THE IMPACT OF INTERNAL CONTROLS ON FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS IN UGANDA

A CASE STUDY OF PALLISA DISTRICT LOCAL GOVERNMENT

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES, DEPARTMENT OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT FOR THE REQUIREMENT OF AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION OF BUSITEMA UNIVERSITY

AUGUST 2024

DECLARATION

DECLARATION

I **NALUGO JANE FRANCES REG. NO. BU/UP/2021/3001**, do declare that this research report is my original work and it has not been submitted to any other University or institution for an academic award.

Sign ………………………… …………………… Date 29th August, 2024.

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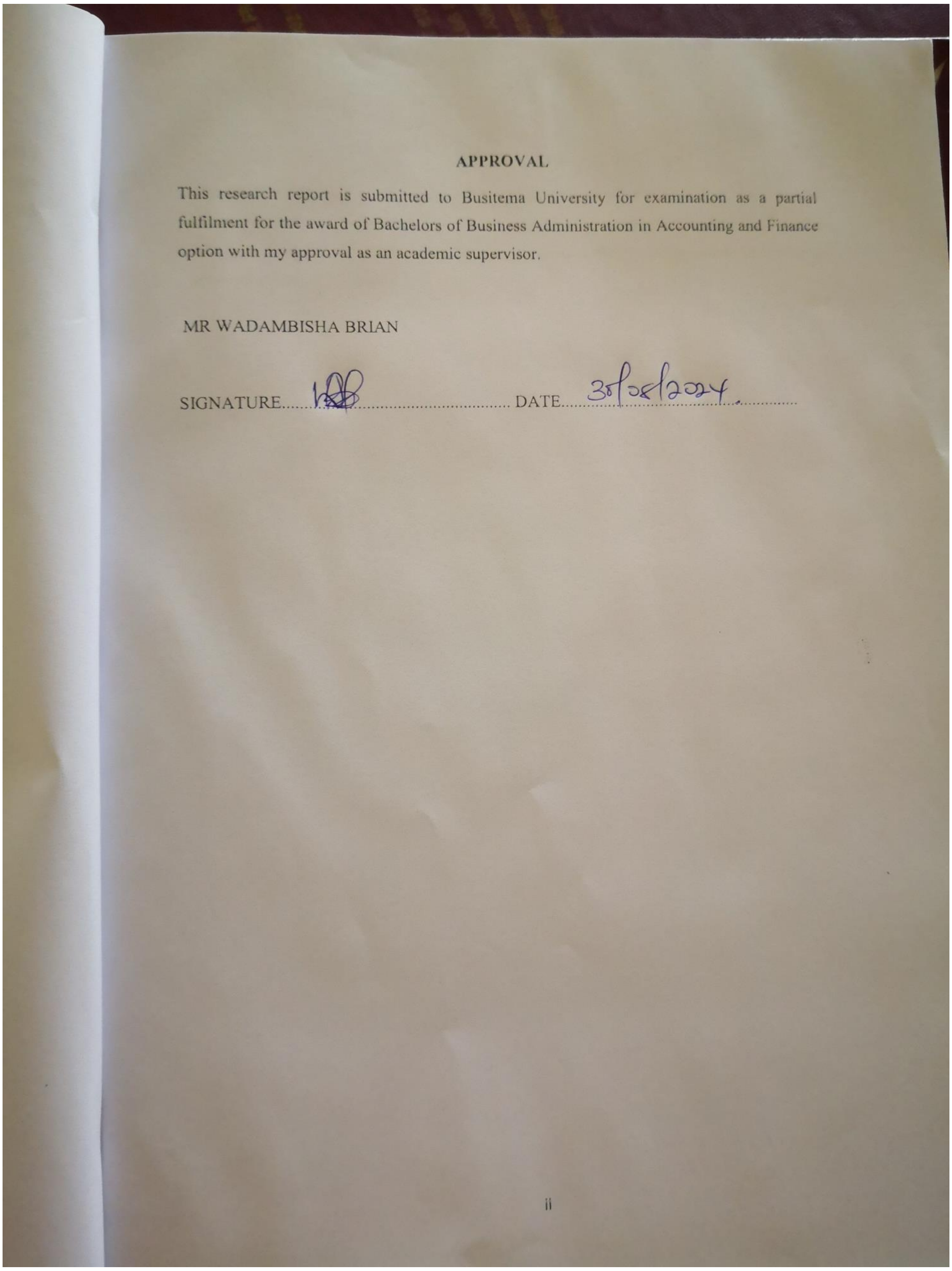
APPROVAL



APPROVAL

This research report is submitted to Busitema University for examination as a partial fulfilment for the award of Bachelors of Business Administration in Accounting and Finance option with my approval as an academic supervisor.

MR WADAMBISHA BRIAN

SIGNATURE.. DATE 30/08/2024.

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DEDICATION

This work is dedicated to the family of Mr and Mrs Muyomba Peter for their moral support, encouragement and understanding. To all my friends, course mates, lecturers, and the Almighty God for his interminable blessings without which it is impossible to ensure the proposal submission a reality

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LIST OF ACRONYMS

Aug:	August
AG:	Auditor General
CVI:	Content Validity Index
COSO:	Committee of Sponsoring Organizations
EU:	European Union
FY:	Financial Year
FP:	Financial Performance
LG:	Local Government
IGFTs:	Inter Governmental Funds Transfer (IGFTs)
PFMA:	Public sector Financial Management Act
MoLG:	Ministry of Local Governments
ICS:	Internal Control Systems
PDLG:	Pallisa District Local Government
SPSS:	Statistical Package for Social sciences
UK:	United Kingdom
USA:	United States of America
Ugx:	Ugandan shillings
UNCDF:	United Nations Capital Development Fund

ABSTRACT

This study examined the impact of internal controls on financial performance. The study was guided by the following objectives notably, to examine the effect control environment on financial performance, to assess the effect of control activities on financial performance, and to examine the effect of monitoring on financial performance. The study used a cross sectional research design, and a quantitative approach. Data was collected from 128 employees from different departments as a target population with the sample size of 92 employees from different departments. Data was collected with the aid of closed ended questionnaire and statistical package for social sciences was employed for analysing data from which frequency tables, descriptive statistics (mean and standard deviation), reliability, validity, correlation, and regression results were obtained. The study findings revealed that there is a positive and a significant effect of control environment on financial performance; control activities on financial performance; and monitoring on financial performance. The study concludes that there is a strong predictive power that the dimensions of internal control contribute towards enhancing financial performance in PDLG. Finally, the study recommends that efforts to improve on the financial performance of local governments depend on internal control (control environment, control activities and monitoring).

CHAPTER ONE

INTRODUCTION

1.0 Introduction

An organization's financial performance is greatly impacted by how it makes use of its limited resources to achieve its goals and objectives. Thus, the purpose of this research was to find out how internal controls impact the financial performance of local governments using the Pallisa district LG as a case study. This study's background, problem statement, aims, hypotheses, conceptual framework, significance, justification, scope, and operational definitions of terms related to the investigation are all that was included in this first chapter.

1.1 Background

In their areas of jurisdiction, LGs are in charge of providing a number of essential services to residents and organizations. Notable roles like social services, education, housing, planning, and garbage collection are highlighted, as are less well-known ones such as business support, licencing, registrar services, and pest treatment. This vast mandate requires that LGs manage their finances well so as to deliver on their mandate relating to better service delivery to the public (Ggoobi & Lukwago, 2020). Financial performance depicts an institution's capability to utilize its assets to create revenue. Financial performance is related with assessment of the entities' financial viability, identification of areas for improvement, informed decision making, and performance monitoring, organizational efficiency and effectiveness, achievement of organizational objectives and goals, enterprise profitability, and above all organizational success (Kelkar, 2024)**.** This is because financial performance helps in the process of maximizing cash flows and maintains institutional profitability through existing projects. Also, appropriate financial management principles and elements such as liquidity, solvency, and satisfactory operating performance allow organizations to make substantial investments in technology which drives organization's profitability, competitiveness and success.

Despite these significant benefits of financial performance, evidence suggests poor financial performance (Megan & Harry, 2021). Globally, financial performance challenges are wide spread. For instance in Europe, the Greek National Audit Office noted that several LG authourities had mis used EU funds, including the city of Anthens that spent over €1.5million

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