

Incorporating financial control systems to boost the financial performance of Local Government in Uganda.

Alex Akankwasa¹, Agaba Moses², Eliab Byamukama Mpora³, Cliff Richard Kikawa⁴

Abstract: *The study was about incorporating financial control systems to boost Local Government financial performance in Uganda a Case study of Rubanda District Local Government. The study established that there is a significant relationship between financial control systems, innovation strategies and financial performance in Rubanda District Local Government. The study used questionnaire and interview guide to collect data. Both qualitative and quantitative methodologies were used by the study. The study also adopted both purposive and simple random sampling strategies. Data was analyzed using correlation and regression analysis. The results indicate that financial control systems and innovation strategies positively affect the overall financial performance of Local Governments in Uganda in terms financial returns and value for money.*

Key terms; Financial Control systems, Financial Performance and Local Government

1.0 Introduction

Financial control systems refer to the policies and procedures designed to detect or prevent fraud and accounting discrepancies (Mpora et al., 2023). Examples of financial control systems include account reconciliation, double checking cash deposits, approving new vendors, and rotating staff (Turyahebwa et al., 2022). Financial control systems are implemented through a combination of software and manual processes to ensure that accounting errors do not result in fraud or financial mistakes (Hachem et al., 2019).

Financial Performance indicates how well a company's can turn resources from its main business into income (Eton, 2018). The phrase is frequently used to assess a company's overall financial condition within a given period (Powell, 2020). Financial performance measures an organization's ability to manage its finances based on its assets, liabilities, revenue, and expenses (Eton et al., 2018).

Financial performance assesses how effectively a company generates income and manages its obligations and resources to fulfill the financial needs of stakeholders and investors (Turyahebwa et al., 2022). Financial success can be measured in three ways: return on investment, value for money, and return on capital employed. However, it is important to consider all three metrics together for a comprehensive evaluation (Mpora et al., 2023).

Micheal (2020) stated that a review of the research on financial performance and its determinants is necessary to show the efficiency of assets, the strength of net sales or credit collection, and the regularity with which inventories create money each year. The findings demonstrate that in order to properly explain the dynamics of financial success, the study is more comprehensive and incorporates more variables into the analysis.

2.0 Review of Related Literature

Hugo (2018) expressed that financial control systems are meant to prevent financial fraud, scandals, and regulation, according to a conceptual framework and literature study. Financial control systems help with the analysis of the company's history and offer a conceptual framework for researching fraud and other dubious financial practices, their causes, and their consequences. The prevalence and nature of the actions under investigation are largely determined by individual traits, business governance and control, the economic environment, and regulation (Alfartoosi et al., 2021). Furthermore, because they enable efficient asset management and assist the business in meeting its short-term financial obligations, financial controls are crucial to enhancing financial performance (Arinaitwe et al., 2021).

Eton et al., (2018) said that a company's financial performance is a subjective indicator of its capacity to turn resources from its core business into revenue. The phrase is frequently used to describe a company's overall financial status over a specific time frame (Turyahebwa et al., 2022). Based on an organization's assets, liabilities, revenue, and expenses, financial performance evaluates its capacity for financial management (Chepsikor, 2014).

Eliab et al., (2023) examined the use of mobile money and financial inclusion in Uganda. The use of mobile money and financial inclusion were found to be strongly correlated by the study. It employed a correlation study design, a conceptual model based on the stimuli organism response paradigm, and a combination of qualitative and quantitative methods (Eliab et al., 2023). This study will assist in closing the contextual gap because the current research study will focus on local government performance, whereas the previous study focused on mobile money usage.

Eliab et al., (2023) carried out a study on the internal control systems and performance of financial institutions in Uganda. The report claims that internal control systems significantly affect the performance of financial firms (Eliab et al., 2023). It also adopted blended quantitative and qualitative methodologies in a hybrid research methodology. Furthermore, it was found out that there is a fairly substantial correlation between internal control systems and financial institution performance. Since the study concentrated on corporate governance as one of the elements influencing better performance, monitoring and assessment would be taken into consideration in this study (Turyahebwa et al., 2022). The new study will fill the contextual gap by examining the effect of internal control systems on the performance of local governments, specifically in Rubanda District Local Government, as opposed to the previous study, which concentrated on financial institutions.

Abanis et al., (2022) conducted research on Ugandan microfinance institutions' internal control systems, corporate governance, and financial performance. The study used correlational, cross sectional, and descriptive designs. The study found a substantial correlation between microfinance institutions' financial success, internal control systems, and corporate governance. The study used regression analysis to analyse the data, but to close the methodological gap, the current study will examine how internal control systems affect Rubanda District Local Government's performance using correlation.

Kule et al., (2022) investigated the association between financial accountability and the financial performance of savings credit and cooperative organizations (SACCO) in the Midwestern region of Uganda using a cross sectional research approach consistent with a positivist perspective. The 93 SACCOs from which the data was gathered were selected using a random sampling technique. Data was gathered using closed ended questionnaires, and analysis was done using conventional linear regression methods (Kule et al., 2022). The study's findings demonstrated a robust and positive correlation between financial accountability and the financial performance of the SACCOs that were the subject of the inquiry. Despite examining one of the dependent variable constructs, financial performance, the study ignored its main focus, financial control systems, and was carried out in the setting of SACCOs rather than local governments (Turyahebwa et al., 2022). Additionally, the sample size of 93 respondents was insufficient to yield data that may have been used to extend the findings. The current study will use the pragmatist philosophy instead of positivism to close the analytical gap, and data will be collected from a bigger sample size that will provide sufficient information for generalization.

Lubis et al., (2022) used secondary data from the Central Statistics Agency and the Directorate General of Fiscal Balance between 2014 and 2018 to examine the impact of economic growth, fund balancing, and government size on the financial performance of regions within Indonesian districts and cities, with a total of 2,056 respondents. The study employed a quantitative methodology, analyzing the data using a simple regression analysis model. The findings indicated that, whereas balanced funds and economic growth had negative effects on regional financial performance, government size had a favorable influence (Lubis et al., 2022). However, the study was unable to shed light on how financial control systems affect the financial performance of local governments. Additionally, it was conducted in a developed nation and lacked qualitative data, which might have led to its departure from Uganda's local government context. A study investigating the impact of financial control systems on financial performance will be conducted in Rubanda District Local Government of Uganda in order to close the methodological gap in the previous study by adopting a qualitative research approach in this study.

Mega et al., (2022) investigated a study on financial control strategies to lower fraudulent activity in commercial banks in Kenya. The research asserts that reducing fraudulent conduct in commercial banks requires the implementation of financial control systems. Financial control systems are also equipped with elements that ensure fraudulent transactions are detected or made difficult, if not impossible, to complete, according to the statement (Mega et al., 2022). However, it was also found out that while financial control systems ensure that controls are in place, they do not always detect fraud or corruption to assist a business in fulfilling its objectives, mission, strategies, tactics, and procedures (Lubis et al., 2022). The current study will close the conceptual gap left by the previous study's inability to explain other factors that are crucial for lowering fraudulent transactions, such as organizing, planning, directing, and controlling. It will concentrate on financial controls and financial performance of Rubanda District Local Government.

3.0 Methodology

3.1 Research design

This approach is necessary to ensure that the study issue is sufficiently handled by logically and favorably integrating all of the research components (Bhat, 2024). This study was based on a convergent parallel mixed techniques design. This type of mixed methodologies strategy involved the researcher combining and integrating quantitative and qualitative data to provide a comprehensive study of the research problem (Bhat, 2024). The researcher employed descriptive, correlational, and cross-sectional for specific objectives. In descriptive designs, means, frequencies, standard deviations, and percentages were used to characterize and interpret the study variables in a meaningful way (Maulud et al., 2020). In line with the goals of the study, correlational designs were used to the variables once it has been established that they are necessary to test hypotheses and establish the relationship between two variables (Maulud et al., 2020). The fact that the data was collected all at once to achieve the study's objective further

supports the use of a cross sectional design (Taherdoost, 2022). This was used to evaluate Rubanda District Local Government's internal control mechanisms and performance.

3.2 Study Population

According to Gedd et al., (2023), stated that a study population is subset of the target population from which a sample is taken for statistical analysis. The study population comprised of Politicians, primary school teachers, government employees in health facilities, and technical staff from the district, Sub County, and health centers (II, III, and IV). The study involved 1,700 respondents from the Rubanda District, including citizens, politicians, and technical experts. Three groups were formed out of them: 1370 citizens, 100 politicians, and 230 technical staff (Rubanda District Local Government Human Resource Office 2023).

3.3 Sample Size determination for Quantitative data

Technical staff, politicians and citizens provided information to the researcher (Rubanda District Local Government Human Resource Office, 2023). There were 340 respondents in all, comprising 274 citizens, 46 technical staff, and 20 politicians.

$$n = \frac{N}{1+N(e^2)}$$

(Source: Yamen 1967)

Where; N is the population (1700), n is the sample size and e is precision level 5% (0.05).

$$n = \frac{N}{1+N(e^2)}$$

$$n = \frac{1,600}{1 + 1,600(0.05)^2}$$

$$n = \frac{1,600}{5}$$

$$n = 320$$

4.0 Presentation and Interpretation of results

4.1 Analysis of effect of financial control systems and Local Government Performance

Correlations

		Financial Control systems	Local Government Performance
Financial Control systems	Pearson Correlation	1	.351**
	Sig. (2-tailed)		.000
	N	290	290
Local Government Performance	Pearson Correlation	.351**	1
	Sig. (2-tailed)	.000	
	N	290	290

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation results above indicate a notable relationship between financial control systems and Local Government performance. The Analysis shows the Pearson correlation coefficient of 0.351 signifying a moderate positive relationship between financial control systems and Local Government performance. This suggests that higher levels of financial control systems are associated with better performance of local government entities. The significance level (Sig. 2-tailed) of 0.000 indicates that the correlation is statistically significant at the 0.01 level. This means that the likelihood of the observed correlation occurring by chance is extremely low, reinforcing the reliability of the finding. With a sample size of 290, the analysis benefits from strong statistical power, increasing confidence in the validity of the correlation. The implications indicate that strengthening financial control systems and the positive correlation implies that improving financial control systems could lead to better performance in local governments. This suggests that initiatives aimed at enhancing financial management practices might be beneficial, local governments might prioritize the development of robust financial control systems, including budgeting, auditing, and compliance processes. This could enhance transparency and accountability, ultimately leading to improved service delivery and investing in training for staff involved in financial management could improve the effectiveness of financial control systems. The correlation between financial control systems and Local Government performance underscores the importance of effective financial management in the public sector. By focusing on strengthening financial control systems, local governments can potentially enhance their overall performance, leading to more efficient and accountable governance.

5.0 Discussion

The findings revealed that financial control systems have a positive and significant effect on Local Government performance in Rubanda District Local Government (p=0.000, Beta=0.51). This study's findings are in line with the study conducted by Mega et

al., (2022) where financial control strategies were key in detecting and eliminating fraudulent activities hence boosting the overall performance of the Commercial banks in Kenya.

Augustine (2020), in his study investigated financial management of Local Government to ascertain its effect on administrative efficiency and effectiveness. It was revealed that financial control systems contribute significantly as it increases accountability, transparency, financial capability, and efficiency in delivery of services and products.

Although financial control systems were viewed as core in enhancing Local Government Performance by simple linear Regression, when it was included in the model with Human resource control systems and Physical resource control Systems, results revealed that it contributed significantly. This was in Agreement with the study conducted by Eliab (2023) whose findings revealed that there is a fair correlation between internal control systems and organizational performance. This was attributed to the ability of internal control systems in enhancing decision making and thereby boosting efficiency and effectiveness.

Again in the study conducted by Usang et al., (2018) which adopted mixed methodology and explanatory sequential design, factors such as internal audit collaboration, participants' recognized management attitude, and auditors' comprise and funding concerns were considered to be significant in enhancing Local Government Performance. Therefore Local Government and decisions makers are advised to adopt financial control systems that can be ably implemented in order to achieve high levels of Performance.

6.0 Conclusion

Pearson Linear Correlation Coefficient results revealed that financial control systems was all statistically significantly correlated to Local Government Performance in Rubanda District Local Government.

Financial control systems are statistically significant (Beta=0.51) in this model; as it was indicated that Financial control systems have a significant effect on Local Government Performance in Rubanda District Local Government, Uganda and this was in agreement with the findings from previous studies such as Eliab et al., (2023), Abanis et al., (2022), Kule et al., (2022), Augustine, (2020) and Agwor et al., (2017).

6.1 Recommendations

Strengthen the design and implementation of internal control systems. Local governments should adopt standardized internal control frameworks such as COSO Framework to guide the structure, responsibilities, and assessment of controls and there should be regular risk assessments to identify potential weaknesses in financial and operational processes.

Independent and empowered internal audit units; internal audit departments must be independent, properly resourced, and allowed to operate without undue influence from political or administrative leaders and encourage periodic audit reviews and follow up mechanisms to ensure recommendations are implemented.

Local governments should consider investing in stronger financial control systems. This might include training for staff, implementing new accounting software, or developing more rigorous audit processes.

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