also utilized elaborate systems of internal controls.

Summaries of the transactions were prepared by scribes who did not provide the original list of receipts and payments. Documents of that period contained ticks, dots, and check-marks indicating the existence of the auditing function during those times".

Furthermore according to the standards for the professional practice of internal auditors (2002), internal controls comprise of the plan and methods of the organization adapted to safeguard assets, comply with laws and regulations, ensure the completeness and correctness of accounting data, promote efficiency and encourage adherence to management policies. Katz (2004) argues that to ensure the goals and objectives of a financial institution are properly met; a company will achieve long term profitability targets and maintain reliable, financial and managerial reporting, a system of strong internal controls must be in place. Committee of the sponsoring organizations of the treadicacy commissions (1992) states that company management should continuously and periodically evaluate the effectiveness of its internal controls. Roth (2004) confirms that the frauds that caused the collapse of Enron and world com could not have arisen from the non-compliance with low level accounting procedures; the root cause is always a break down in the control environment usually the ethical climate and the behavior of executives. Consistent with the COSO framework (1992), Lannoye (1999) identified five interrelated components of internal controls i.e. control environment, risk assessment, information and communication, control activities and

monitoring derived from methods used by agencies to conduct their business. Crawford (2000) agreed with Lannoye and added that the five elements replaced the historical one element control activities and helped define internal control as anything an organization does to ensure the achievement of its objectives.

2.3 Control Environment.

According to Willis and Lightly (2000) control environment is the tone set up by the management and the overall attitude awareness and actions of the board of directors, management, owners and others concerning the importance of the internal control and the emphasis placed on control in the company's policies, procedures, methods and the organizational structure. COSO (1992) makes it clear that control environment is the most important component of internal control. Konrath (2003) identifies attributes of control environment as integrity and ethics of management, competence of employees, operating style of management, structure of the organization, involvement of board of directors and audit committee and evaluation of the environment. According to Hubbard (2003), managers and internal auditors need to understand the status of the factors at the base, not to change them but to consider their impact on the other control components. Chioccola and Muhlstein (2005) add that the nature of many of the soft controls is such that they can only be assessed by employees. Therefore to understand the control environment, auditors interview employees and use self-assessment workshops and questionnaires.

2.4 Risk Assessment

Risk assessment as stated by Lannoye (1999) is the entities identification and analysis of relevant risks to the achievement of its objectives forming a basis for determining how the risks should be managed. This assertion is inconsistent with observations of (Keane 2000). According to Choiccola and Muhlstein (2005) the need for organizations to move to a risk based audit approach has called for risk assessment decisions to help relate the costs/ benefit analysis of the control to known risk. By understanding the nature of the business, information system auditors can identify and categorize the type of risks that will better determine the risk model used in conducting the review. Boritz (2005) asserts that risk assessment is the process of estimating the riskiness coefficient to be associated with each auditable unit within an organization. Thus risk assessment is typically undertaken to focus attention on significant audit areas, to allocate scarce audit resources to the most important areas and to help with key audit priotising decisions.

2.5 Control Activities

According to the statement on auditing standards (SAS), (2002) control activities are the policies and procedures that help ensure that management's directives are carried out. Crawford (2000), states that until recently, this has been the historical component of internal control. Jajo (2005) asserts that control activities can be categorized as authorization, segregation of duties, record keeping safeguarding and reconciliations and these controls depend greatly on the activity under consideration. Hubbard (2003) argues that a great deal of activity specific knowledge is required to determine what controls should be. COSO lists some complete frameworks and can be used to model control activities such as; control objectives for information technology, system's assurance and control, total quality management and system development life cycle depending on the activities involved. Warren (2003) argues that control activities usually involve two elements; a policy establishing what should be done and procedures to effect the policy.

2.6 Assurance Services.

Mc Philimy (2004) observes that internal audits compliance role has grown significantly as a result of heightened attention to corporate accountability and new laws that mandate specific measures to help protect stakeholders. As such, internal auditors serve as a net to both management and board as these stakeholders look for assurance that their organizations are addressing risks satisfactorily and implementing controls that mitigate those risks effectively. According to Smith (2001) assurance services are independent professional services that improve the quality of information or its context for decision making. Thornton (2004) says that assurance services involve an objective examination of evidence for the purpose of providing a new independent assessment on risk management, control and governance process for the organization. McNamee and Selim (2000) added that assurance services provide improved risk management strategies, management control frameworks and information to management. Wolff (2004) argues that in today's first moving environment, it simply isn't enough to only offer a review of historical financial statements. Auditors must look beyond the numbers to identify areas where the business can improve internal controls, increase efficiency and enhance business systems and processes. Gunther and Moore (2002) add that corporate scandals have strongly highlighted the need for increased assurance over the company's governance, risks and internal control processes. However, according to KPMG (2004) many companies are reporting information produced from their IT systems which isn't transparent to regulators, and interested parties. To

mitigate this, internal audit provides independent assurance over systems processes and calculations so that stakeholders can have confidence in the information produced. It recognizes assurance services to include information in the integrity and financial service recalculations.

2.7 Advisory Services.

The expanding speed of electronic commerce and the acceptance of global competition are driving companies to redefine the way they conduct business, thus the role of internal auditor is increasing (Ellis, 2000). Thornton (2004) identified three dimensions of advisory services under internal auditing as; assisting the executive management to identify and codify the risk appetite of the organization, aid management in establishing an internal audit charter and mandate consistent with the company's business strategy and its risk appetite, ensure internal audit is fully integrated with the other risk management agencies of the company by advising on the most appropriate risk management architecture, in addition assist in the development of a strategic internal audit plan and develop working and reporting methods including reports to the audit committee and then provide innovative solutions to embedding risk management practices within the organization and assist with the internal development of risk and control libraries, work programs and risk databases. According to Price Water Coppers (2004) advisory services are activities designed to mitigate risk, improve operations and/ assist management in achieving its business objectives in which the nature and the scope of the engagements are agreed upon with the client.

2.8 Risk.

Risk as stated by McNamee and Selim (2000) is a concept to express events and or their outcomes that could have a material effect on the goals of the organization. Risk is a set of circumstances that hinder the achievement of objectives. Chapman (2003) says "good business is all about risk, business objectives cannot be achieved without placing assets at risk." business rivalries cannot be won without "out risk taking" the competition. Today organizations are tending towards enterprise risk management which is the process of identifying and analyzing risk from an integrated companywide perspective (issue no. 18, 2003). This includes activities geared meeting company's strategic, operational, reporting and compliance objectives. According to the financial report of URA year ended 30th June 2011, the fund experiences three risks that is to say market risk, liquidity risk and credit risk. The fund's board has the overall responsibility for the establishment and oversight of the fund

risk management framework. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The funds audit and risk committee is responsible for monitoring compliance with the funds risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to risks faced by the fund. Internal control undertakes both regular and ad-hoc reviews of risk management procedures and controls, the results of which are reported to the audit and risk committee.

2.9 Organizational Performance.

Cain (2004), states that performance measurement is the mechanism by which firms inform themselves of their true performance and locate unnecessary costs through the supply chain. Merchant (2000) asserts that, due to global competition, rapidly changing technologies and proactive institutional investors, corporations are increasingly focusing on performance and the measurement of performance. According to Symcon (2003), measurement of performance is an integral part of evaluation and control. Past performance can be benchmark for continued achievement or the catalyst for change. Without objective performance measures, it is extremely difficult to make successful operational and strategic decisions. Macdonald and Colombo (2001) argue that aligning the internal auditor's capabilities with the value that the organization and its stakeholders expect to receive is key to the value creation process in a financial institution. As an integral part of this transition, internal auditors are seeing their focus continue to evolve and expand beyond hazard avoidance and compliance to include value creation. Rittenberg (2001) says the boundaries of internal audit responsibility are as broad as today's business and the demand to add value requires a responsive and clearly articulated approach to the practice of internal auditing.

2.10 Accountability.

Accountability has always been an important feature of life. In fact, it is said to be the lifeblood of any organization. Without accountability it is impossible to run any activities of any organization. By interacting with other people, one is able to develop one's personality. Anderson (2009) stated that one of the most elusive concepts in management is accountability. In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions within the scope of a role or position, encompassing the obligation to report and be answerable for resulting consequences. Accountability is the key to achieving results and helping identify the Opportunities in the organization. Holding

employees accountable helps them to know the satisfaction of achieving a goal and performing to a standard. “Accountability is the obligation to render an account for a responsibility conferred. It presumes the existence of at least two parties: one who allocates responsibilities and one who accepts it with the undertaking to report upon the manner in which it has been discharged”. Accountability is the liability assumed by all there who exercise authority to account for the manner in which they have fulfilled responsibilities entrusted to them”. Michael(2009)defined accountability as “the duty to provide on Account (by no means necessarily financial) or reckoning those action for which one is held responsible as a consequence accountability involves a promise to perform and a normal or legal responsibility to provide an account for it. According to Cornwall (2000) stated that accountability has both an external dimensions and an internal. Internal accountability refers to rendering of account to higher echelons of the organization by lower levels in the light of delegated authority and planned targets. The external accountability refers to the accountability of department or agency to some external body like legislature. It could mean managerial accountability, referring delivery of services by government agencies or departments to public for fee or otherwise or for the utilization of public resources to deliver the services. Accountability is synonym for responsibility. It is a type of relationship that comes to existence when an obligation is taken on by an Individual (or corporate entity) such as the responsibility to assume a role or discharge a task. Accountability is a relationship based the obligation to demonstrate and take responsibility for performance in the light of agreed expectations. In brief, accountability requires a relationship of conferring responsibility and reporting back on the expected and agreed performance and on the manner in which the responsibility was fulfilled. The rendering of account, whether obligatory or on a voluntary basis, establish the relationship of accountability for results. Horngren (1982) therefore defined internal control as referring to both Administration control and accounting control. Administration control organization showing who reports to who) and all the methods, planning and control of operations. Accounting control comprises the methods and procedures that are mainly concerned with authorization of sections, the safeguarding of assets and the accuracy of the financial records. Good accounting control helps maximize profit; they help minimize waste, unintentional errors and frauds. This well designed control measure is a step towards the achievement of an organizational accountability which in other words means success of organization. Marshall (1984) stated that the success of any organization is dependent on its management, which reflects their ability to control cost to minimum level and hence make profit. Without accountability level and hence make profit.

Without accountability no organization could exist for long, since it might not coordinate its various activities. Internal control is very essential in an organization, as coordination of individuals, works processed or department enables those being coordinated to know what they are to do and when it is to be done. Internal control in an organization can be made accountable with the application of computer to enhance information processing in an organization.

Performance measures provide a mechanism for the organization to manage its financial and non-financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy and that better services and greater satisfaction are provided to a customer.

- i. The current year's results with previous year to establish whether performance is more favorable or adverse than before.
- ii. The current year's results with those of comparable companies in the same line of business to establish whether the company is performing better or worse than its competitors.
- iii. Current performance against a benchmark or standard of performance.
- iv. According to Chambers (1987), in order to establish the relationship between internal control and the performance of an organization, the yard sticks against which this performance is measured must be known. These include;
 - v. The actual output compared to planned output.
 - vi. Degree of success in achieving targets
 - vii. Number of customer complaints
 - viii. Profitability.

“No system of accounting today can be considered as complete and effective unless it contributes to the most efficient utilization of resources in its area of responsibility”, (ACCA journal, 2003).

2.11 Internal Audit.

Ellis (2000) argues that internal auditing can be regarded as a managerial control which functions by measuring and evaluating the effectiveness of other controls. Williams (2002) on the other hand asserts that the primary objective of modern internal auditing is that it functions as a service to management by providing independent management oriented advice on an organization's performance. Thornton (2004) observes that in recent years,

stakeholder's expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks. This demands that the internal audit function be very close to the business while maintaining independence, demonstrating a proactive attitude in anticipating risks, controlling inefficiencies and acting as an agent of change adds Roth (2004) According to IIA, the purpose of an internal audit is to evaluate the adequacy and effectiveness of a company's internal control system and determine the extent to which assigned responsibilities are actually carried out. Wolff (2004) observes that in addition to the traditional appraisal and evaluation of internal control system, the internal audit function has been made to include assurance and advisory services. McNamee and Selim (2000) stated that managers are operating in an increasingly complex and global environment and risk is a central element of corporate governance. The emergence of risk management as a key organizational process gives the internal auditing profession a unique opportunity to shift its focus from control of functional areas to risk. The new paradigm recognizes that risk is the driver of organizational activity and corporate governance is the organizations strategic response to risk. According to Hespeneide (2003) demonstrating an understanding of the importance of strong corporate governance is a great opportunity for a company to win in the market place. It sends a clear message to the market place, to the owners, that the company is managing their risks and thus a sound investment. Roth (2004) observes that good internal controls provide reliable financial reporting for management decisions and accomplishment of goals and objectives. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process the transactions and add no value to the activities. Humphrey (2006) asserts that in the process of audit interviews with internal auditors and review of audit reports, employees get a greater understanding of the functions they perform and why the functions are important. Reager (2006) says in addition to identifying weak and overlooked controls, internal audits often lead to process improvement discoveries or efficiency breakthroughs and that such exchanges with internal auditors can provide employees with new perspectives on their positions triggering ideas for process improvements or new business possibilities. Accordingly, Meletta (2004) audit committees and management teams are now looking for improvement opportunities within the audit department and internal audit leaders are searching for new ways to manage ongoing performance. This can be achieved by designing an effective performance measurement framework, implementing quality assurance programs and embedding import initiatives in department workflow.

2.12 Achieving set targets through information and communication.

According to Hubbard (2003) information refers to employees getting the information they need to do their jobs while communication relates to the free flow of information in the organization. Keane (2000) adds that information and communication systems support the identification, capture and exchange of information in a form and time frame that enables management and other appropriate personnel to carry out their responsibilities. Warren (2003) argues that similar to the control environment, auditors cannot evaluate information and communication without consulting the employees. Thus a self-assessment process is often used to gather audit evidence. According to Kannan (2004) the responsibility of ensuring appropriate information systems covering all activities and the integrity of such systems is enjoined on the senior management of organizations. However, great awareness needs to be promoted among senior management in regard to security, risk and controls in computerized environment.

2.13 Monitoring and employee appraisals.

Monitoring is a process that assesses the quality of internal control performance over time. (Willis and Lightle, 2000). Chioccola and Muhlstein (2005) argue that organizational structure should include an independent monitoring function over derivatives, providing senior management with an understanding of the risks of derivative activities validating results and assessing compliance with established policies. Implementing the above findings, Thornton (2000) agrees that the process of monitoring can be accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going monitoring occurs in the course of operations and includes regular management and supervisory activities and other actions personnel take in performing their duties.

2.14 Conclusion.

Internal control provides a service to the organization as a whole which can be done effectively if they are independent, perform their duties with due professional care, have a wider scope and work under proper management. The performance of Uganda Revenue Authority is attributed to a number of factors but yet to be established is how internal control relates to this performance, which can be measured using among other things, the effectiveness performance measures.

CHAPTER THREE.

RESEARCH METHODOLOGY.

3.1 Introduction.

This chapter introduces and explains the methods that were used in carrying out the study. It mainly clarifies on the research design description, population and sampling, data collection methods, quality control, data analysis, assumptions and limitations as well as ethical considerations.

3.2 Research design.

The study adopted a case study as a design of the analysis of a single entity. That is an intensive analysis. The case study involved investigation of a particular contemporary phenomenon with in real life context using multiple sources of evidence. It was in order to gain insight into larger cases thus better understanding of organizational performance. A cross sectional research design was used to get both qualitative and quantitative data from different departments. Further more descriptive research design was used to describe and examine the obtained data while analytical research designs was used to establish the effect of the internal control function on the performance of the organization that is the researcher gave out questionnaires to respondents once and did not repetitively visit them. This enabled coverage of a big number of respondents within a short period of time. The study approach was qualitative and involved use of a case study design which enabled the researcher meet his objectives. According to Webster (2015), a case study is a published report a person, group, situation that has been studied overtime: also a situation in real life that can be looked or studied to learn about something. It is an intensive analysis of an individual unit (as person or community) stressing developmental factors in relation to environment. Research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection measurement, and analysis of data as according to Craswell (2011).

3.3 Area and Scope of the Study.

The study focused on URA Uganda which is a public organization that collects and manages taxes on behalf of the Ministry of Finance Planning and economic development and the

government. The main emphasis was on the internal controls relationship with the organization's financial performance in revenue collection terms.

3.4 Population.

The study was focused on the staff from different departments of URA that is investment, estates, finance, human resource and administration, internal audit, records management and customer service department.

3.5 Sample Size.

The study considered a population size of 38 respondents who were given questionnaires and some interviewed as shown in the table below. The case study's functionality was to provide an in depth analysis that is concrete and contextual.

Table 3.1: Showing sample size distribution.

Department	Frequency
Internal audit	8
Finance department	4
Human resource and administration	4
Information and Communication department	4
Accounting section	4
Records management	6
Customer service	8
Total	38

Source; Primary Data.

3.6 Sampling Design.

The employees of URA in different departments were given questionnaires and some were interviewed. Simple random sampling was used to ensure that each had an equal chance of being included in the sample.

3.7 Data Collection.

Here the researcher described how data was obtained and the instrumentation and research procedure.

3.7.1 Sources of data.

The sources of data for the research were both primary and secondary. This was obtained from responses from the questionnaires that were given to the staff of URA.

This was collected from URA published financial statements from 2011 to 2016, URA website, Auditor general's reports and newspapers with articles about URA.

3.8 Data Instruments.

3.8.1 Questionnaire.

The questionnaires comprised structured and close ended questions in scale like form ranging from strongly agree to strongly disagree. It included questions on the dependent and independent variables.

3.8.2 Interviews.

They involved a one to one verbal interaction between the interviewer and the respondent. They were used to obtain that information could not be directly observed or that information that needed one to see the reaction of the respondent while receiving the data. Recording equipment was used in this procedure. The secondary data was collected from newspapers and articles on the internet. Emphasis while researching was put on the articles and reports posted on the media by URA itself as this was regarded as valid and reliable information.

3.9 Data Processing and Analysis.

This section deals with the organization, interpretation of the collected data and presentation of the results. It is a postulate of how data was analyzed. Inferential analysis was used to draw conclusions concerning the relationships and differences found in research results.

Primary data collected was edited, coded, classified, tabulated and analyzed using statistical package data for social sciences (SPSS) in frequencies to describe internal control systems evaluation and audit service. Variables were analyzed to determine the effect of internal control function on performance of URA. Spearman's rank correlation was used to explain the relationship between internal control function and performance of URA.

Furthermore if the data to be used in the research was qualitative, then a narrative or content analysis was focused on. Here the researcher simply presented a detailed and literal description of his/her observations.

They (the researcher) was focused on:

Analyzing the case study data. Here there was interpretational, structural and reflective analysis (Leedy 1997). In interpretation analysis, data is examined and classified in terms of themes or patterns. The patterns are then used to explain phenomena surrounding the case. In structural analysis, phenomena are broken down into, and interpreted in terms of their structures. There is a careful study of the structures in order to identify patterns of relationships between them. In reflective analysis phenomena are evaluated according to the researcher's judgment and interpretation of the events is done according to how the researcher evaluates them.

Analyzing grounded theory research data. Here data analysis follows three types of coding: open coding, axial coding and selective coding (Leedy 1997). In open coding data is broken down into component parts and examined. The parts are then compared, conceptualized and then categorized. Axial coding follows data analyzed in open coding is synthesized by relating concepts between the categories. In selective coding a core category is selected that can be systematically related to other categories. Relationships among the categories will form patterns and the relationship between two or more patterns will generate a theory, the grounded theory.

3.10 Limitations to the study.

These are hindrances, anticipated constraints or potential weaknesses of the study imposed by the methodology of the study (Onen&Oso 2008). The following are some of the limitations.

- i. The sought data was sensitive. Employees during the interviews may have provided incorrect data for secrecy purposes or to give a good impression of the organization.
- ii. Employees of URA may like their privacy and this might have made it challenging to get them to answer questionnaires perhaps for fear of being put in difficult situations.
- iii. Problems in coding and data analysis were incurred.
- iv. Not all required information was accessed due to some restrictions.
- v. Some of the data collected especially from questionnaires might not have been accurate or honest.

3.11 Ethical considerations.

The ethical requirements were upheld through the following ways:

Informed consent. The consent of the participants was first be sought before the research was conducted and were briefed on what the research was all about.

Privacy and confidentiality. The data collected was to be kept personal and not published or remitted to anyone without permission.

Anonymity. For all those that liked to remain anonymous, the researcher ensured that it was done so.

Researchers' responsibility. The researcher was sensitive to human dignity

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

The chapter presents, analyses, and discusses the findings of the study. It is made up of three sections; the first section presents the demographic characteristics of the respondents, the second section includes an evaluation internal Controls Function in URA and the third section includes an evaluation performance. The presentations are in form of tables and statements. The presentation is according to the objectives of the study.

4.2 Quantitative data presentation and discussions.

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The background information of respondents solicited data on the samples and this has been presented below categorized into; gender, education levels, position held, age and length of service in the organization.

4.2.1 Gender characteristics of respondents.

The study examines and describes the gender details of respondents in this study and details of their respective gender is presented in table 4.1 below.

Table 4.1: Gender characteristics of respondents.

Gender	Frequency	Percentage
Male	23	60.5
Female	15	30.5
Total	38	100

Source; Primary Data.

Table: 4.1 reveals that 60% of the respondents were males and 40% were female. This could indicate that there are still low levels of employment of females in Uganda Revenue Authority this could be attributed to the fact that males are still dominant in the job and education sectors of Uganda. The findings represent the views of the two sex groups about internal control systems and revenue collection in Uganda Revenue Authority. This was necessary for the study to get a balanced picture of the respondents' views.

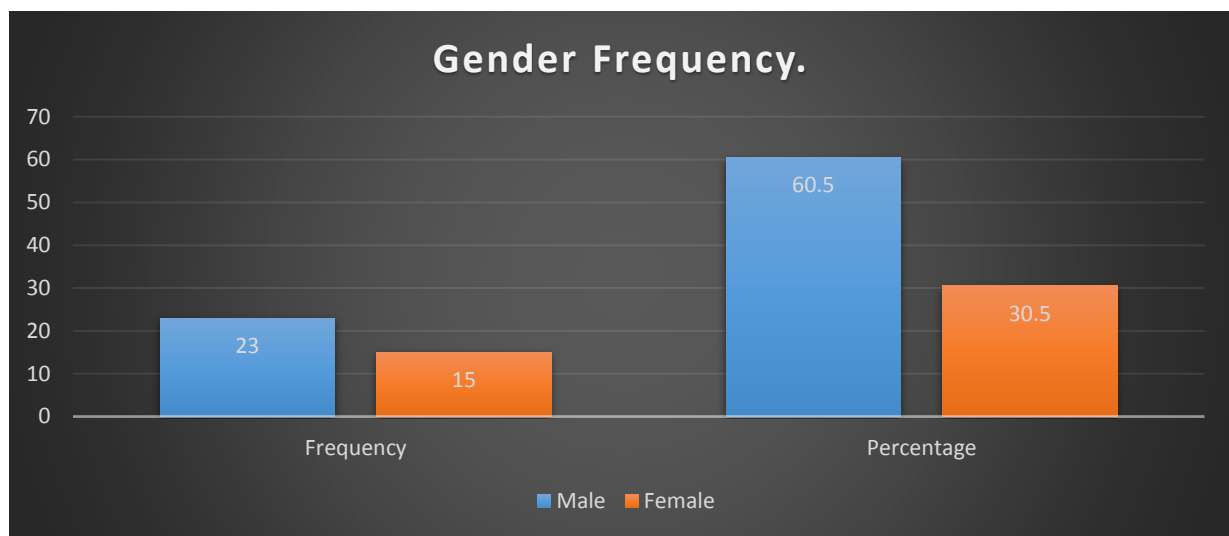


Fig. 4.1: Gender Frequency.

4.2.2 Education characteristics of respondents

Details about the education levels of respondents were obtained as presented in the table 4.2 below.

Table 4.2: Education Levels of Respondents

Qualification	Frequency	Percentage
Diploma	2	5.3
Bachelors	23	60.5
Masters	12	31.6
PhD	1	2.6
TOTAL	38	100.0

Source: Primary data

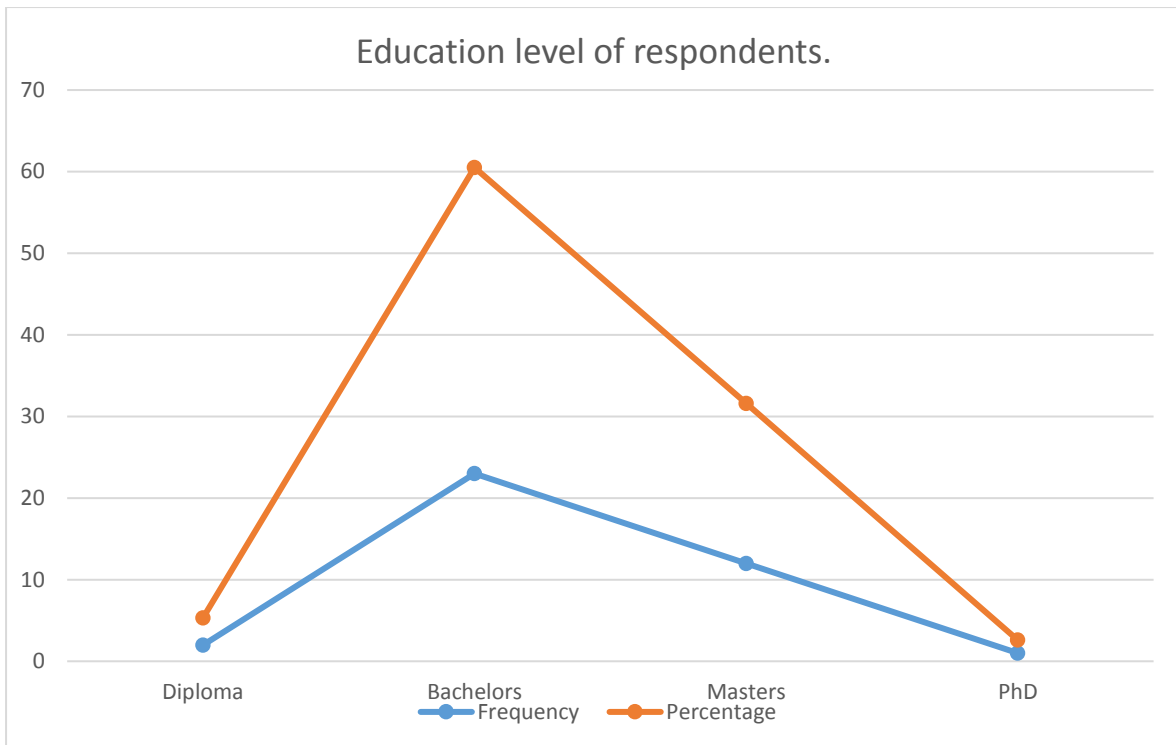


Fig 4.2: Education level of respondents

In table 4.2 above, it can be seen that majority of respondents who are also the employees show that they hold Master's degree, followed by bachelor degree, PhD, diplomas in the orders of 31.6%, 60.5%, 2.6%, and 5.3% respectively. This signifies that the respondents are adequately qualified persons academically.

4.2.3 Description of the Positions of respondents in the organization

The study sought and obtained details about the positions held by the respondents in the organization for purposes of understanding their role in the variables of study. Details of the respondents and their positions are shown in table 4.3 below:

Table 4.3: Position held in the organization.

Position.	Frequency.	Percentage.
Commissioners	1	2.6
Senior Deputy Commissioner	6	15.8
Deputy Commissioner	21	55.3
Senior assistant commissioner	10	26.3
Total	38	100

Source: Primary data.

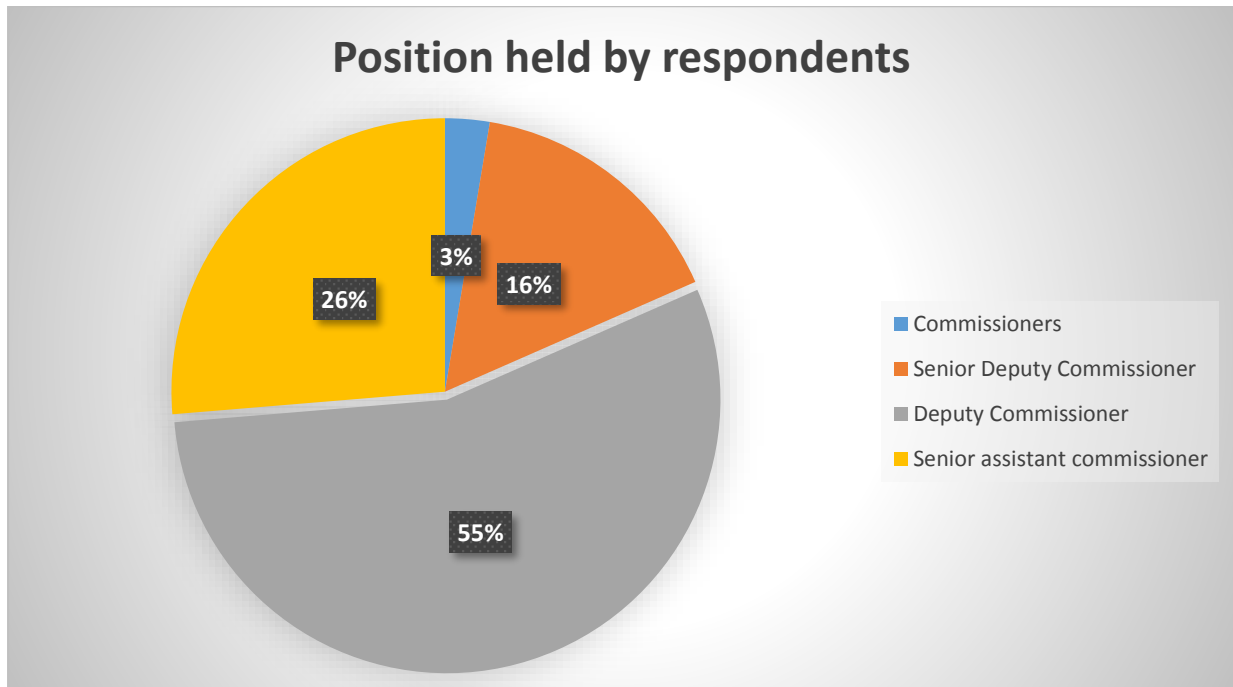


Fig 4.3: Position held by respondents

The analysis results in table 4.3 show that majority of respondents in this study are Deputy Commissioners (21), followed by Senior Assistant Commissioners (10), Senior Deputy Commissioners (6), and Commissioner (1). These represent 55%, 26%, 16% and 3% respectively. From the above description, it can be revealed that the majority of the respondents in this study are those directly responsible for or directly involved in the implementation of the Internal Control System. Therefore, their responses are deemed to reflect what actually takes place in the organization.

Table 4.4: Age Groups of Respondents

The study obtained details about the age groups of the respondents for purposes of understanding their age and possibly the experience they possess in their respective positions. Details of the findings are shown in table 4.4 below.

Age	Frequency	Percentage
19 and below	2	5.3
20-29	9	23.7
30-39	18	47.4
40-49	6	15.8
50 or more	3	7.9
Total	38	100.0

Source: Primary data

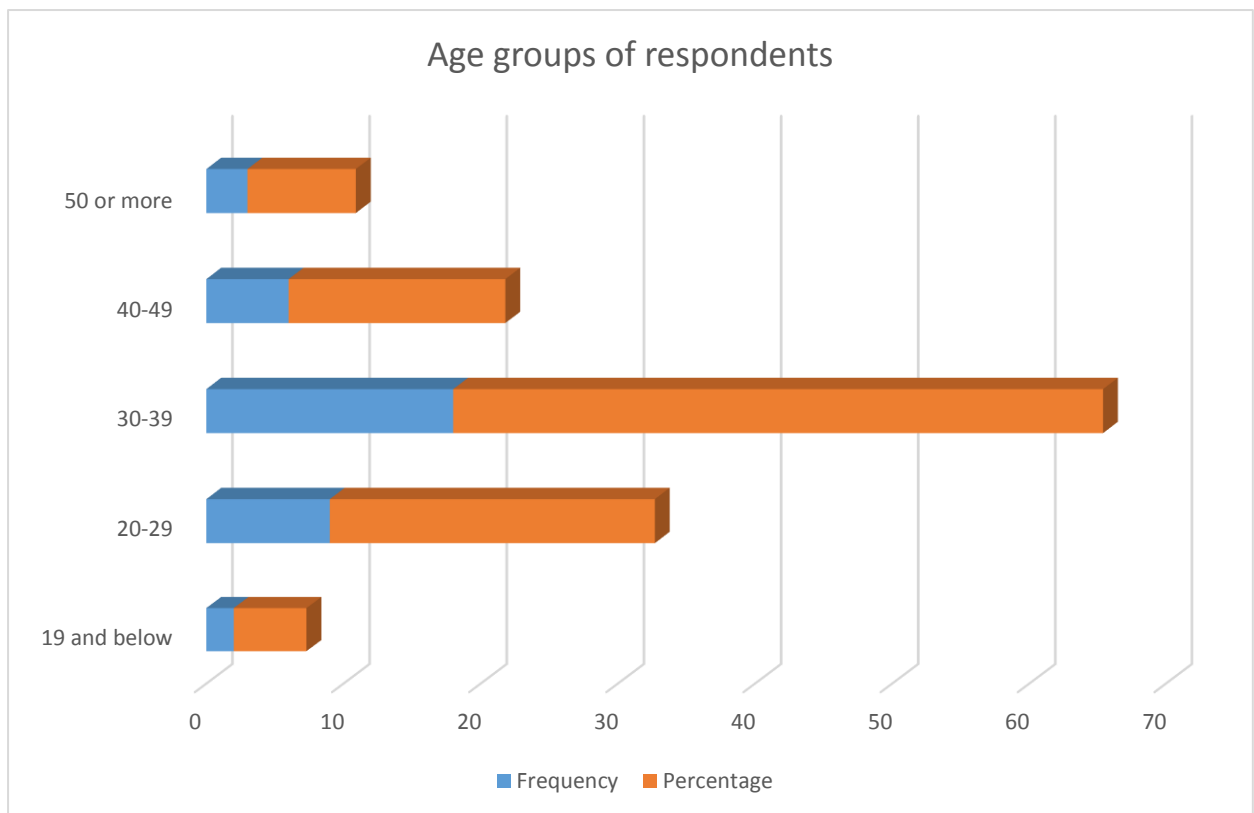


Fig. 4.4: Age group representation

4.2.4 Description of age groups of respondents.

From the description above it is clearly evident that the majority of the respondents are in the age bracket of between 30-39, followed by 20-29, 40-49, 50 and more and 19 or less in the orders of 47%, 24%, 16%, 8% and 5% respectively. It can therefore be concluded that the majority of the respondents are in the most productive age brackets of their life and are reasonably experienced.

4.2.5 Respondents years of service

The respondents' years of service were deemed important to evaluate the level of experience the respondents have in the organization. Details from the survey are given as shown in the table 4.5 below.

Table 4.5: Years of service.

Number of years	Frequency	Percentage
Less than 3 years	6	15.8
4-6 years	14	36.8
7-9 years	18	47.4
10 years and more	0	0
Total	38	100

Source: Primary data

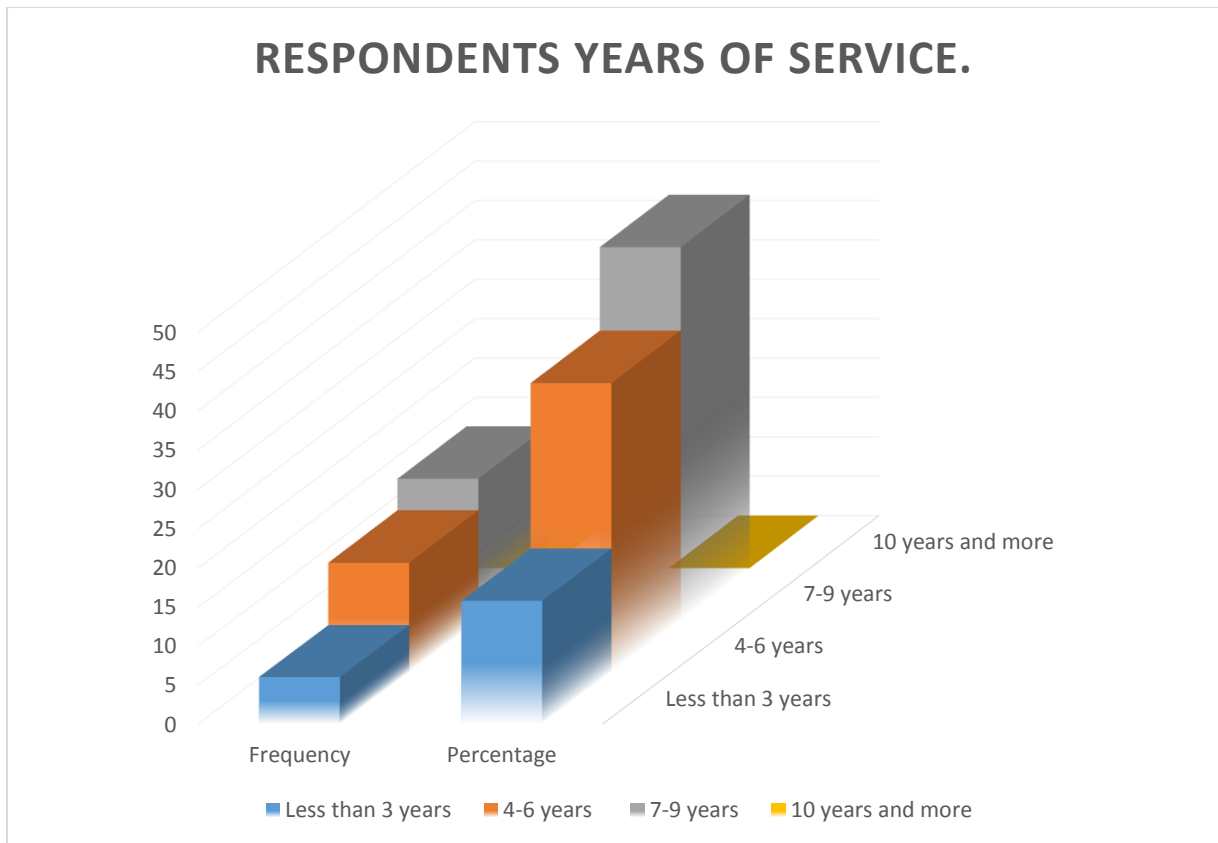


Fig 4.5: Percentage years of service.

From Figure 4.5 above it is evident that majority of the respondents have served in the organization for between 7 to 9 years with a representation percentage of 47.4% followed closely by those who have served in the organization for between 4-6 years at 36.8%. The number of years of service will demonstrate the experience and continuity with the internal controls which have been put in place.

4.3 What is the performance of the internal controls in URA?

4.3.1 Accuracy and validity of control measures in Uganda Revenue Authority

The study sets to analyze and reveal how the control environment of the organization actually performs. Control environment looked at the establishment of the internal audit function, its independence, participation in decision making and the existence of the internal committee and details are presented in the descriptive statistics shown by the values of the respective means.

Table 4.6: URA has a strong accounting and financial management system in place.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
11	28.9	10	26.3	5	13.2	4	10.5	8	21.1

Source: Primary data

From the data in table 4.6, it can be seen that most of the employees agree that the authority has a strong accounting and financial management system in place that is to say 55.2% whereas 31.6% of the respondents don't believe that there is a strong accounting and financial management system in place and the remaining 13.2% are not sure.

Table 4.7: URA has a well elaborate organization structure in URA.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
15	39.5	13	34.2	2	5.2	4	10.5	4	10.5

Source: Primary data.

From the above table 4.7, it can be seen that most of the employees agree that the authority has a well elaborate organization structure in place that is to say 73.7% whereas 21% of the respondents don't believe that there is a well elaborate organization structure in place and the remaining 5.2% are not sure.

Table 4.8: Systems have been put in place to correct and avoid errors.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
20	52.6	7	18.4	5	13.2	5	13.2	1	2.6

Source: Primary data.

Table 4.8 was part of the control environment and it looked at systems that have been established to control and avoid errors within the organization. Majority of the respondents that is to say. 71% believed that there were some of systems in place to correct and avoid errors whereas 15.8% did not agree that there was a correction system in place to correct and avoid errors and the remaining 13.2% were not sure.

4.3.2 Security of the authorization procedures.

This aimed at examining the level of risk assessment within the organization.

Table 4.9: Policies and procedures exist to ensure critical decisions are made with appropriate approval.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
11	28.9	15	39.4	1	2.6	3	7.9	8	21.1

Source: Primary data.

Control activities looked at the establishment of policies and procedures to ensure critical decision making with appropriate approval, majority of the respondents (68.32%) were satisfied that there were policies and procedures to enable informed decision making while 29% disagreed with the idea in URA and only 2.6% were not sure. This implies that indeed there are policies and procedures in place to ensure critical decision making with approval.

Table 4.10: Collection targets are met and are well documented.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
10	26.3	21	55.3	0	0	6	15.8	1	2.6

Source: Primary data.

From the information provided in table 4.10 above, it can be seen that the collection targets are met and are well documented and this is evidenced by the fact that the majority 81.6% agree with the fact and 18.4% disagree whereas none are not sure of the assertion.

Table 4.11: Revenue loss and risks have been identified by management.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
15	39.5	8	21.1	7	18.4	2	5.3	6	15.8

Source: Primary data.

According to the table 4.11 above, it can be seen that most of the respondents that is to say. 60.6% agree with the fact that Revenue loss and risks have been identified by management whereas 18.4% are not sure and the remaining 21.1% don't think that management has identified revenue loss and risks. This therefore means that management has most likely identified this risk which can be controlled and reduced to ensure sufficient revenue collection.

4.3.3 Maintaining reliable control systems.

Table 4.12: There is proper and close supervision of junior staff at URA.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
5	13.2	25	65.8	1	2.6	2	5.2	5	13.2

Source: Primary data

According to the table 4.12, 79% of the respondents asserted that there is proper and close supervision of junior staff at URA and 18.4% said there is no proper and close supervision of junior staff and 5.2 percent were not sure. The findings depict that there is most likely proper and close supervision of the junior staff within URA.

Table 4.13: there are elaborate mechanisms put in place to address weaknesses of controls.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
8	21.1	15	39.5	5	13.2	8	21.1	2	5.3

Source: Primary data.

Most respondents (60.6%) agreed that in URA there are elaborate mechanisms put in place to address weakness of internal controls, whereas 26.4% disagreed with the existence of elaborate mechanisms put in place to address weaknesses of controls and 13% were not sure if these systems were in place. These results are critical because it implies that excesses of other departments are checked.

Table 4.14: Sensitive information is restricted to certain employees only.

Agree		Strongly Agree		Not sure		Disagree		Strongly Disagree	
Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
5	13.2	28	73.7	2	5.3	2	5.3	1	2.6

Source: Primary data

There is strong evidence (86.9%) that sensitive information is restricted to certain employees only within the company with 7.9% of the participants who disagreed with the idea, while 5.3% were not sure. The study results indicated that the majority of the respondents concurred that URA the internal control department restricts certain information to particular employees which is very healthy for the steady development of URA.

4.4 Examining the effect of internal controls on the financial performance of URA.

The examination of the effect of internal audit function on performance of URA was performed using spearman's correlation of coefficients which was performed to establish the relationship between the internal audit function and the performance of URA. The correlation was from the table 4.6 about a proper and financial management system in place

of the organization the table 4.10 about the collection target (Y).These were ranging from strongly agree (SA), agree (A), not sure (NS), disagree (D) to strongly disagree (SD).They are ranked in descending order.

Table 4.15: Spearman’s Correlation on the Effect of internal control Function on the Financial Performance of URA.

Details	Freq. X	Freq. Y	Rank X	Rank Y	Difference d	d ²
SA	10	21	2	1	1	1
A	11	10	1	2	-1	1
NS	5	0	4	5	-1	1
D	4	6	5	3	3	4
SD	8	1	3	4	1	1
Total	38	38				∑d² =8

Source: Primary data.

Using the formula;

$$r = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

$$r = 1 - \frac{6(8^2)}{5(5^2 - 1)}$$

$$r = 0.6$$

From the above information, it can be observed that there is a strong positive relationship between the internal control and the financial performance of URA with a correlation of 0.6.

The bar graph also shows the relationship between the internal control and the financial performance of URA.

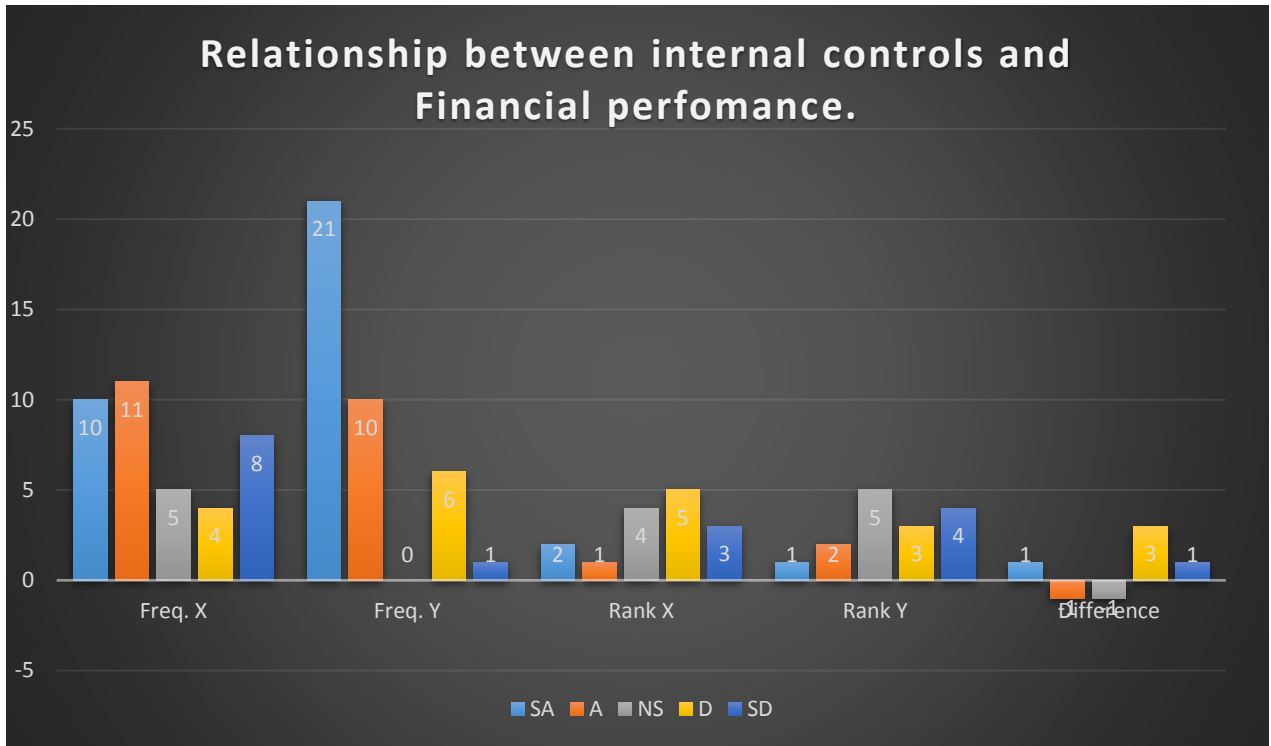


Fig 4.6

Since most of the bars are in positives that is to say they are above 0% and only two with the negative results, it implies that the internal controls and the financial performance of URA are positively related, thus internal control affects the performance of a public institution.

CHAPTER FIVE

DISCUSSION OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter presents the discussion of findings as analyzed in chapter four. The chapter presents the information in accordance to the objectives about internal control and performance in URA. Included is the conclusion relating to findings, recommendations and areas of future research.

5.2 Discussion of Findings

The discussion is in line with the objectives, which were

5.2.1 To assess the accuracy and validity of prevention and detection of error and fraud methods in place at URA.

From the data that was collected, a couple of questions were addressed to the respondents that were touching on this particular objective for example whether URA had a strong accounting and financial management system in place. 55.2% agreed whereas 31.6% disagreed and 13.6% were not sure. On whether there is a well elaborate organization structure in URA, 73.3% agreed with this assertion whereas 21% disagreed and the remaining 5.2% were not sure. On whether there are systems in place to correct and avoid errors, 71% were in agreement, 15.8% disagreed and the remaining 13.2% were not sure. This indicates that majority 66.7% of the respondents agree that there is an accurate and valid method of prevention and detection of fraud within URA. This therefore means that the above objective was achieved through the study that was carried out.

5.2.2 To examine the completeness and security of the authorization procedures to ensure optimal use of the authority's resources.

From the data collected, 68.32% agreed that there were policies and procedures in place to ensure critical decision making with appropriate approval. 29% did not agree and the remaining 2.6% were not sure. Further on whether collection targets are met and are well documented, 81.6% agreed with the assertion and the remaining 18.4% disagreed. And on whether revenue loss and risks have been identified by management, 60.6% agreed, 21.1% disagreed and the remaining 18.4% were not sure. From the information gathered, a majority 70.17% indicated that the authorization procedures are complete and secure and hence ensure

optimal use of the URA's resources. The researcher can therefore say that the completeness and security of the authorization procedures to ensure optimal use of the resources were adequately examined hence achieving the objective.

5.2.3 To identify the measures necessary to maintain reliable control systems which in turn ensure safeguarding of the company's assets.

From the data that was collected, 79% said there was close and proper supervision of the junior staff whereas 18.4% were in disagreement and the remaining 2.6% were not sure. On whether there are elaborate mechanisms put in place to address weakness of controls, a majority 60.6% agreed with the assertion, 26.4% disagreed and the remaining 13.2% were not sure. And finally on whether sensitive information is restricted to certain employees only, a majority 86.9% were in agreement with this assertion, 7.9% did not agree with it and the remaining 5.3% were not sure. Using the information provided by the respondents, it can be observed that a majority 75.5% agree that there are measures necessary to maintain reliable control systems which in turn ensure safeguarding of the company's assets. This therefore indicates that objective 3 has been achieved through this research.

5.3 Examining the internal control.

The findings revealed that there was a significant positive relationship between internal controls and financial performance. Kakuru (2001) argued that if internal controls are not well implemented, it will negatively affect performance and productivity of a firm that performance is not compromised.

5.3.1 Control Environment.

The perception of employees of URA was positive and significant about the existence of an enabling control environment as given by a big percentage of 63.4%. This means that the entire working environment has mechanisms put in place to make sure there is supervision of the day to day activities run by the employees of the organization. Once the employees know that they are being closely monitored, they in turn make sure that deliver as they are supposed to do to the organization.

5.3.2 Risk Assessment.

Employees agreed that the risk assessment was properly done in URA and that risks are identified and categorized then made known to the staff of URA. There is also clear management control on risk in the organization. This helps with planning and achieving targets set by URA in addition to proper budgeting of the following financial years.

5.3.3 Control Activities.

The perception was significantly positive regarding control activities for employees are given targets to achieve while being supervised. This indicates that the authority takes time to ensure that each individual employee is assigned a particular task and required to deliver to a designated quality. The various control activities in place enable the employees to do their work as required.

5.3.4 Information and Communication.

From the findings, it can be generally concluded that URA ensures appropriate information systems covering all activities and that senior management respond positively to the internal audit findings and recommendations. Every form of accountability requires reporting as the final step and this has been made possible by the information and communication mechanisms put in place by URA. The employees can report any of the findings to management immediately and this ensures proper handling of irregularities.

5.3.5 Monitoring and employee appraisals

Majority of the respondents agreed that investments of the organization are monitored by the internal auditors who report any deficiencies upstream with serious matters reported directly to top management. This in turn supports the objective of the researcher that was talking about ensuring safeguarding of the assets of the authority.

5.3.6 Advisory Services.

There was an insignificant positive perception of URA employees about the advisory services by the internal control. This means there is still room for improvement in the audit department, for their role extends to providing advisory services to ensure that the organization is making informed decisions.

5.3.7 Assurance Services.

Assurance services reported a significant positive from the employees with high percentages on the entire research questions asked. This implied that internal audit provides assurance beyond doubt to management that everything is in order. However as Wolff, (2004) says, corporate scandals have strongly highlighted the need for increased assurance over an organization's governance, risks and internal control processes which URA has effectively embarked on.

5.4 Assessing the Performance of URA.

5.4.1 Collection Targets

From the information gathered from the organization, there is a clear indication that Uganda Revenue Authority is still achieving below the set target but with a few recommendations from the Auditor general's office, and a few improvements within the internal control system, the performance is set to go high within the coming financial periods. The authority should therefore that that there is efficient follow up of the employees to ensure achievement of the set targets and implementation of the various recommendations as set by the major auditing bodies.

5.5 Further Analysis

The study through primary and secondary data found out that the organization has put in place good internal control systems to aid in collection and fraud control. URA has acquired an electronic system for use by the Customs service and Integrated Test Management Systems (ITMS) for use in collecting domestic taxes. These systems are centrally controlled and passwords are issued on need bases. The accounting and financial management section is also equipped with the latest accounting packages for reporting and accounting purposes. These systems are monitored and reviewed periodically to correct errors and malpractices. The study has also revealed that separation of roles and responsibilities with URA has been elaborately assumed which has helped in proper supervision by senior managers. The people who are involved in assessment of taxes for example are not mandated to collect the tax rather the role is designated to a responsible officer. Further authority to payment and approvals and the actual payment is done by different people for accountability purposes. The study further showed that URA has not been meeting its target over the years as set by the ministry of finance. This has been attributed to either unrealistic targets or sheer greed by officers who lack integrity. Nevertheless, the study has illustrated that revenue collection has grown in an increasing rate every year.

Information and communication in URA is effective with regards to timely receiving of reports for decision making. However, reporting of incidences of lack of integrity by taxpayers is still a challenge. Most managers do not interact freely with their junior officers and taxpayers have difficulties in accessing information from URA.

The internal controls has not been reviewed for the last three years and that monitoring of the internal controls is not tasked to only one department but every senior manager. This has

made it difficult to take responsibility for any actions or inactions as a result of failure to any system. The system monitoring mechanism is not well manifested.

5.6 Conclusion.

A conclusion on every objective was drawn on the results analyzed in chapter four and the discussions made in this chapter. Based on the findings of the study, it is concluded that there is a direct correlation between the level of internal controls and the amount of revenue collection by URA. The level of internal controls can be measured by the effectiveness of those controls. Where there is an effective control system in place then revenue collection also goes up as demonstrated by the amounts collected when URA had not put in place any controls with the time the organization started effecting controls from the institution of the organization.

5.7 Recommendations.

Internal Control Systems are not a substitute for good management, they can assist management but do not replace management or provide an excuse for poor management. The following recommendations are adopted.

- i. There should be a continued internal check and audit on the part of management and low level of management to ensure adequate operation of the internal control system.
- ii. There should be adequate internal control system to ensure proper accountability. The accountability department is very important in ensuring that fraud and misappropriations of collected revenue is dealt with further as recommended by the auditor general.
- iii. There should be adequate motivation such as rewards, incentives to the employees/officers to avoid financial fraud. This will motivate the workers to do even better by providing more accurate information on the day to day reports of the organization.
- iv. There should be effective use of information technology to enhance the high level of security check in the various departments. Various technologies have emerged to ensure efficient and fraud free collection of revenue from all sectors of the economy. The authority should therefore take on these integrated information systems to ensure efficiency in carrying out its tasks.

- v. There should be a competent team of experts to work out the logic of standard internal control. This will enable the authority to have an even better system of internal control.

It is further recommended that the top management hierarchy to be reviewed to curb duplication of duties which has been evidenced by the study.

5.8 Limitation of the Study

The research only interviewed respondents from the rank of Commissioners to Senior Assistant Commissioners. Other research can extend their samples to other lower ranks. Some respondents interviewed are also mandated to oversee some internal controls thus there biasness in their respondents. Lack of co-operation from some respondents who were unwilling to part with information they thought will be too confidential to disclose was a challenge. To overcome this; the study sought to demystify the study to the respondents by explaining to them the purpose of the study. Few scholars have written about the impact of internal control systems in revenue collection.

5.9 Suggestion for further research.

The results from the study point out a number of opportunities for further research into tax competencies, compliance costs and tax compliance. Future research should attempt to collect data from other branches to find out whether the effectiveness of Internal Control System in achieving value in these branches takes the same trend as that for Uganda Revenue Authority main branch. Further research could also examine the impact of total quality management on revenue collection in Uganda Revenue Authority or the relationship between effectiveness of internal control system and fraud in an organization because fraud is perceived to be one of the main threats to the organizations' performance.

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APPENDICES

APPENDIX I: Questionnaire

My name **BIGABWOMWE WARREN**, a student of Uganda Martyrs' University pursuing a Bachelor of Science in Financial Mathematics and currently collecting data for compilation of my research report. Am conducting a study on **the effect of internal control on financial performance of a revenue collection organization with Uganda Revenue Authority as the case study**. The information obtained is purely for academic purposes and all the data will be handled with a high degree of confidentiality. There will be no need to indicate your identity anywhere on the questionnaire. I humbly request that you complete this questionnaire correctly in the spaces provided or options given.

Appraisal of Internal Controls in Uganda Revenue Authority

Instructions: Please kindly tick the box that clearly expresses your view about a question.

A. Personal Data

1. Sex

Male Female

2. Education Level

Diploma Bachelors Masters PhD Other

3. Position being held

Commissioner Senior Deputy Commissioner Deputy Commissioner Senior Assistant
Commissioner

4. Age

19 or less 20–29 30–39 40–49 50 or more

B. Control Environment

5. URA has good Accounting and Financial Management System in place

Strongly agree Agree Not Sure Disagree Strongly Disagree

6. URA Board of Directors are committed to the Internal Control System implementation

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

7. There is a well elaborate Organization Structure in URA

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

8. Policies, procedures and documented as well defined

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

9. Systems have been put in place to correct and avoid errors

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

10. The Management and the BOD are people of high Integrity

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

11. The company's culture, code of conduct, human resource policies and performance reward systems support the business objectives and internal control systems.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

C. Risk Assessment

12. URA has formulated the Internal Affairs Department

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

13. There are sufficient staff members who are competent and knowledgeable to manage company activities and these have been provided with adequate resources.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

14. URA has installed software and ICT up to date to help in revenue collection

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

15. The employees have knowledge of revenue leakage areas

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

16. Collection procedures are well documented

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

17. Revenue loss and risks have been identified by management

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

18. Measures have been put in place for risk identification

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

19. There are surveillance officers to identify risk areas

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

20. URA staff are adequately involved in internal controls

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

D. Control Activity

21. Policies and procedures exist to ensure critical decisions are made with appropriate approval.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

22. There is proper and close supervision of junior staff at URA

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

23. There are elaborate mechanisms put in place to address weaknesses of controls

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

24. Sensitive information is restricted to certain employees only

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

25. There is a system in place to ensure that employees are rotated periodically.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

26. Independent reconciliations of revenue collection on regular basis is done

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

E. Information and Communication

27. There is effective reporting of revenue targets to be achieved in a particular year

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

28. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

29. Procedures have been put in place for complaints by taxpayers

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

30. Complains against staff are handled in professional manner by management.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

31. Management receives timely, relevant, and reliable reports for decision-making

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

F. Monitoring

32. Management assess the system of control from time to time

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

33. There are regular and periodic reviews of collection before the end of year report

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

34. URA has an independent monitoring unit

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

35. There is appropriate communication to the management on the effectiveness of the ongoing monitoring processes on risks and control matters.

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

36. Management allows internal audit to take part in current and future decisions of the company

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

37. Periodically, management reviews audit or internal control systems are in place

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

G. Collection Performance

38. Collection has been hitting the target for the last 6 (six) years

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

39. Collection targets set by The Ministry of Finance is realistic and achievable

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

40. There has been improved collection each year for the last 6 (six) years

Strongly agree [] Agree [] Not Sure [] Disagree [] Strongly Disagree []

APPENDIX 2

WORK PLAN/ TIME FRAME WORK.

ACTIVITY	INPUTS	OUTPUT	TIMELINE	RESPONSIBILITY
Proposal writing	<ul style="list-style-type: none"> • Stationery • Internet • Computer 	Proposal	27-11-15	Researcher
Improving the proposal to a report i.e. chapter the proposal	<ul style="list-style-type: none"> • Internet • Computer • Stationary • Guidance/ supervision 	Chapters: <ul style="list-style-type: none"> • 1 • 2 • 3 	1 st week(DEC)	Researcher
Design of the research tools	<ul style="list-style-type: none"> • Guidance • Internet • Computer • Stationary 	Research tools	Dec/Jan (2017)	Researcher
Data collection	<ul style="list-style-type: none"> • Printer services • Equipment • Transport • Feeding 	Filled questionnaire Reports on interviews	Feb (2017)	Researcher
Data analysis	<ul style="list-style-type: none"> • Data entry • Training • Analysis software(SPSS) 	Results	Mar (2017)	Researcher
Report writing	<ul style="list-style-type: none"> • Stationery • Computer • Internet • Supervision 	Report	End of Mar (2017)	Researcher
Submission	<ul style="list-style-type: none"> • Binding • Printing • C.D copy 	Report	Mid of Apr (2017)	Researcher

APPENDIX 3

BUDGET

ITEM	DESCRIPTION	AMOUNT (UGX)
Stationary	Reams of paper	15000
	Pens and pencils	12000
	Highlighter	6000
Transport	Around residents	120000
	Investors	60000
	District offices	80000
Computing services	printing	40000
	binding	2500
	photocopying	10000
	purchase of software	120000
	hiring of data analyst	300000
TOTAL:		765500