

THE RELATIONSHIP BETWEEN RISK ASSESSMENT AND FINANCIAL PERFORMANCE OF MBALE MUNICIPAL COUNCIL IN UGANDA. A CROSS-SECTIONAL STUDY.

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Abstract Background

Risk assessment involves identifying, analyzing, and prioritizing potential financial and operational threats. The study aimed to assess the relationship between risk assessment and the financial performance of Mbale Municipal Council, Mbale District.

Methodology

The study used a descriptive cross-sectional design, specifically focusing on correlation analysis of study data. A sample size of 169 was estimated from a population of 300 study units. Data was collected through questionnaires and analyzed with the aid of SPSS.

Results

The Majority of respondents (53.9%) were male, while 46.1% were female. 45.4% belonged to the 36 – 60 years age bracket and were the majority, followed by those in the age bracket of 18 – 35 years. The least participation was observed among the older persons of 60 years and above. The study found that risk management has a significant statistical effect on financial performance (Beta =.349; sig <.05). Generally, risk management accounted for a 50.7 percent change in the financial performance of Mbale Municipal Council.

Conclusion

Risk management significantly affects the financial performance of local governments. Most importantly, local governments that have established financial control desks, with specific officers to analyze desks are likely to register improvements in their financial performance.

Recommendation

There is a need to emphasize risk management practices at MMC, especially through appropriate risk assessment, forecasts, and analysis by financial controllers.

Keywords: Risk Assessment, Financial Performance, Mbale Municipal Council, Uganda.

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Background of the study

Historical perspective

Public sector finance has been a subject of scholarly work for many centuries, and its focus has increased with the quest for value for money and quality public services (Amudo & Inanga, 2019). Managerial emphasis on financial performance became pronounced in the post-World War I (Vichet, 2020). Public sector financial performance has since continued to widen based on financial reports, accountability, and transparency of officers in charge of implementing this mandate. By the 1940s, financial performance had gained a central position in public finance in the USA, UK, Asia, and Latin America, and later became a universal target (Burlton, 2010; Elliott & Elliott, 2009). As expressed by Gosnik (2019), financial performance gained prominence in Africa and Latin America in the 20th century, especially with the evolution of business performance models like the Balanced Scorecard (Kaplan & Norton, 2001). Despite this modest increase in financial performance focus, several African countries still experience financial performance shortfalls to date,

despite being fast-growing African economies like South Africa, Nigeria, and Egypt (Hayes, 2012). In these economies, financial performance has been prioritized; attention is directed to profitability, accountability, and transparency.

In Uganda, the Institute of Certified Public Accountants of Uganda (ICPAU), where financial controllers get their skills regarding finance management, guided by the Accountability Act, continues to support public sector financial managers to realize desired financial performance (namiriangi, 2005). In spite of this, the Ugandan municipality, Mbale Municipality, continues to experience constrained financial performance (Namiri & Stojanovic, 2018). As a result, several Municipality Administrators prioritize an internal control system to steer financial accountability, reporting, and transparency in their mandate.

Modern practice of internal control systems (ICS) in organizations became widely pronounced in Egypt and China (Papadatou, 2015), though it had its earliest roots in the USA and the UK in the early 1940s (Petrovits, Shakespeare & Shih, 2011). ICS was first officially

defined in 1949 as a tool for enhancing financial reporting and performance (Petrovits et al., 2011). Since the early 1950s, the USA has supported the strengthening of ICS for public finance management (Bongani, 2013), a practice later adopted in the UK and Australia to safeguard business assets and reduce irregularities and errors (Ndifon & Ejomk, 2015; Hayes, 2012; Spira & Gowthorpe, 2018). This preference for ICS in the 1900s, especially regarding risk assessment, control environment, monitoring, and control activities, has been a central focus in several African public sector entities (Amudo & Inanga, 2019). In the 21st century, public entities consider ICS as a 'watchdog' function (Eton et al. 2018) and in other instances, as a fully-fledged managerial department in their organizations (Rafindadi & Olanrewaju, 2019). In the African context, Aihounhin et.al. (2016) argued that ICS has remained key for public financial management and performance. This is evident in several African countries like Nigeria, South Africa, Malawi, and Zambia (Ayom, 2013). In East Africa, financial mismanagement cases have continued to emerge, depicting financial performance gaps, regardless of ICS in several municipalities, including those in Uganda (cress, 2016). This attracted the need for an empirical study to explore them. To date, Uganda Municipalities and Cities are expected to uphold a functional ICS as a tool for financial performance. Prioritization of public sector financial performance in Uganda has gained prominence over the years, strengthened by the Finance and Accountability Act in Uganda (Republic of Uganda, 2003). This is often part of the financial accountability mechanisms emphasized by earlier studies (Eton et al, 2019). On the contrary, a few municipalities routinely realize their financial performance targets regardless of having an internal control system. Mbale Municipal Council has also been prone to financial performance shortfalls, which have been persistent in the last five years (Mbale District Local Government, KDLG, 2020). This motivated the researcher to conduct this study focusing on ICS and financial performance at Mbale Municipality.

Conceptual perspective

The function of the Internal Control System (ICS) has attracted several scholarly descriptions. Kinyua et al. (2015) relate ICS to regulations that support organizations to protect their assets in a trusted way. However, the author does not detail procedures and policies, private and public alike. Mutensigensi (2018) simplified these procedures as actions taken by an organization to enhance the achievement of financial objectives through a proper and well-managed control environment, risk assessments, monitoring and supervision, and control activities. Relatedly, Younas & Kassim (2019) describe ICS as a whole system that involves control of the physical and financial resources of a business entity. These definitions describe ICS as an entire process that guides administration in operating the business procedurally, compliantly, and harmoniously. ICS helps organizations utilize their resources within set guidelines to prevent wastage, loss, and fraud

(Committee of Sponsoring Organizations of the Tread Way Commission, COSO, 2013). This study benchmarked on ICS attributes of: risk assessment, control activities, control environment, and monitoring to explore the ICS status at the Mbale Municipal Council.

In exploring these ICS components, risk assessment at MMC was examined on the staff's ability to forecast, identify, and analyze risks, while control activities were looked at based on physical controls, performance reviews, and segregation of duties in the ICS process. Control environment, on the other hand, was explored based on managerial abilities to uphold organizational ethical values, delegation of authority and responsibilities, and commitment to competencies in the course of implementing ICS activities. Meanwhile, monitoring focused on supervision, external audits, and evaluations done at the council. These ICS attributes were examined regarding the financial performance of MMC in Mbale District.

Financial performance was the dependent variable in this study. Several descriptions have been put forth to explain financial performance. In the study by Namiri & Stojanovic (2018), financial performance is defined as a set of financial outcomes a firm obtains after undertaking its activities. Relatedly, Dwivedi (2016) stated that financial performance is the state of an organization's realized goals described by its reporting mechanisms, assets, and liabilities.

However, Dwivedi (2016)'s focus was on financial institutions, not public sector entities. According to Mwakimasinde, Odhiambo, and Byaruhanga (2014), financial performance is the overall outcome the firm generates as profits, but it is also able to provide a detailed scope of how it has used its resources to meet set budgets and investment goals. In this study, financial performance was explored in the context of the public sector, delimiting the scope to key financial performance indicators of reporting, transparency, and accountability as evidenced at Mbale Municipal Council (MMC), Mbale District.

Theoretical perspective

The Agency and Contingency theories were used to underpin this study.

The Agency theory draws significantly on the relationship between actors in the management of resources to realize results in an organization (Jensen & Mekling, 1977; Sarens & Abdolmohammadi, 2010). The theory hypothesizes that organizations are based on interactions between resource owners and principals (the government/public) and officials in charge of handling these resources (managers and employees). The nexus between principals and agents in controlling the resources of a firm remains vital for an organization's overall performance (Sarens & Abdolmohammadi, 2010). The Agency theory describes, predicts, and explains ICS and its functions in a public institution's setting (Cowgill, 2014).

Given the current study, the internal control system provides solutions to the principal-agency problems, which the Agency theory underpins. Principally, ICS

minimizes agency problems (Mitnick, 2015), by lessening the occurrence of conflicts between principals and agents while regulating the environment and executing activities in finance and the overall performance of the institution (Van Puyvelde. al, 2012). Applying the theory to municipal councils, this study observed that municipal administrators (Agents), who act in the interest of the public (Principals), have the constitutional mandate to use public resources well, guided by the ICS to satisfy the needs of the public. With ICS in place, municipal councils always strive to meet the needs of the public. Besides meeting the interests of the general public, effective implementation of ICS promotes the smooth running of municipal councils. On the contrary, the agency theory is associated with a few weaknesses, including that it does not provide how the role of resources in the realization of goals and targets is played by either the agent/or the principal. Therefore, the realization of the goals may not be reached even when the duo (principal and agent) has done their mandate in the absence of required contingencies (resources). Thus, the principal and agent may not realize the expected outcome without a clearly defined contingent of resources. Indeed, how managers access, account for, and report on the contingent of resources and situations is paramount for their structural and operational environment and performance. This, however, is not well covered in the Agency theory. As a result, this study complemented the agency theory with the contingency theory.

The Contingency theory describes how an organization's ICS enhances financial reporting and performance based on specific situations. Not all situations and resources, fit in all organization's activities (Wang & Hooper, 2017). The theory assumes that it's the way managers steer effectiveness in managing behaviors, actions, and processes of the organization, depending on contingent circumstances, at play that supports its financial performance. Financial performance in itself is a function of the organizational structure and is dependent on a contingency of several factors. The underlying assumption of the contingency theory is that organizations differ greatly in function and structure, which makes it hard to have a universalized organizational structure. Organizations perform depending on how they match the structural environment with the system. The underlying question raised by the theory is: How does the structure of the organization promote reliable information flow? In regard to this study, contingency theory explains more about how circumstances in ICS should be given due attention by managers since they can be contingent factors for its financial performance in both the short and long run. However, the contingency theory does not show the actors, their roles, and their relationships in realizing the desired financial performance. This calls for the need to adapt the agency theory as well. Coined together, the two theories were used to explain the effect of ICS on financial performance at MMC in Mbale District.

Contextual perspective

Public sector performance is one of the key ingredients in social and economic development in Uganda, especially at the local government level. To achieve and support public sector performance, there is a need for effective financial performance, with outstanding levels of accountability, transparency, and reliable financial performance outcomes. Studies, however, continue to show that there has been a low level of success in several public entities due to inappropriate financial performance (Eyaa & Ntayi, 2010; Eton et al., 2019). Administrators in various municipalities are encouraged to uphold reliable financial performance and consequently use ICS to realize this target (Antonio, 2016). This is an event in many Ugandan municipalities, including Mbale Municipality. Organizations that implement ICS protect their assets against fraud, manage liabilities, and ensure quality reporting. The Government of Uganda has put in place the necessary organs to empower ICS in municipal councils to set up the financial performance of Municipal councils.

The Financial and Accounting Regulations (2007) empower municipal councils in Uganda to institute ICS to monitor financial performance. Despite these efforts, Mbale Municipal Council (MMC) still grapples with financial performance challenges. If reports are not delayed, the level and scope of financial accountability and transparency are significantly below expectations. Most often, Mbale Municipal Council does not properly perform as to the budget, with several budget shortfalls and unmet expenditures (Mbale Municipal Council, MMC annual report, 2019).

To minimize these financial performance shortfalls, the administration of MMC has not only prioritized the undertaking of an internal control system but also instituted it as a fully-fledged unit of administration. Through the Audit section, ICS is put into effect, focusing on risk assessment, control activities, ensuring a routine control environment, and monitoring and supervision of financial controllers. Despite the prevailing ICS in place, Mbale Municipal Council (MMC) still experiences financial challenges, and its financial performance has remained below the set target in the last five (5) years. It can be noted that MMC has encountered liquidity problems, presented untimely financial reports, and still grappled with a decline in revenue collections and transparency flaws among some of its staff (MMC Annual Report, 2019). This was evident also in 2017, and 2018, and seemed to have worsened in the COVID-19 era (MMC Annual Report, 2020). These widening instances of financial performance challenges have affected the reputation of the organization. This study contributes empirical data to underpin the importance of ICS in improving financial performance in the Mbale Municipal Council, Uganda. The study aimed to assess the relationship between risk assessment and the financial performance of Mbale Municipal Council, Mbale District.

Methodology

Research Approach

The study utilized a quantitative approach, which assisted in establishing statistical data that can be generalized to explain the effect of ICS on financial performance in the Public Sector. As expressed, a quantitative approach, when properly conducted, gives detailed information from a wide scope of samples involved and can inform a policy or decision (Bryman, 2018).

Research Design

The study used a descriptive cross-sectional design, specifically focusing on correlation analysis of the study data. Utilizing a descriptive and correlation analysis was justified by its ability to support the researcher in ascertaining the relationship between the internal control system and financial performance. A correlation is used to ascertain a relationship between variables (Creswell, 2018). A correlation level of analysis was a basis to ascertain how various constructs of ICS (risk assessment,

control environment, control activities, and monitoring) are related to financial performance's accountability, transparency, and reporting. Primary and secondary data were collected for this study. Correlations are widely used and referred to when establishing relationships between variables.

Population of the study

The study was conducted in the Mbale Municipal Council. Throughout all the divisions, MMC has a total of 250 employees. This number was obtained from municipal records, on the basis of the distribution of employees in the departments (MMC Human Resource departmental report, 2021). The study also involved 50 beneficiaries of the services of the Mbale Municipality Council.

Beneficiaries were selected based on their engagement with any of the three (3) divisions of MMC in the last five years. The number was randomly obtained from the records of the council. In total, the study population was 300, distributed in Table 3.1.

Table 1: Study population

Department	Division			Total
	Central	Southern	Northern	
General Administration	32	20	15	67
Finance & Audit	22	09	05	36
Community Development	07	05	03	15
Support Staff	19	06	04	29
Health	15	30	08	53
Education	25	20	05	50
Beneficiaries	20	14	16	50
Total	140	104	56	300

Source: Mbale Municipal Council, Human Resource, Departmental Report, 2023

All these constituted the target population contacted at the Mbale Municipal Council. The study sought responses from all the Administration and employees of Mbale Municipal Council. Employees at all managerial hierarchies were represented in the study, since financial performance cuts across all departments of the council.

Sample Size and Sample Procedure

Sample Size

The study sample consisted of 169 study units derived based on Krejcie and Morgan's sample table for determining the sample from a given population (Krejcie & Morgan, 1970). The selected sample was distributed among employees at MMC.

Table 2: Sample size and selection

Department	Division				Sampling technique
	Central	Southern	Northern	Sample	
General Administration	16	13	09	38	Simple random sampling
Finance & Audit	08	06	06	20	Cluster and Simple random sampling
Community Development	03	03	03	9	Cluster and Simple random sampling
Support Staff	08	05	03	16	Cluster and Simple random sampling
Health	09	17	04	30	Cluster and Simple random sampling
Education	13	12	03	28	Cluster and Simple random sampling
Beneficiaries	11	08	09	28	Purposive sampling
Total	70	58	24	169	

Source: Researcher, based on Krejcie & Morgan, and MMC Human Resource departmental report, 2023

Sampling techniques

Purposive, cluster and simple random sampling techniques guided the researcher in selecting respondents. In purposive sampling, the researcher included only those participants who met particular criteria (Bryman, 2018). Given that the beneficiaries were many, and could be attained on a convenience basis, purposive sampling was considered appropriate for this category of participants. Beneficiaries were contacted at their premises based on their willingness to be part of the study.

Cluster sampling was utilized to obtain the sample of employees for the study. All employees were clustered in their departments based on the division in which they served. Cluster sampling was ideal to provide an equitable representation of participants from each department. It is preferred when participants can be grouped into clusters each with specific homogeneous characteristics (Creswell, 2018). In each cluster, the participating sample was then selected using a simple random technique

In simple random sampling, the researcher gave a chance to all employees at MMC to participate in the study (Kothari & Garg, 2014). The researcher gave a number to each employee in MMC, which was written on equal cards. These were placed in a box and picked at random until the required sample size was realized. The beneficiaries were purposively contacted on the basis of their convenience and willingness to be part of the study.

Data Collection Source

Primary Data

Primary sources included data, and original facts from the field and were presented in their original form (Amin, 2005). Respondents were given questionnaires and interview guides that they filled out. The researcher aggregated the responses, which constituted the data and later results of the study.

Secondary Data

Publications from secondary sources, like dissertations, publications, journals, and the internet. This was accessed to obtain relevant and supporting literature (Amin, 2005).

Data collection methods

Survey Questionnaire

Questionnaires are one of the most commonly used tools in surveys with a large number of participants. In this study, a structured questionnaire was utilized. A self-administered Questionnaire method was adopted. Questionnaires as a method are ideal for saving time, are cost-effective, and provide room for a high response rate (Creswell, 2018). Questionnaires provided room for

confidentiality and were considered ideal for sensitive areas of study, like ICS and business performance. The respondents had to choose options based on their level of agreement with the questionnaire items.

Data Collection Instruments

This study collected data using a structured questionnaire.

Questionnaires

This study considered a closed-ended questionnaire (Mugenda & Mugenda, 2013). Questionnaires were prepared for employees of MMC and beneficiaries of the services offered by the council (Appendix IV and V, respectively). Questions were designed following a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A self-completion questionnaire was used on members because it is cost-effective in collecting data (Kent, 2007). The questionnaire was employed on workers as well as beneficiaries of various services offered by the departments of Mbale Municipal Council, Mbale District.

Data Quality Control

For every research study, the quality of data is very important. This is through ensuring the validity and reliability of study instruments (Yin, 2014).

Validity

The study tools were pre-tested for face and content validity. For face validity, tools were reviewed by supervisors who made comments on questions in the questionnaire and interview guide. The questions found vague, as suggested by the supervisor, were eliminated or rephrased. To measure content validity, each of the pretest respondents was requested to rate questions in the questionnaire. Questions were rated as relevant (R) or irrelevant (IR) as a way of showing their level of agreement or disagreement with the facts in question.

From the respondents' rating, the Content Validity Index (CVI) was computed using the following formula: CVI . The tools were considered valid if their CVI was 0.7 and above, as recommended (Amin, 2005). However, necessary adjustments were made to improve the validity of the tools on items/questions that were ranked Irrelevant (IR).

Since the CVI was above 0.7, the items used covered the content under study and were relevant to the problem under investigation.

Reliability

Reliability is the extent to which an instrument generates consistent results over time (Creswell, 2018). The researcher pre-tested the instrument on 10 people, the results of which were analyzed in the SPSS Version. 23. From the reliability test, Cronbach's alpha values were attained and considered reliable if their alpha values were 0.7 and above. This has been used by earlier studies as recommended (Mugenda & Mugenda, 2013).

Table 3: Reliability Statistics

Variable List	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Risk assessment	.712	.708	8
Control activities	.692	.700	8
Control environment	.637	.674	7
Monitoring	.805	.809	7
Financial performance	.679	.702	11
Overall	0.705	0.719	41

The overall reliability statistics ($\alpha = .719$), which is above 0.7, suggest that the instrument used in this study was reliable and adequate for generalization.

Measurement of Variables

The internal control system was measured in terms of risk assessment. Financial performance was measured in terms of accountability, financial transparency, and reporting. Participants expressed their opinions by agreeing or disagreeing with some statements on the internal control system and financial performance. The Likert scale, ranging from strongly disagree (1) to strongly agree (5), was used. The study used nominal and Likert scale questions. These were used in questionnaire design and for data analysis based on frequencies, percentages, and Pearson rank correlation coefficient measures.

Data Collection Procedure

The researcher obtained a letter from Team University, which introduced him to the Administrators of Mbale Municipal Council. Mbale Municipal Council, after receiving a formal introduction from the researcher, granted permission for the study. With formal permission, the study tools were administered to employees of the Mbale Municipal Council. The researcher pretested the data collection tools on 10 respondents in Mbale Town for the validity and reliability of the instrument.

Method of Data Analysis

The researcher conducted a data validation for consistency in order to eliminate misleading data that could arise from the misrepresentation of questions.

Analysis of Quantitative Data

Quantitative analysis was descriptive and inferential. Descriptive statistical measures helped the researcher to describe the state of the internal control system and the financial performance of MMC as of the time of the study. Inferential statistics took the form of correlation and multiple regression. Pearson correlation helped to test for the nature and strength of relationships, while multiple regression tested for variation in financial performance attributed to each independent predictor of

the internal control system. Quantitative analysis was aided by the SPSS version. 23.

Ethical Considerations

The study upheld all ethical considerations recommended in research, including seeking participants' informed consent, privacy, anonymity, confidentiality, and avoiding plagiarism.

Seeking participants' informed consent: Before engaging any participant in the study, the researcher first sought their informed consent. The purpose, objectives, and mode of participation in the study were elaborated to potential participants. The participants were also allowed to ask questions for clarification (where needed). They were asked to fill out a consent form (Appendix III), to affirm their acceptance to be part of the study. Only consenting participants were involved in the study.

Privacy

The participants selected were treated with a high level of privacy. No participant was allowed to tick the questionnaire in groups or engage in group interviews. Each participant responded to the study tools separately. Any recording done was used for the study and later deleted from the researcher's database. Privacy of all official documents accessed was also upheld.

Confidentiality

This relates to the extent to which respondents' information is disclosed. The researcher kept the respondents' information with utmost confidentiality. Data was securely protected on CDs and was only available to the University. After the presentation of the final report, all the data CDs were destroyed. In case of publishing the findings, the researcher would seek permission from the concerned parties for authorization.

Anonymity

Keeping researchers' details and personalities anonymous is vital for studies that involve humans with sensitive information (Stevenson & Mahmut, 2013). The researcher upheld all private data, details, and opinions from respondents, anonymously. Information was kept under key and lock and used exclusively for academic

purposes. Specific names of persons and areas that can hardly be ignored in the report were represented by pseudonyms for this purpose. Only information that causally relates to the study objectives was included in the study report.

Results

Demographic Respondents.

Characteristics of

The biodata covered gender, level of education, age brackets, and the years of working with MMC. Table 4 summarizes the bio data.

Table 4: Biodata of respondents

Variable list	Categories	Frequency	Percent
Gender	Male	76	53.9
	Female	65	46.1
	Total	141	100
Level of education	Certificate	20	14.2
	Diploma	48	34
	Degree	47	33.3
	Masters	26	18.4
	Total	141	100
Age bracket (years)	18 – 35	58	41.1
	36 – 60	64	45.4
	Above 60	19	13.5
	Total	141	100
Years at MMC	Less than one year	23	16.3
	1 - 5 years	46	32.6
	6 - 10 years	21	14.9
	10 years and above	51	36.2
Total		141	100

Source: Field data, 2024

The majority of respondents (53.9%) were male, while 46.1% were female. This was possibly causing Mbale Municipal Council to have the majority of male employees, and that several beneficiaries were business proprietors, a large number of whom were men. The study shows that 34.0% of participants had diplomas and were the majority, while only 14.2% had certificates. The statistics suggest that besides diploma holders, degree holders were common in the study. This was possible because diploma and degree qualifications were the minimum/basic qualifications, respectively, for employees at the council. Few participants indicated having a master's, possibly because employees pursued a master's education of will, as it was not a requirement for getting a job. More so, several beneficiaries of MMC's services preferred business activities to education career development, and hence a few could focus on pursuing their education up to a master's education.

Regarding participants' age bracket, 45.4% belonged to the 36 – 60 years age bracket and were the majority, followed by those in the age bracket of 18 – 35 years. The last participation was observed among the older persons, possibly because of the retirement age conditions of all public servants at the age of 60. The

dominance of adults 36 – 60 years age bracket was the most active age bracket in the country where people either seek and work in public entities like MMC or engage in business as it was for beneficiaries. The study further established that 36.2% had stayed in MMC for 10 years and over and were the majority. Those who had stayed at MMC for 6 – 10 years were only 14.9% and were the least in participation. This was possibly because of the fact that as a public entity, the council takes a bureaucratic process in the recruitment of its employees. More so, MMC has a good employee retention policy. Several participants with less than 6 years' scope of work with the council were beneficiaries. Therefore, participants had an extensive period of service and interaction with MMC which gave them a wide experience and exposure to give detailed data needed for this study.

Descriptive analysis

This type of analysis allowed the researcher to summarize the attributes and nature of data on internal control systems and financial performance. The technique revolved around mean (central tendency) and standard deviation (dispersion). The researcher used mean to measure the extent to which participants'

opinions on internal control systems and financial performance clustered. Standard deviation measured the extent to which participants' opinions differed from one participant to the other.

Internal control systems

Internal control was measured in terms of risk management, which was anchored on a five-point

Likert scale. The study, using the descriptive statistical procedure of SPSS runs the mean of the responses for each item on the questionnaire. As a guide to interpreting the mean score, 0 to 2.49 was interpreted as 'weak', 2.50 to 3.49 was interpreted as 'average', and 3.50 to 5.00 was interpreted as 'strong'. Table 5 summarizes the internal control systems.

Table 5: Internal control systems

Variable List; N = 141	Mean	Std.
Risk Management		
1. There are strong risk assessment measures at each financial control desk	4.05	1.00
2. Senior officials assist junior staff in analyzing risks	4.04	0.96
3. The risks are assessed in terms of the achievement of objectives	3.99	0.84
4. We are trained to forecast financial risks	3.94	0.92
5. The risks are assessed based on visible consequences	3.94	0.97
6. Financial controllers communicate likely risks to all staff	3.94	1.10
7. Risks are identified in terms of occurrence likelihood	3.77	0.78
8. Risks that occur are carefully analyzed by all staff	3.48	1.19
Average	3.89	0.97

The findings indicate that Risk management (mean = 3.89; std. = .97) was strong, and control activity (mean = 4.04; std. = .97) was strong. The findings generally suggest that the internal control systems at MMC were strong.

Risk management at MMC is mostly evident in the risk assessment measures that have been placed at each financial control desk (mean = 4.05; std. = 1.00). On the weakest side, the statistics suggest that not all staff carefully analyze risks whenever they occur (mean = 3.48; std. = 1.19). Besides placing risk assessment measures at each financial desk, senior officials assist the junior in analyzing risks. However, going by the standard deviation, risk management is mostly evident in the way financial controllers communicate likely

risks. Effective communication about risks at MMC and related public entities helps the responsible officers quickly identify these risks and address them.

Financial performance

The researcher used a set of statements to indicate financial performance in MMC. The study, using the descriptive statistical procedure of SPSS, calculated the mean of the responses for each item on the questionnaire. As a guide to interpreting the mean score was that, 0 to 2.49 was interpreted as 'poor, 2.50 to 3.49 was interpreted as 'average,' and 3.50 to 5.00 was interpreted as 'good. Table 6 summarizes the financial performance at MMC.

Table 6: Financial performance

Variable List; N = 141	Mean	Std.
1. The Auditors present financial reports to management on time	4.34	0.84
2. Financial reports are prepared on time	4.23	0.76
3. Financial controllers' staff regularly present departmental reports	4.21	0.75
4. MMC always accounts for unused cash at the end of every financial year	4.20	0.85
5. All finances received at this council are well reported to stakeholders	4.19	0.85
6. MMC meets all its short- and long-term financial obligations whenever they are due	4.07	0.78
7. All user departments present detailed financial performance reports	3.99	0.97
8. The local revenue for MMC has increased	3.79	1.09
9. Staff at MMC are transparent in their financial performance activities	3.68	1.02
10. There are reports of financial mismanagement in some divisions of MMC	3.57	1.15
11. There are reports of unauthorized public expenditure at some MMC divisions	3.41	1.21
Average	3.97	0.94

Source: Field data, 2024

The study also established positive and significant relationships between risk management and financial performance ($r = .627$; sig. $< .05$), control activities and

financial performance ($r = .604$; sig. $<.05$), control environment and financial performance ($r = .557$; sig. $<.05$), and monitoring controls and financial performance ($r = .595$; sig. $<.05$). The study shows that variations in all the dimensions of internal control is strongly associated to variations in financial performance. This shows that each of the components of ICS affected financial performance differently, with a dominant influence evident in risk management, and least in the control environment. The four components worked together and were complementary in the realization of the desired financial performance. Government entities like MMC need to be keen on adhering to each of these ICS components holistically. Based on these results, the researcher concludes that local governments that have strong

internal control systems are likely to register strong financial performance. In a real sense, if MMC focuses on enriching its ICS, the potential of realizing positive financial performance scores and meeting set targets, which was not the case at study time is possible.

Regression tests

Regression analysis gives a mathematical relationship between the independent and the dependent variables. This study set internal control systems as the independent variable and financial performance as the dependent variable. The beta coefficients give the proportion of the dependent variable accounted for by each of the predictor variables. Given the current study, risk management, control activities, control environment, and monitoring were used as the predictor variables.

Table 8: Coefficients

Mode l		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		Std.		Beta			
		B	Error				
1	(Constant)	1.234	.237			5.201	.000
	Risk Management	.286	.067	.349		4.296	.000
	Control Activities	.086	.091	.103		.949	.344
	Control	.148	.059	.201		2.506	.013
Environment							
Monitoring		.163	.086	.192		1.896	.060
R = .712; R Square = .507; Adjusted R Square = .492							

a. Dependent Variable: Financial Performance

The overall effect of internal control systems on financial performance was 50.7%, as provided by (R Square = .507). The study shows that local governments in Uganda that have strong internal control systems are likely to register a 50% variation in their financial performance. Organizations like MMC, which uphold set guidelines and requirements of internal controls, are able to improve their performance by half, another fraction being from other factors that influence financial performance.

The specific effects of the predictor variables show that risk management accounts for 34.9% of the variations in financial performance (Beta = .349; sig $<.05$).

By implication, statistics suggest that a variation in risk management by a single unit is likely to result in a 34.9% effect on financial performance. A reflection of activities that are undertaken in finance departments, safeguarding against risks as well as identifying and setting mitigation measures, saves the firm from huge losses. Often, risks tend to occur in operations, and monitoring is done later. Thus, care has to be taken to manage risks; the outcome of the financial records and documentation process is what is monitored by supervisors and auditors. Keen attention to risks that occur before or during the process is indispensable are any effort to attain financial performance targets.

The statistics further revealed that risk management had significant effects on financial performance. In all financial activities, risk management is embedded within in process of financial management, determining the financial flow. A risky financial flow will significantly affect the final financial outcome, whether it is monitored or not. In several cases, financial-related activities are well defined, and each financial controller or auditor is aware of the scope of financial activities beforehand, as a result, control of these activities may not influence overall financial performance, as routine activities. On the other hand, situations in which they are done (control environment), and efforts undertaken to do them well without causing harm to the organization (risk management), can adversely affect the financial performance when not well handled.

Hypothesis tests

The study used the significance value approach to test the hypotheses designed in the introductory chapter of this study. In this approach, the test statistic is compared with the sample statistic to verify the hypothetical claims. In social sciences, the test statistic is normally set at 95% ($\alpha = .05$). If the sample statistic is less than 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted. On the other, if the sample statistic is greater

than 0.05, the null hypothesis is accepted and the alternative hypothesis is rejected.

Table 9: Decision strategy

Criterion Hypothetical Statements		Alpha	Decision
1. Risk assessment has no significant positive effect on the financial performance of the Mbale Municipal Council	0.05	.000	Reject
2. Control activities have no significant positive effect on the financial performance of Mbale Municipal Council	0.05	.344	Accept
3. The control environment has no significant positive effect on the financial performance of the Mbale Municipal Council	0.05	.013	Reject
4. Monitoring has no significant positive effect on the financial performance of the Mbale Municipal Council.	0.05	.060	Accept

Source: Field data, 2024

From the table above, the null hypothesis that risk management significant effect on financial performance was rejected. The study accepted the alternative hypothesis that risk management significantly affects financial performance. Similarly, this study rejected the null hypothesis and accepted the alternative hypothesis that the control environment significantly affects financial performance. On the other hand, the null hypothesis that control activities have no significant effect on financial performance was accepted. Similarly, the study accepted the null hypothesis that monitoring of activities has no significant effect on financial performance. For any 100 employees that took part in the study, over 95% are more likely to assert that monitoring of activities and control environments have not supported MMC in her endeavors to strengthen her financial position.

Discussion

Effect of risk assessment on financial performance

Risk management has a significant effect on financial performance in MMC. By implication, organizations that observe risk management are more likely to perform financially than those that do not. This opinion, also held by Lagat and Okelo (2016) that how a firm handles its risk assessment aspects is vital for financial and performance management. Complementary views from employees of Mbale Municipality also revealed related opinions. Evidence from MMC on risk management points to the presence of a financial control desk, the presence of senior officials who assist junior officials on how to identify and analyze risks, and training staff on how to mitigate financial risks.

In reality, two government entities were likely to conflict in their operations, which would not only the image of MMC but also the government as a whole. This also reflects what was pointed out by Magara (2013) noted that risk assessment is ideal for providing a dependable financial scope, and where the contrary exists, the reputation of the firm stands at stake. Much as the risk was not brought to light by senior officials charged with tax collection, experience from the field brought forward

the likely clash, which was corrected immediately. More so, these findings agree with (COSO, 2013), who reported that risk assessment helps organizations to eliminate harmful operations of the company like shortfalls in liquidity, over- or under-budget forecasts, IT security risk, fraud, and human errors in record-keeping. These risks tend to emerge with the ICS and can only be avoided with strict risk assessment. The findings agree with (Ntongo, 2012; Kinyua et al., 2015; Kipkemboi, Ayuma & Terer, 2016) who revealed that risk assessment shapes the extent to which employees respond to risk, which includes transfer, tolerance, treatment, and termination. Firms that identify risks hardly operate outside the acceptable standards. It's these standards that help financial controllers identify potential areas of risk, and avoid them. More so, these tasks, right from risk identification to risk mitigation, form the basis of quality reporting, which consequently supports the financial performance of the organization.

The study findings show that risk assessment was a key predictor of financial performance, and proper risk assessment was an asset in the pursuit of financial performance. This also depended on several factors, like the official implementation of the practice (risk assessment) and other ICS factors. In light of this, studies like that of Schulze et al. (2013) risk assessment cannot work in isolation, but also with the support of other factors like human resources competence, and other ICS components. Relatedly, some of these risks may not be predictable and hence uncontrollable, such as pandemics (Grondys et al. 2021), and yet others can present direct negative effects on financial performance as noted by Onsongo et al. (2020). Therefore, these studies (Grondys et al. 2021; Onsongo et al., 2020; Schulze et al. 2013) contradict this overall finding that risk assessment positively affects financial performance.

Conclusion

The study was conducted at MMC, and the conclusions are drawn on a response rate of 83%, constituting council administrators, beneficiaries, and staff from all departments of the entity. Internal control systems significantly affect the financial performance of local

governments. The most influential of the internal controls are risk management and control activities. Implicitly, local governments in Uganda that enforce risk management and control activities perform better financially than those that do not enforce them.

Risk management significantly affects the financial performance of local governments. Most importantly, local governments that have established financial control desks, with specific officers to analyze desks are likely to register improvements in their financial performance. However, the fact that not all staff consider risk management seriously, at times, limits the effectiveness of risk management in local governments.

Recommendation

This study has found that control activities do not significantly affect financial performance in local governments. Therefore, this study recommends that administrators and staff in local governments should find out the reason why these do not support financial performance, yet they constitute an indispensable control system. They (control activities) need to be re-engineered if they are to have a profound influence on the financial performance of the organization.

The study observed that risk management is fundamental in the financial performance of public entities, and more than a third of financial performance achievements attained depend on how risk is managed. Therefore, there is a need to emphasize risk management practices at MMC, especially through appropriate risk assessment, forecasts, and analysis by financial controllers.

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Conflict of interest

The author declares no conflict of interest.

Author contributions

Fatinah Lunyolo, was the principal investigator.

Dr. Patience Tugume supervised the research.

Data availability

Data is available upon request.

Informed consent

All participants consented to this study.

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