

MAKERERE UNIVERSITY BUSINESS SCHOOL

**ACCOUNTING INFORMATION SYSTEM, FINANCIAL
DECENTRALIZATION AND QUALITY OF FINANCIAL REPORTING
IN KAMPALA CITY COUNCIL**

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STATEMENT OF DECLARATION

I, Bamwira John Richard the researcher hereby declare that, the material contained in this book is being presented for the first time for such academic qualifications award.

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DEDICATION

This work is dedicated to my wife Dr. Jamira Wambuzi and all other members of my family who supported me morally and materially.

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TABLE OF CONTENTS

ITEM	PAGE
Statement of Declaration.....	ii
Approval.....	iii
Dedication.....	iv
Acknowledgement.....	v
List of Tables.....	ix
List of Figures.....	x
Acronyms.....	xi
Abstract.....	xiii
Chapter One Introduction.....	1
1.1 Background to the study.....	1
1.2 Statement of the Problem.....	3
1.3 Purpose of the Study.....	4
1.4 Objectives of the Study.....	4
1.5 Research questions.....	5
1.6 Scope of the Study.....	5
1.7 Significance of the Study.....	6
1.8 Conceptual framework.....	6
1.9 Structure of Local Government.....	8
Chapter Two Literature Review.....	9
2.1 Introduction.....	9
2.2 General Concepts of Decentralization	9
2.2.1 Deconcentration.....	10
2.2.2 Devolution.....	11
2.2.3 Delegation.....	11
2.2.4 Privatization.....	11
2.3 Financial Decentralization.....	12
2.3.1 Planning and Budgeting.....	13
2.3.2 Decision making.....	13
2.3.3 Accounting Information System.....	14
2.3.4 Financial Regulatory framework.....	15

2.4	Accounting Information system.....	16
2.5	Quality of financial reporting.....	17
2.6	Principles of Good financial reports.....	18
2.6.1	Relevance.....	18
2.6.2	Reliability.....	18
2.6.3	Comparability.....	19
2.6.4	Timeliness.....	19
2.7	Need for good quality financial reports.....	20
2.8	Relationship between financial decentralization and quality of financial reporting.....	20
2.9	Conclusion.....	21
	Chapter Three Methodology.....	22
3.1	Introduction.....	22
3.2	Research Design.....	22
3.3	Study population.....	22
3.4	Sample size and Selection.....	22
3.5	Data Collection Methods.....	24
3.6	Data Sources.....	24
3.7	Validity and Reliability.....	24
3.8	Measurement of variable.....	25
3.9	Data processing and Analysis.....	26
3.10	Limitations of the study.....	26
	Chapter Four Presentation, Analysis and Interpretation of the Findings.....	28
4.1	Introduction.....	28
4.2	Characteristics of the unit of inquiry.....	29
4.2.1	Response Rate.....	29
4.2.2	Respondent's work place.....	30
4.2.3	Designation of Respondents.....	31
4.2.4	Category of Respondents.....	31
4.2.5	Gender of Respondents.....	32
4.2.6	Years in Service of Respondents.....	33
4.3	Factor analysis of financial decentralization.....	34
4.3.1	Effect of decentralized financial decision making.....	36
4.3.2	Effect of decentralized Budgeting and Planning.....	36

4.3.3	Effect of accounting Information system.....	37
4.4	Correlation between components of independent and dependent variable.....	37
4.4.1	Relationship of decentralized decision making and quality of financial reporting.....	38
4.4.2	Relationship of decentralized Planning/ Budgeting and quality of financial reporting....	39
4.4.3	Relationship of accounting information system and quality of financial reporting.....	39
4.4.4	Relationship between financial decentralization and quality of financial reporting.....	39
4.5	Prediction of dependent variable by components of independent variable.....	40
4.5.1	Prediction of quality of financial reporting by financial decentralization.....	41
4.5.2	Prediction of quality of financial reporting by accounting information system.....	41
	Chapter Five Discussion, Conclusion and Recommendations.....	42
5.1	Introduction.....	42
5.2	Discussion of the findings.....	42
5.2.1	Effect of decentralized decision making to quality of financial reporting.....	42
5.2.2	Effect of decentralized budgeting and planning to quality of financial reporting.....	43
5.2.3	Effect of accounting information system to quality of financial reporting.....	43
5.2.4	Relationship between components of independent and dependent variable.....	44
5.2.4.1	Relationship of Planning/Budgeting and Quality of financial reporting.....	44
5.2.4.2	Decentralized decision making and Quality of financial reporting.....	45
5.2.4.3	Relationship of accounting information system and Quality of financial reporting.....	46
5.2.4.4	Relationship between financial decentralization and Quality of financial reporting.....	47
5.3	Conclusion.....	49
5.4	Recommendations.....	51
5.5	Areas of further research.....	53
	Reference.....	54
	Appendix.1 Questionnaire.....	60
	Appendix.2 Interview guide	67
	Appendix.3 Appointment letter for field research assistant.....	70
	Appendix.4 Introduction letter by Town clerk.....	71

LIST OF TABLES

Table	Page
Table.1 Sample size.....	23
Table.2 Reliability of questionnaire.....	25
Table.3 Respondent's work place.....	30
Table.4 Respondent's designation.....	31
Table.5 Respondent category.....	32
Table.6 Gender of respondents.....	32
Table.7 Years in service of respondents.....	33
Table.8 Factor analysis.....	35
Table.9 Pearson correlation coefficient model.....	38
Table.10 Hierarchical Regression model.....	40

LIST OF FIGURES

Figure	Page
Figure.1 Conceptual frame work.....	7
Figure.2 Response rate.....	29

ACRONYMS

AAA	American Accounting Association
AIS	Accounting information System
CG	Central Government
DV	Dependent Variable
FDS	Fiscal Decentralization Strategy
FRF	Financial regulatory framework
GAAP	Generally Accepted Accounting Principles
GoU	Government of Uganda
HLG	Higher Level of Government
IAS	International Accounting Standards
ICCAA	Institute of Certified Public Accountants
IGR	Inter Government Relations
IPSA	Institute of Public Sector Accounting
IT	Information Technology
IV	Independent Variable
KCC	Kampala City Council
LCS	Local Councils
LDC	Less developed countries
LDT	Liberal democracy
LGA	Local Government Act (1997)
LGFAR	Local Government Financial Accounting Regulation (1998)

LGs	Local Government
LLG	Lower Local Government
MoLG	Ministry of local Government
MMS	Master Degree in Management Studies
MSC	Master of science
MUK	Makerere University of Kampala
NGOs	Non Government Organizations
PAC	Public Accounts Committee
PFA	Public Finance Act
PFAA	Public Finance Accountability Act
UAA	Urban Authorities Act
UAS	Urban Authorities

Abstract

The study examined the effect and relationship between Accounting information system, financial decentralization and quality of financial reporting in Kampala city council. The AIS and financial decentralization were the independent variables while quality of financial reporting was the dependent variable. The study adopted a triangulation design consisting of a correlation design which was quantitative in approach and cross sectional in nature. The study population consisted of two hundred ninety members from whom a sample of two hundred five elements was drawn using Krejcie and Morgan method. A combination of census, proportionate stratified random sampling and simple random sampling techniques were employed in selecting members from different strata into the study sample. Two data collection methods namely structured questionnaire consisting of closed questions with five point likert scale and interview guide were used in collecting primary data. Out of two hundred five questionnaires administered, one hundred ninety registered returned posing a response rate of ninety seven percent. The collected data was presented using frequency tables and charts which were analyzed by Factor analysis, Pearson correlation coefficient and Regression model using SPSS.

A significant positive relationship was established between independent and dependent variable and forty five percent of the changes in quality of financial reporting in KCC are explained by the accounting information system and financial decentralization. The study also discovered that decision making, budgeting and planning constitutes fifty five percent of financial decentralization. However, decision making alone contributed forty one percent compared to fourteen and ten percent for budgeting and accounting information system respectively.

CHAPTER ONE

INTRODUCTION

1.1 Background

Globally, interests in Financial decentralization is wide spread and long standing. The rapid expansion and uncontrolled growth of cities and urban authorities have created previously unimaginable problems in the quality of financial reporting to the varsity stakeholders with differing interests and background a crucial issue in public sector financial management (Rondinelli, 1983). Many countries and local governments (LGs) World over, have been finding difficulty in providing solutions to the problem of poor quality of financial reporting right from the era of

Monk Lucas Pacioli of double entry system (1494) to the present period of massive production and consumption. According to Turner Lynn (2005), the concept of stewardship where the corporation owners are not necessarily the managers of the business widened the problem of financial reporting and therefore increased the need to have relevant, reliable and timely financial information for decision making. The managers therefore had to create accounting information system (AIS) to effectively report to the owners (Fritzen, 2000). It was noted by Lorz and Willman (2004), that financial decentralization was believed to be one of the best solutions to the worrying problem of poor quality of financial reporting in local governments.

According to Twena (2006), financial decentralization involve granting local governments (LGs) and Urban Authorities (UAs) financial discretionary powers to formulate, approve and implement their own budget and other financial plans in respect to their priorities while not sacrificing the national standards.

Under this system, LGs and UAs have independent powers to make financial decisions, utilize and account for funds through production in its own right financial reports, statements and final accounts to Auditor General Section 86 and 87 of LGA CAP 243. Prior to (1993), LGs and UAs in Uganda were governed under LGA (1967) and Urban Authorities Act UAA (1964). During this period, financial planning, decision making and accounting functions of these institutions were centrally controlled by the Minister responsible for local government and urban authorities (Assimwe, 2007). This significantly affected their ability of independent decision making, budgeting, planning and reporting.

The financial decentralization system which was introduced in Uganda (1993) as enshrined in the Uganda Constitution of (1995) and later operationalized by the LGA Cap 243, KCC was given autonomous status over its financial and planning matters. It formulates, approves and executes its own budgets provided it balances (section 77 of LGA CAP243); Monitors and evaluates its financial performance; separately accounts for the utilized funds; prepares and submits in its own names the final accounts and reports to the Auditor General. It was noted that financial decentralization conferred financial independence to each LG; but according to Parliamentary Accounts Committee LG report (2006), the trend of financial reporting in KCC is still a big challenge. It was observed that even after the introduction of integrated financial management system (IFMS) KCC continued operating under serious influence of the MoLG. The accounting information system including the format, contents and nature of the financial reports produced in KCC are still being determined by the MoLG (Geeri, 2001). It is widely believed that the non involvement in making vital financial decisions aggravated the problem of poor quality of financial reporting in KCC.

According to Kampala District PAC (2007), KCC continued operating without preparing and submitting budget monitoring reports, monthly, quarterly, half and annual financial reports to neither its councilors nor producing and submitting the final accounts to Auditor General on time as required by LGFAR (2007). The application of different accounting bases and policies over years rendered comparability and standardization of financial reporting in KCC quite cumbersome. It also caused financial performance evaluation difficult which significantly eroded the usefulness and quality of the financial reports in KCC (Auditor General, 2005). The study was based on the liberal democracy theory and local fiscal choice model (Musgrave and Musgrave, 1989). Both the theory and the model advocated for the creation and transfer of administrative, financial and political powers and responsibility from the centre to autonomous LGs and urban authority in respect to activities of planning, budgeting, decision making and financial reporting. It was argued that accountability; equality in service delivery, prompt responsiveness to community's concerns by government could be best achieved through transfer of such mandates to the local governments where such services are required (Chubb, 2005).

1.2 Statement of the Problem

Over years, Government of Uganda (GoU) instituted several measures besides financial decentralization and developing new accounting information system(IFMS) to address the problem of poor quality of financial reporting in Local Governments, Urban Authorities and KCC in particular which has yielded no significant results (Assimwe and Nakanyike, 2007).

Whereas the Local Government Act CAP 243 section 79 gave KCC discretionary and autonomous financial powers to formulate, approve, implement, monitor, evaluate and report on the financial performance to its stakeholders.

It was observed by Auditor General (2006), that out of the 114 statutory financial reports to be produced in a year, only 51% are produced of which 75% are always submitted to the stakeholders late. Also, according to Chief internal auditor (2007), the reports produced by KCC usually do not conform to the guidelines in the LGFAR (2007), Budget Act (2001), Public Finance and Accountability Act (2003) making financial evaluation and comparability very difficult. This plight has also been persistently reported by National assessment team from MoLG on Local Government Development Program (LGDP) on KCC for 2005, 2006, 2007 and 2008. However, there is no clear explanation why this is so and yet little effort has been done to address it. This study intends to explore this knowledge gap.

1.3 Purpose of the Study

The study sought to establish the effect and relationship between accounting information system, financial decentralization and the quality of financial reporting in Kampala City Council.

1.4 Objectives of the Study

- (i) To establish the relationship between financial decentralization and quality of financial reporting in KCC.
- (ii) To establish the relationship between accounting information system and quality of financial reporting in KCC.
- (iii) To establish the effect of decentralized budgeting and planning on the quality of financial reporting in KCC.
- (iv) To establish the effect of decentralized decision making on the quality of financial reporting in KCC.
- (v) To establish the effect of accounting Information system to the quality of financial reporting in Kampala City Council.

1.5 Research Questions

- (i) What is the relationship between financial decentralization and quality of financial reporting in KCC?
- (ii) What is the relationship between accounting information system and quality of financial reporting in KCC?
- (iii) To what extent does decentralized budgeting and planning affect the quality of financial reporting in KCC?
- (iv) To what extent does decentralized decision making affect the quality of financial reporting in KCC?
- (v) To what extent does accounting information system affect the quality of financial reporting in KCC?

1.6 Scope of the study

- **Subject Scope**

The study focused on the effect and relationship between accounting information system, financial decentralization and quality of financial reporting in Kampala City Council.

- **Geographical Scope**

The study concentrated on Kampala district headquarters, the five city divisions namely Central, Nakawa, Makindye, Lubaga and Kawempe and the inspectorate unit.

1.7 Significance of the Study

- (i) The study will generate specific information that would help in understanding and explaining the effect and relationship between accounting information system, financial decentralization and the quality of financial reporting in LGs and KCC in particular.
- (ii) The findings of the study will also assist in evaluating the effect of AIS, financial decentralization on quality of financial reporting in order to come up with corrective interventions required in improving on the quality of financial reporting in LGs and KCC in particular.
- (iii) The study findings and recommendations will contribute to the body of knowledge specifically in the areas of financial decentralization and AIS in KCC.

1.8 Conceptual Framework

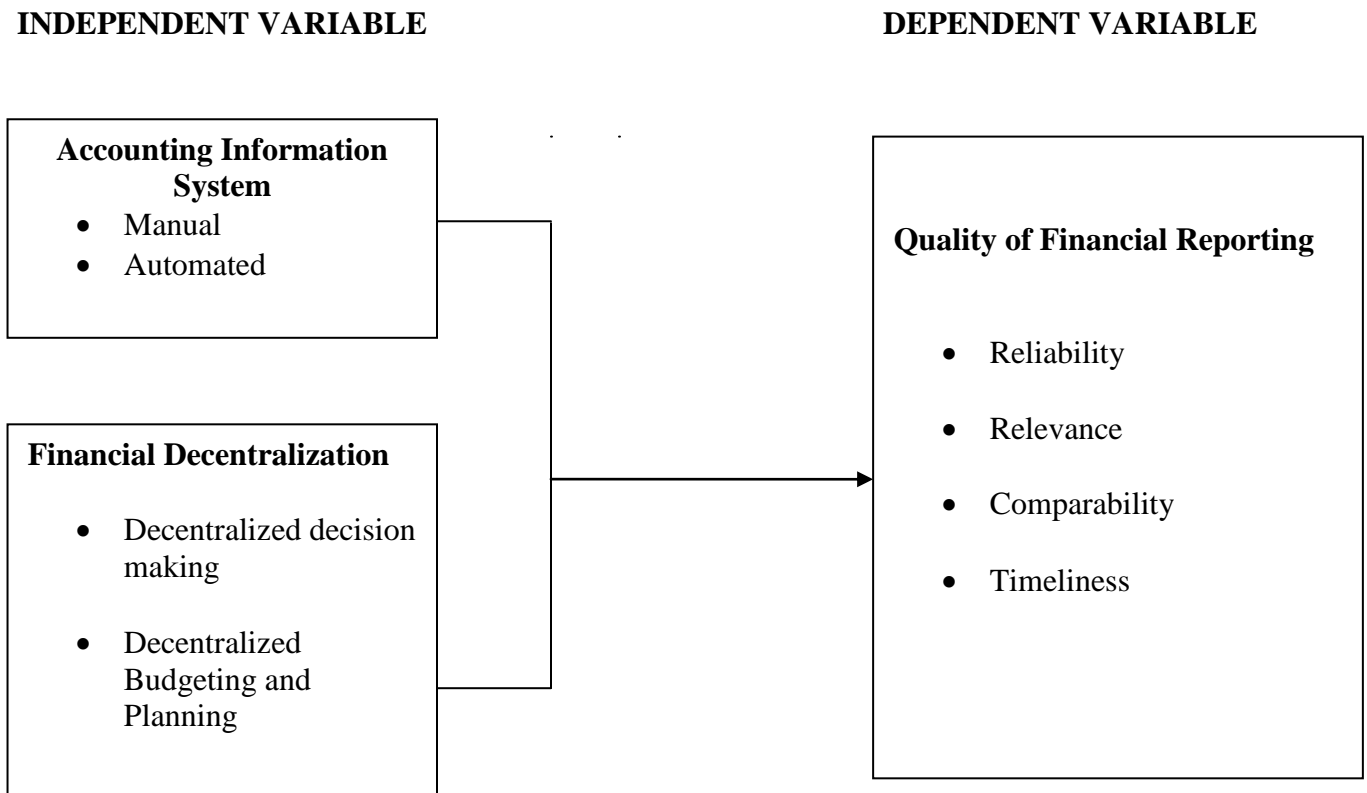
The conceptual framework as expounded by (Kerlinger, 1979) drew upon the work of (Rondinelli and Cheema, 1983) and that of (Dele Owolu, 1993) with modification to suit financial decentralization in KCC context. It depicts the relationship between the independent and dependent variables of the study.

The independent variable comprised of two components namely financial decentralization and accounting information system while quality of financial reporting was the dependent variable. The dimension of the dependent variable was formulated based on the ideas of (Gluatier, 1995) that identified reliability, relevance, comparability and timeliness as the major characteristics of good quality of financial report.

The financial decentralization was conceptualized into decision making, budgeting and planning using the work and ideas of (Rodinelli, 1983) and that of (Dele Owolu, 1993) who indentified the two as the major components of financial decentralization. Accounting information system the second independent variable was categorized as manual or automated accounting information systems (Lucey, 2005) and a many to one method was adopted.

However, (Conyers, 1990) indentified transparent and good governance as the other factors; though these were not considered in the study.

Figure. 1 THE CONCEPTUAL FRAME WORK



Source: (Adopted from Dele Owolù, 1993 and Gluatier, 1995)

1.9 Structure of Local Government

The structures of LGs and urban authorities in Uganda prior to 1993 were regulated by the local Government Act (1967) and Urban Authority Act (1964) respectively. In that period, the authority and functions of these institutions were centralized to the MoLG, creating a tall pyramid of organization structure. In the same period, the financial planning, decision making and accounting functions were centrally controlled by the Minister responsible for LGs. The current system and structure of LGs and urban authorities in Uganda are regulated by LGA (1997) CAP 243 section 3. The Act flattened the structure because of decentralization system of governance and the structure of a LG is based on the district as a unit of higher local government (HLG) with lower local governments namely the city and municipal divisions, sub county councils and town councils.

According to section 4(a)(b) LGA CAP 243, KCC is equivalent to a district and consists of five independent city divisions which are equivalent to municipalities namely, Central, Lubaga, Kawempe, Makindye and Nakawa divisions. Each has an independent executive committee and five standing committees namely, Finance and administration, Gender and community service, Education, Health and Environment and Works committees respectively. According to section 6 of LGA CAP 243, KCC and the five city divisions are a body corporate with perpetual succession and a common seal; it may sue or be sued under its corporate name. Under section 86 and 68 of the Act and LGFAR (2007) respectively, KCC and each city division is required to keep, maintain and produce in its name statutory financial reports to its stake holders and Auditor General.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Both the theoretical and conceptual literature relevant to the objectives and the raised research questions under the study was reviewed. It analyzed the financial decentralization, accounting information system and quality of financial reporting which were the main variables to the study. The reviewed literature focused also on the relationship of the dimensions of the independent variables in the study namely decision making, budgeting and planning, and accounting information system which were considered key factors in influencing quality of financial reporting in LGs and KCC in particular.

2.2 General Concepts of Decentralization

World over, decentralization is increasingly becoming one of the key development strategies in public financial management in the quest to deliver goods and services efficiently and effectively to the citizenry. However, controversy has persistently arisen among scholars and practitioners as to what it means, whether it is a process or a condition. It is believed that decentralization embraces a variety of concepts and therefore covers a multitude of process and meaning. The consensus regarding its meaning is still a challenge especially among some scholars; it can be defined both in territorial and functional. According to Rondinelli (1981:137), territorial decentralization is the transfer of responsibility for planning, financial management and the raising of and allocation of resources from the central government and its agencies to field units of central government, or agencies, subordinate units or level of government, semi- autonomous public authorities or corporations, area wide regional or functional authorities.

However, (Rhodes, 1992:316) looked at functional decentralization as the transfer of authority from the central to peripheral organization at the same level. The gist of functional decentralization is that it should redistribute real division of power (Premdas and Steeyes, 1984: 246).

According to Conyers (1990:5), decentralization is the transfer of financial, legal, administrative and political powers and authorities to plan, make decisions and management of public functions from the central Government to autonomous local governments. The decentralization reforms consist of three components namely political, administrative and financial (Villadsen, 1996). This study focused on financial decentralization. According to Cheema (1996) three forms of decentralization were indentified namely; deconcentration (Hyden, 1983), devolution (Smith, 1985) and delegation (Rondinelli and Cheema, 1983). However, (Manor, 1996) commented that though privatization was widely used, it was not considered as a form of decentralization.

2.2.1 Deconcentration

It is the weakest form of decentralization and mostly common with unitary system of government. According to Rondinell (1983), deconcentration involve handing over some of the administrative authority or responsibility to lower levels but with in the central government ministries and agencies. (Hyden, 1983) described it as the redistribution of administrative responsibilities with in the central government by giving some discretion to its field staff to plan the implementation or adjust central directive to suite local condition but within the guidelines set by central ministry. According to empirical evidence, this type does not exist in KCC.

2.2.2 Devolution

In its practical and participatory sense, (Berkan and Chege, 1989) described devolution as a form of governance that provides for meaningful participation by the local people in the decision making. According to Smith (1985), is the exercising of political power/authority by law, primarily elected institutions with in an area defined by community characteristics through the legal conferment of power upon formerly constituted local authorities to discharge specified functions.

2.2.3 Delegation

According to Rondinelli and Cheema (1983), it involves entrusting decision making and management of authority for specific functions to organizations that are not under the direct control of central government ministries. Under this arrangement, agents are public corporations who have broad discretion in executing delegated responsibilities. It does not cover transfer of functions to private sector or NGOs (Cheema, 1983). This type of decentralization does not exist in KCC.

2.2.4 Privatization

Controversies in classifying this form of decentralization still exist; several researchers have identified it as a form of decentralization while others still insist not being a form of decentralization. According to Rhodes (1992), privatization is neither a form of delegation nor a form of decentralization as its agencies are not part of the government's territorial hierarchy. Basically, it involves transfer of specific responsibility to a private organization in executing the delegated responsibility. It is further argued that privatization is basically for efficiency of certain function (Rondinelli, 1981).

This system however, is very popular in KCC especially in local revenue management through contracting out its collection. Sources of revenue under privatization in KCC include; markets, trading license, car parks, street parking, public conveniences and outdoor advertising. According to the existing literature, privatization contributed negatively on quality of financial reporting in KCC.

2.3 Financial Decentralization

It is a devolution type of decentralization that transfers decision making powers relating to financial planning, maintenance of books of accounts, utilization and accounting for the resources to a local government which is fully independent of the centre (Manor, 1995). The concept derives its meaning and application from decentralization policy which was adopted to fill the gaps created under centralized system of government (Okuonzi, 2002).

According to Twena (2006), financial decentralization involves granting financial discretionary powers to levy taxes, raise local revenue, make and approve their own budget, maintain books of accounts, utilize their resources according to their own priorities as guided by local conditions and needs of residents. It emphasizes observance of certain mandatory expenditure requirements to attain national standards in a timely and efficient manner. However, (UN-Habitat, 2008) observed that several areas of conflict in the policy still exist between cross cutting issues relating to financial planning, budgeting and decision making but the underlying literature does not show the magnitude to which it affects the quality of financial reporting and how such conflicts are to be addressed.

2.3.1 Planning and Budgeting

Planning supersedes controlling. It is a process of setting and selecting of goals and determining how to achieve them (Balunywa, 2000). According to Fayol and Stoner (1925), planning involves scanning environment for any opportunities. Gantt established a positive relationship between planning and correct resource utilization which is considered as one of the objectives of financial management. Planning and budgeting is decentralized in LGs and it is carried out concurrently.

Financial decentralization created autonomy in formulation, approval and implementation of its financial plans. The communities were given opportunities for more direct involvement in controlling public revenue and expenditure through service user committees and boards. The planning and budgeting process in LGs commences with a budget conference in which all wishes of stake holders are captured (Rusimbi, 2008). It was pointed out in the existing literature that the format and contents of LG budgets were determined at the centre; although the fiscal decentralization strategy FDS gives the LGs flexibility in the budgeting of the condition grants.

2.3.2 Decision Making

It involves selection of course of action to deal with a specific problem. It is basically making of the best choice (Balunywa, 2003). According to (Reilly and Brown, 2000), decision making is about committing organization's resources in the process of achieving an identified goal, it can either be programmed or non programmed. According to (Campbell, 1998), decision making is effective when decentralized and guided by the mission, objectives, size, nature and management style of the organization. The reviewed literature points out that financial decentralization was introduced in Uganda in order to improve efficiency in decision making, information flow, timely response, transparency and accountability in LGs.

However, the existing literature does not explain the nature of decisions devolved to district, city divisions and how to resolve any conflicting decisions where they arise. Most of the decisions regarding financial issues in KCC are decentralized although repetitive incidences of dictation by MoLG could not be avoided (Lubanga, 2001). According to Kinalwa (2001), vital decision regarding format, contents and methods of financial reports of LGs were determined at the centre to the expense of financial autonomy conferred to LGs under Article 197 of the constitution.

2.3.3 Accountability and Transparency

Though there is a demarcation between accountability and transparency, the words are often used synonymously. According to Dye, (1997) accountability is an obligation to demonstrate and take responsibility for performance in light of the agreed expectation. Kauza, (2006) asserts that accountability is the process of reporting on how the entrusted resources have been utilized in pursuance of identified objectives. Camdessus (2001) contends that transparency is where stake holders are informed about their obligation and responsibilities they have to fulfill. Mean while, Muphy *et al* (2004) established a strong positive relationship between accountability and transparency and argued that both positively influence quality of reporting in an organization. According to the local fiscal choice model (2005), accountability by local leaders to the local population was considered more influential compared to one made at central level of Government. It was further pointed out by (Bergman, 2008) that accountability becomes more meaningful and transparent if it is done by the members of the community to the community where expenditure was incurred and services received while central Government retains supervisory role. In the context of Uganda, accountability in public sector is decentralized and each LG independently accounts for their affairs in form of financial reports to its stakeholders.

However, according to Parliamentary committee on Local Government report (2002), accountability in KCC remained a big problem with a lot of funds un accounted for.

The existing literature indicates that there was a positive relationship between effective accountability and quality of financial reporting in an organization.

2.3.4 Financial Regulatory Framework

The financial reporting requirement in public sector is wide and challenging (Nsibambi, 1993). According to Tosten (1996), the accounting functions in public sector are difficult to identify, recognize and appreciate but its effectiveness will heavily depend on the soundness of the financial regulatory framework in place.

Organizations and governments perform series of activities in an environment that has to be regulated. Different regulations have been instituted depending on the social, economic and political systems and conditions of each government. In Uganda context, the content, format, nature and frequency of the financial reporting in LGs and KCC in particular are regulated by Uganda Constitution (1995), Local Government Act Cap 243, Budget Act (2001), LGFAR (2007), Public Finance and Accounting Regulation (2003) and International accounting standard (IAS). Empirical evidence has indicated that a relationship exist between quality of financial reporting and regulatory framework in place. However, the literature did not clarify which of these regulations was more effective and why?

2.4 Accounting Information System

World over, organizations depend on information systems in order to stay competitive (Hopwood, 1992). According to Lucey (1995), information is a resource that must be well managed. A system is a collection of related resources that strive to meet the objectives of the organization. (Bodnar and Hopwood, 1996) assert that accounting information system (AIS) is a collection of people, equipments that are designed to transform financial and other data into information that has to be communicated to a variety of users for decision making.

Recent research observed that information is a resource that has to be well managed through a developed system. Institute of Certified Public Accountant (ICPA), claim that vital decisions are attained if the organization has installed an accounting information system (AIS) that would stand competitive challenges. According to Lucey, (2006), companies would benefit from the era of globalization if its information system is developed and secure. In his un published research (Williams, 2007), pointed out that the characteristic of a developed and well managed organization is the level of decentralization of its information system.

The accounting information system used by LGs in Uganda and KCC in particular is the Integrated Financial Management System (IFMS) which is oracle based but highly centralized and standardized irrespective of the human capacity, environment and resource. According to the queries of Auditor General (2004), PAC Local Government (2006), final accounts of KCC differed significantly with what the integrated financial management system (IFMS) in LGs produced. Notwithstanding the responsibility of accounting services in public sector being difficult to identify, recognize and appreciate (Tosten,1993), according to Sharma (2006), the financial reporting requirement in public sector is wide and challenging.

Different organizations and governments under take series of activities in environments which require to be regulated. Each state has its own legal system which varies depending on the social economic and political systems and conditions. In Uganda, LGs including KCC have their financial operations regulated by LGA (1997), LGFAR (1998), Budget Act (2003), IAS, GAAP, Public Finance and Accounting Regulation Act (2003) besides many other ordinances and by laws. Empirical evidence has showed that quality information of an organization is dependent on the existing regulatory frame work as it regulates the nature and design of its information system and its users. However, the existing literature did not rank which of the regulations significantly and effectively contribute most to the quality of financial information in LGs in Uganda and KCC in particular.

2.5 Quality of Financial Reporting

The meaning and measurement of quality is subjective. Quality was defined as high degree of goodness. According to Reers and Benor (1994), quality is excellent value and conformance to specification. The concept of strategic management viewed quality as a resource strategically used in a competitive world. In their published Journals (2003) Challenges of Financial reporting Vol.25 No.4, the Institute of certified chartered accounts of England and Wales (ACCA), Institute of Certified Public Accountant (ICPA) of Canada indentified and described four qualitative characteristics that made financial reports of good quality namely relevance, reliability, comparability and understandability. In one of his publications, (Turner, 2000) identified timelessness, completeness, objectivity and materiality as other qualities. However, the existing literature did not rank these qualities. In KCC, quality of financial reporting remained a myth because according to the National assessment reports (2000-2005) on the compliance with the financial reporting and accountability guidelines, KCC persistently has been receiving penalties. This meant that the quality of financial reporting in KCC is still a big challenge.

2.6 Principles of Good Quality of Financial Reports

The usefulness of financial reports depends on its quality. According to Smith (1996) there are four qualitative characteristics that make financial statements of good quality namely relevance, reliability, comparability and timeliness.

2.6.1 Relevancy

It was observed that information was relevant if it assisted the recipient to make correct predictive and confirmatory decisions (Lewis and Pedril, 1994). According to (Lucey, 2001) to be useful information must be relevant to the decision making needs of its users. The Investment portfolio management argued that information has the quality of relevance when it influences the economic decisions of the users by helping them evaluate past, present and the future events.

It was observed by different researchers that to make information relevant was quite challenging as users' needs were dynamic and varsity in nature. However, the existing literature did not clearly demarcate between relevance, completeness and reliability although it portrayed a relationship between relevance and quality of financial reporting. The study sought to establish the direction and degree of relationship between relevance and quality of financial reporting.

2.6.2 Reliability

Studies conducted on information management, (Lewis, 1994) and (Pizzey, 1993), assert that information was reliable if it was comprehensive, dependable, representable, faithful and verifiable. It was observed by (Brown, 2001), that information had the quality of reliability when it was free from material error and bias. According to Turner (2000), it was argued that information could be relevant but remained unreliable. The existing literature failed to rank the two relevance and reliability which was more influential in contributing to quality of financial reporting. However, the American Accounting Association (AAA) emphasized that to be useful, information had to be reliable. Empirical evidence showed that reliability was a function of relevance and completeness.

2.6.3 Comparability

The ultimate use, relevance and reliability behind the frame work and presentation of financial reports of an organization was to facilitate the users to identify trends that would guide planning and decision making. According to World Bank monitoring report (2003) on fiscal decentralization strategy, decisions over financial position and performance are hampered if the financial reports could not be compared over time and between organizations. The existing literature commented that comparability should not be confused with mere uniformity nor used as impediment to the introduction of improved accounting standards. Burchell *et al* (1980) contend that it was inappropriate for an organization to maintain its accounting policies unchanged for purposes of comparability even if more relevant and reliable alternatives exist. However, Colin Drury (2000) observed that, compliance with international accounting standards (IAS) requires disclosure of the accounting policies used by the enterprise before comparability is achieved.

2.6.4 Timeliness

Management needs to balance the relative merits of timely reporting and the provision of reliable information. Empirical evidence asserts that undue delay in the reporting of information may lose its relevance. (Lucey *et al*, 2000) contends that to provide information on a timely basis, it was necessary to report before all aspects of a transaction and other events were known. Conclusively, it was argued that timeliness overrides reliability in financial reporting.

Recent research findings on financial reporting in public and private organizations observed that in the era of globalization and information technology (IT), timeliness prevail over reliability. It was further argued that once reporting is delayed until all aspects were known, the information would be highly reliable but of little use to users for interim decisions.

The existing literature did not establish the bottom line for achieving a balance between relevance, reliability and timeliness of financial information to users for making economic decisions.

Conversely, the tradeoff between benefit, cost, relevance, reliability, comparability and timeliness of financial information is still a paradox.

2.7 Need for Good Quality Financial Reports

All financial decisions including investment are based on good quality financial information. Financial information is considered of good quality if it satisfies the user's needs and meets the qualitative characteristics of good financial statements. According to (Turner, 2000), fatal financial decisions could be made if financial reports are inappropriate. The development and the need for globalization widened the need for high quality financial information.

Public financial management studies established that an accounting system is reliable if it can generate relevant, accurate and timely information to help management properly plan and manage its finances. The agency theory contends that stake holders will have trust in its management if the financial statements and reports produced are reliable.

2.8 Relationship between AIS, financial decentralization and quality of financial reporting

The usefulness of financial reporting in an organization is its ability to facilitate the making of informed decisions at the right time and cost (Terry, 2005). Management by objective (MBO) argued that financial reporting is relevant if it can reflect on all the activities of the organization and can not be achieved unless the reporting system has been decentralized.

According to organization theory, making decisions closer to the point where services and action take place requires dispersing the reporting functions and therefore decentralizing the entire system of reporting. The system theory contends that the more a financial reporting system is decentralized the better the quality and hence a positive relationship.

2.9 Conclusion

The literature confirmed existence of a relationship between decentralized budgeting, planning, decision making, accounting information system and quality of financial reporting but did not describe the nature and strength of the relationship. The literature also showed that the quality of financial information of an organization is dependent on the accounting information system as it standardizes the nature and form of information and its users. However, the existing literature did not rank which of the variables significantly affect the quality of financial information in LGs in Uganda and KCC in particular. The study strives to provide an explanation to the existing knowledge gap in the literature in relation to the topic.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the research design, population of the study, sample size and selection criteria, data sources, data collection methods and procedure, data collection instruments, reliability and variability of the instrument, measurement of variables as well as data processing and analysis.

3.2 Research Design

The study employed a correlation research design which was quantitative in nature and cross sectional in approach. A correlation design was used in establishing the relationship and strength of association between the independent and dependent variables while cross sectional design was adopted due to time and resource constraints.

3.3 Study Population

The population comprised of 290 KCC employees and councilors obtained from personnel records at the district and councilors' sworn register (2006); of which 210 were employees, 70 politicians while 10 were inspectorate of local government in KCC. This was the population directly affected by the problem under investigation from which the required sample used in the investigations was drawn.

3.4 Sample size and selection criterion

- **Sample size**

The sample size used in the study comprised of 205 members selected from the population of 290 using Krejcie and Morgan (1970) method.

The researcher first divided the target population into three non over lapping strata namely finance staff, councilor and Inspectorate of local government based on roles before determining the sample size in each stratum using Krejcie and Morgan tables as illustrated in table 1.

Table1: The Required Sample Size

Strata	Population	Sample size
Finance staff	210	136
Councilors	70	59
Inspectorate of LG	10	10
TOTAL	290	205

Source: Primary data

- **Sampling technique**

Three methods were employed in selecting the required 205 members to the study sample namely; census, simple random sampling and Proportionate stratified random sampling techniques. The combination of techniques was considered suitable in selecting a sample from a heterogeneous population that is large enough, representative and gives each element equal chance of being selected in the sample. The census was used in selecting the 10 members from the inspectorate of LG stratum while a random sampling technique was employed in selecting the 59 out of 70 members from the stratum of councilors on finance and executive committees both at district headquarters and divisions. However, a proportionate stratified random sampling technique was used in selecting 136 from the 210 members in the stratum of employees in finance department because of heterogeneity. This was done by first sub-dividing the finance employees stratum (N) into six non over lapping sub groups namely KCC headquarter, Central, Nakawa, Lubaga, Kawempe and Makindye whose sizes were (n_1, n_2, \dots, n_6) respectively obtained from KCC personnel records. These sub groups were based on the organization structure and roles which created high degree of homogeneity (Mendenhall and Scheaffer, 1971, p53).

It was then followed by determining the corresponding number for each sub group that will constitute the members of the sample denoted (K_1, K_2, \dots, K_6) proportionate to its size to the total number in employees stratum (N) computed by ($K_1 = n_1/N \times 136$). It should be noted that $\{136 = K_1 + K_2 + \dots + K_6\}$, $\{N = n_1 + n_2 + \dots + n_6\}$ and $\{N = 210\}$. A random sampling technique was then used in drawing K_1, K_2, \dots, K_6 from n_1, n_2, \dots, n_6 respectively until the 136 elements selected.

3.5 Data Collection Methods/ procedure

Two methods of data collection namely questionnaire and interview were employed in collecting only primary data to accomplish the study (Bhattacharyya (2003)). The structured questionnaire consisting of closed questions with a five point likert scale was designed and administered to selected technical staff in finance department both at the district and divisions. It was also administered to both councilors on executive and finance and administration committees both at the district and divisions with the help of field research assistants. It was supplemented by face to face interviews of purposively selected respondents with a help of a pre-designed structured interview guide.

3.6 Data Sources

The researcher with the help of field research assistants collected only primary data to accomplish the study from people who were directly affected by the problem under investigation. This was done by use of the self administered questionnaire consisting of structured but closed questions supplemented by interviewing guide. The primary data was obtained from members of inspectorate of LG (internal and external auditors) at KCC headquarters, employees in finance department and councilors on finance and executive committees both at the district and divisions.

3.7 Reliability and Validity

The reliability of questionnaire was tested using the Cronbach's alpha coefficient and the following reliability results were realized.

Table: 2 Reliability of Questionnaire

Variable	Cronbach's Alpha Coefficient
Quality of financial reporting	0.6684
Decentralized decision making	0.6145
Decentralized budgeting and planning	0.9382
Quality of financial Accountability	0.6045
Accounting Information System	0.6152

Source: Primary data

The reliability of the scales used in the study as indicated in table 2 ranged from 0.6045 to 0.9382 which were far and above the acceptable minimum of 0.5 and closer to 1(Morgan, 1970). This implies therefore that the instrument used in data collection from the respondents was dependable as it would yield similar results whenever used due to high internal consistence and reliability of the questions in the instrument.

Therefore, the results and conclusions of this study could safely be used to make decisions and the instrument could be used in future to conduct further studies in the same field. The researcher also pre-tested the instrument and consequently adjusted it to ensure that the instrument would measure what the researcher intended to measure before commenced of the actual field data collection.

3.8 Measurement of variables

Financial decentralization was measured based on the approach of (Vinod, 2007) while accounting information system was measured based on (Lucey, 2003) both using a five point likert scale agree, agree, undecided, disagree and strongly disagree by the respondent.

Quality of financial reporting was measured based on (Turner Lynn, 2000) using also five likert scale; strongly agree, agree, undecided, disagree and strongly disagree with qualities of good financial reports namely reliability, relevance, comparability and timeliness.

3.9 Data Processing and Analysis

The data with similar characteristics was edited, classified, grouped, coded and tabulated into tables and charts before interpretation. It was analyzed by use of Factor analysis, Pearson's Product moment correlation coefficient and regression models using SPSS to establish the contribution, relationship and prediction of dependent by independent variables respectively. The factor analysis was used in reducing the main variables to few important factors for purposes of making an analysis before drawing valid conclusions while the Pearson Product Moment correlation established the strength of association between variables. The regression model was used in predicting the changes in the dependent variable by the independent variable.

3.10 Limitation

Although the study progressed up to the end, the following were recognized as limitations: The study concentrated on an urban setting in assessing the effect and relationship between financial decentralization and accounting information system in local governments in Uganda taking KCC as the case study. There is need to conduct a comparative study in districts that does not double as capital city and an urban local government. This will eliminate the institutional challenges which were considered as weaknesses of financial decentralization.

A cross sectional study was undertaken as opposed to the longitudinal study. The longitudinal study has the advantage of studying the trend over a number of years making it superior.

However, the longitudinal study was impossible due to lack of resources, time and data especially from the KCC staff where the majority of which are new.

The sample used in the study was big enough compared to the target population; however, it was still small when compared to the entire population of KCC employees and councilors and this could have affected the overall results. The research could have benefited from a bigger sample although the bigger the sample the more resources required and lack of enthusiasm from the respondents. Therefore, a comprehensive study is required with big sponsor.

The results of the study based on KCC can be generalized but still may remain not accurate to represent the entire LGs in Uganda due to the status of KCC being both a district and capital city. The results will only be applied to only LGs other than KCC whose status changed to an Authority as per Kampala Capital City Authority Act 2010.

The study adopted correlation design that was analytical and would generate un biased data that will answer fully the research questions, achieve the objectives and yield most valid findings. Existence of a relationship does not mean causation and therefore correlation design could not adequately explain the cause effect. In addition, collection of un biased data is extremely difficult and therefore, correlation design is only easier in analyzing association between variables but not suitable in explaining their effect.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF THE FINDINGS

4.1 Introduction

The chapter was structured into two parts; the first part presents the demographic feature of the sample used in the study while the second presents the analysis and discussion of the findings of the study in reference to research objectives outlined below.

- To establish the relationship between financial decentralized and quality of the financial reporting in Kampala City Council.
- To establish the relationship between accounting information system and quality of the financial reporting in Kampala City Council
- To establish the effect of decentralised decision making on the quality of the financial reporting in KCC.
- To establish the effect of decentralised budgeting and planning on the quality of the financial reporting in KCC.
- To establish the effect of accounting information system on the quality of the financial reporting in Kampala City Council.

The findings were based on the primary data collected, summarized and presented in tables and figures showing frequencies and percentages. It was also based on the results of analysis of Factor analysis, Pearson's product moment correlation coefficient and Regression models.

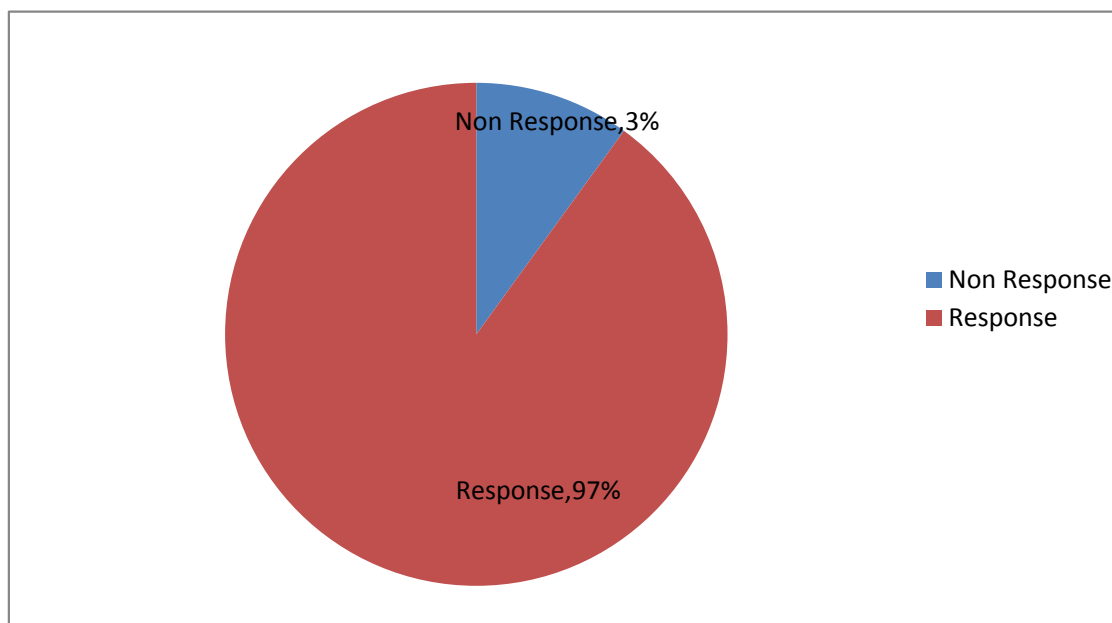
4.2 Characteristics of the unit of inquiry

The demographic features of the unit of inquiry consisted of the respondents' characteristics that included response rate, years in service in KCC, category, seniority, gender, and the work station.

4.2.1 Response rate

The researcher collected data from 205 respondents of which 198 registered completed and returned questionnaires posing a response rate of 97% as showed in table 2 below.

Figure .2 Response rate



Source: Primary data

4.2.2 Respondent's work station

Information on respondents from seven different geographical locations that make up KCC were sought namely: KCC headquarter, the city divisions of Lubaga, Kawempe, Makindye, Nakawa and Central, as well as the inspectorate which comprised of Public accounts committee (PAC), Internal and External Audit. The results in the table 3 below show the units that participated in the study together with their representative percentages.

Table.3 Respondent's Work station

		Frequency	Valid Percent	Cumulative Percent
Valid	KCC- Headquarter	71	35.9	35.9
	Central Division	36	18.2	54.0
	Lubaga Division	26	13.1	67.2
	Inspectorate	12	6.1	73.2
	Nakawa Division	20	10.1	83.3
	Makindye Division	14	7.1	90.4
	Kawempe Division	19	9.6	100.0
	Total	198	100.0	

Source: Primary Data

The results in the above table show that the majority of the respondents were from KCC headquarter with (36%) while the least was from the Inspectorate (6%). However, considering divisions, Central contributed the highest with (18%) while Makindye had the least of (7%).

4.2.3 Designation of respondents

Opinions were sought from respondents with different designations. The designations of respondents who participated in the study are shown in Table 4 below.

Table 4 Respondent's designation

	Designation	Frequency	Valid Percent	Cumulative Percent
Valid	Senior Executive	4	2.0	2.0
	Executive Officer	10	5.1	7.1
	Senior Officer	57	28.8	35.9
	Officer	46	23.2	59.1
	Junior Officer	11	5.6	64.7
	Councilors	70	35.3	100.0
	Total		198	100.0

Source: Primary data

The respondents who participated in the study, the political category provided the majority with (35%) while senior executive provided the least with only (2%). Other categories provided as follows; Officers (23%), Junior officers with (6%) Executive officer (5%) while Senior officer provided (29%).

4.2.4 Category of Respondents

Responses were sought from respondents with different categories who were directly affected by quality of financial reporting and below in Table 5 are the results.

Table 5 Category of Respondents

Category of respondents		Frequency	Valid Percent	Cumulative Percent
Valid	Finance Staff	111	56.1	56.1
	Councilor	70	35.3	91.4
	PAC Member	5	2.5	93.9
	Auditor	12	6.1	100.0
	Total	198	100.0	

Source: Primary Data

From the above table, finance staff provided the highest number of respondents (56%), while members of PAC provided the least with (3%). Others included politicians (35%) and Auditors (6%).

4.2.5 Gender of respondents

Respondents of different sex in KCC and divisions were sought. Below in table 6 shows the gender of respondents who participated in the study.

Table 6 Gender of respondents

Gender		Frequency	Valid Percent	Cumulative Percent
Valid	Female	45	22.7	22.7
	Male	153	77.3	100.0
	Total	198	100.0	

Source: Primary data

The above table marked 6 illustrated that gender of respondents who participated in the study, the majority (77%) were male compared to (23%) female. The ratio of male to female who participated in the study was established but gender had less meaning in respect to assessing the effect and relationship of financial decentralization and accounting information system on quality of financial reporting in Kampala City Council.

However, gender mainstreaming is an important factor that should not be ignored in any social study if its results are to be recognized as gender sensitive.

4.2.6 Years in service of respondents

The respondents with different years in service with KCC participated in the study and below in table marked 7 were the results.

Table 7: Respondents' years in service with KCC

		Frequency	Valid Percent	Cumulative Percent
Valid	Less than 5yrs	13	6.6	6.6
	5 - 10 yrs	51	25.3	31.9
	11 - 15 yrs	65	32.3	64.2
	16 - 20 yrs	61	30.3	94.5
	20 - 25 yrs	5	2.5	97.0
	Above 25yrs	3	3.0	100.0
	Total	198	100.0	

Source: Primary Data

The results indicated that the majority of the respondents (88%) have been in service with KCC between (5-20) years. The period in service was important to the study because it helped the respondents to give answers based on wide range of experience of the problem under investigation. The results of the study therefore, would not be challenged on ground that the respondents did not have adequate experience to effectively assess the trend of quality of financial reporting in KCC, after the adoption and implementation of the financial decentralization and the Integrated accounting information system (IFMS).

4.3 Factor analysis of financial decentralization and Accounting information system

It is an exploratory statistical tool for analyzing and understanding the composition of the main variables used in the study for purpose of making valid conclusions and recommendations (Sekaran, 2001).

The results in Table 8 on the next page highlight the findings of the factor analysis while assessing the contributions of the factors to decision making, planning and budgeting as well as accounting information system as the main components to the independent variables.

The results of the factor analysis revealed that Decision making; Budgeting and planning the components of financial decentralization one of the independent variables and accounting information system the other main independent variable were crucial factors as they account for 66% of the independent variables to this study. It was further established that the dimensions of financial decentralization namely decision making, budgeting and planning constituted (55%) of financial decentralization, of which decision making alone contributed 41% compared to the contribution of 14% by budgeting and planning. This means therefore, that 11% was contributed by accounting information system the second independent variable.

The results in table 8 below therefore, indicate that to extent of (34%) of the independent variables was contributed by other factors outside the scope of this study.

Table 8: Rotated component Matrix: Factor analysis for Quality of financial reporting in KCC

Factor analysis Results for Financial Decentralization.	Decision Making	Planning and Budgeting	Accounting Information system
Financial decentralization made decision making process in KCC more flexible.	.831		
Financial decentralization made decisions making process in KCC more transparent.	.792		
Financial decentralization made KCC always independent while making decisions that influence quality of financial reporting.	.760		
Decision making in KCC is always consistent with the existing regulatory framework.	.756		
Financial decentralization effectively made decision making in KCC always guided by the organization's mission and objectives.	.723		
Financial decisions in KCC are always guided by accurate and relevant information.	.610		
Decentralized decision making has greatly improved quality of financial reporting in KCC.	.590		
Decision making in KCC is always consultative in nature.	.507		
Budgeting in KCC always guide and control the financial activities.		.775	
KCC became more independent in formulation, approval and implementation of its budgets and development plans.		.769	
Financial decentralization made budgeting/planning and quality of financial reporting in KCC more linked.		.735	
In KCC, vote books are more used in budget monitoring and controlling than before the introduction of financial decentralization.		.576	
Financial decentralization spread budgeting/ planning process to all levels of management in KCC.		.570	
Budgets and other financial plans in KCC regularly monitored, evaluated, reported and discussed by both technical and councilors.		.526	
In KCC, the accounting information systems simplified and standardized financial reports.			.709
The current accounting information system in KCC significantly controlled and reduced errors and mistakes in financial reports.			.708
The accounting information system that produces financial reports in KCC is simple, flexible and user friendly.			.513
Eigen Values	6.425	2.267	1.653
Variance%	40.791	14.392	10.493
Cumulative %	40.791	55.183	65.676

Source: Primary Data

4.3.1 The effect of decentralized financial decision making on quality of financial reporting

The results of the factor analysis in table 8 above, established that financial decentralization affected the quality of financial reporting in KCC by making decision making process more transparent by a factor of (0.792), guided by accurate and relevant information (0.610), independent in making decisions regarding format, contents and frequency of the financial reports (0.760), guided by organization's mission and objectives (0.723), consistent with legal framework (0.756) consultative (0.507), became more flexible (0.831) and improved quality of financial reporting (0.590). The study also established that, decentralized decision making accounts for 41% of the financial decentralization in improving quality of financial reporting in KCC.

4.3.2 The effect of Budgeting and Planning on quality of financial reporting

The results of factor analysis indicated that decentralized budgeting and planning significantly affected the quality of financial reporting in KCC by creating independence in the formulation, approval and implementation of the budgets and development plans by a factor of (0.769); made financial performance regularly monitored, evaluated, reported and discussed (0.526); increased the application of vote books in monitoring and controlling expenditure (0.576); guided and controlled financial activities (0.775); caused budgeting and planning to be carried out at all levels of management (0.570) and made budgeting / planning and financial reporting linked(0.735). The study further established that, decentralized budgeting and planning constitute 14% of the financial decentralization while explaining its effect on quality of financial reporting in KCC.

4.3.3 The effect of Accounting Information system on quality of financial reporting

The results of the factor analysis in table 8 above also established that accounting information system contributed by making financial reports simple, flexible and user friendly (0.519), standardized financial reporting (0.709) and effectively controlled and reduced on errors and mis- statements in financial reports (0.708). The study discovered that accounting information system was the least contributor to quality of financial reporting in KCC by (11%) as compared to the decentralized budgeting, planning and decision making whose contribution was 41% and 14% respectively.

4.4 Correlation Analysis

According to Kaberuka (2002), a correlation analysis is a statistical tool used in establishing direction and degree of association between independent and dependent variables.

The researcher employed Pearson's product moment correlation coefficient technique because the data used was discrete. The results of Pearson correlation coefficient (r) were used to explore the relationships between the variables in the study. The tests were performed at two different levels, (99%) levels which was the higher level and (95%) the lower level test. The study established that there was significant positive correlation among all the variables as illustrated in Table 9 below.

Financial decentralization was measured by the extent to which the decision making, planning and budgeting is effectively decentralized.

The accounting information system was also tested for association and below in table 9 were the results at 99% level of significance (2 tailed).

Table 9: Pearson Correlation Coefficient (r)

	1	2	3	4	5
Decision Making (1)	1.000				
Planning & Budgeting (2)	0.309**	1.000			
Accounting information system (3)	0.168**	0.426**	1.000		
Financial Decentralization (4)	0.800**	0.642**	0.693**	1.000	
Quality of Financial Reporting (5)	0.579**	0.484**	0.343**	0.654**	1.000
** Correlation is significant at the 0.01 level (2-tailed).					
* Correlation is significant at the 0.05 level (2-tailed).					

Source: primary data

4.4.1 The relationship between decentralised decision making and quality of the financial reporting in KCC.

The results of Pearson correlation coefficient as indicated in table 9 above, established that there was a significant positive correlation between decentralized decision making and quality of financial reporting in KCC ($r = 0.579, p < .01$).

This means that when decision making for instance was effective and suitable in respect to format, content and frequency of the financial reports with no influence from the MoLG, then the quality of financial reporting is bound to improve and vice versa. Therefore, when one wanted to have improvement in quality of financial reporting in KCC, emphasis should be directed to the components of decentralised decision making such as flexibility in decision making, guided by correct, relevant and timely information, transparent and always bottom -up in approach.

4.4.2 The relationship between decentralised planning and budgeting and quality of the financial reporting in KCC

The results of Pearson correlation coefficient in Table 9 above, indicated that there was also a significant positive relationship between decentralised planning & budgeting with quality of the financial reporting in KCC ($r = 0.484$, $p < .01$). This implies therefore that, if elements of Planning and Budgeting such as monitoring, controlling, evaluation and reporting on the financial performance are effectively implemented, this was bound to result into improved quality of financial reporting. The improvement in the financial reporting could be manifested in terms of error free and reliable reports.

4.4.3 The relationship between the AIS and quality of financial reporting

The results of Pearson correlation coefficient in table 9 established that there was a significant positive relationship between accounting information system and quality of the financial reporting in KCC ($r = 0.343$, $p < .01$). This implies therefore that, if the attributes of accounting information system such as simplicity, standardized, flexibility and user friendly in producing financial reports are good, this was bound to cause significant improvement in quality of financial reporting such as timely reporting and reduction in errors.

4.4.4 The relationship between the financial decentralization and quality of financial

Reporting.

Overall, the results of Pearson correlation coefficient established that although both financial decentralization and accounting information system exhibited positive correlation with quality of financial reporting, financial decentralization had a more significant positive correlation with quality of financial reporting than what existed between accounting information system and quality of financial reporting ($r = 0.654$, $p < .01$) and ($r = 0.343$, $p < .01$) respectively.

This confirms that once decision making, budgeting and planning were effectively decentralized and accounting information system is suitable and user friendly, then quality of financial reporting is bound to improve.

4.5 Prediction of dependent variable by the independent variables

The researcher also employed a regression model in establishing the prediction of the quality of financial reporting by the components of financial decentralization and accounting information system. The results in the table 10 below depict the degree to which the accounting information system (AIS) and elements of financial decentralization namely decision making; planning and budgeting would predict changes in quality of financial reporting in KCC.

Table 10: The Regression of components of financial decentralization and accounting information system on quality of financial reporting

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.713	0.190		9.010	0.000
Decision Making	0.157	0.019	0.466	8.319	0.000
Planning & Budgeting	0.257	0.056	0.280	4.592	0.000
Accounting information system	0.065	0.027	0.145	2.459	0.015
Dependent Variable: Quality of Financial Reporting					
R Square	0.453				
Adjusted R Square	0.445			Sig.	0.01

Source: Primary data

The results of the study established that the accounting information system and the components of financial decentralization would predict up to 45% of the changes in quality of financial reporting in KCC (Adjusted R Square = 0.445).

4.5.1 The prediction of quality of financial reporting by components of financial decentralization

In the study, the components of the financial decentralization were the decentralized decision making and planning and budgeting. In the above regression model, decision making alone contributed 47% of the 45% units of quality of financial reporting that the model could predict. This suggests that even if other components such as Planning / Budgeting and accounting information system are perfect, not until there is perfection in decision making that the quality of financial reporting will remain poor.

The results of model revealed that planning and budgeting as a component of the financial decentralization would explain variation in quality of financial reporting to an extent of 28% ie (Beta = 0.280).

4.5.2 The prediction of quality of financial reporting by accounting information system

The results of the regression model further confirmed that accounting information system alone contributed 14.5% of the 44.5% units of quality of financial reporting. This was the lowest contribution compared to decentralized decision making and budgeting/planning that contributed 46.6% and 28.0% respectively to the 44.5%.

According to Murray (1989), a regression model is valid if ($p = < 0.05$). Therefore, in the above regression model where ($p < 0.001$) suggests that the regression model was valid and would effectively be used in predicting the dependent variable in the study. It was further noted that the results of the regression model in table 10 where (Adjusted R Square =0.445), suggest that 55.5% of the quality of financial reporting in KCC is predicted by something else. Therefore, the results of the above regression imply that if the quality of financial reporting in KCC improves by 1000 units, only 445 of these units would be as a result of improvement in financial decentralization and accounting information system.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the discussion, conclusions and recommendations derived from the findings of the study in chapter four presented in order of objectives.

5.2 Discussion of the Findings

5.2.1 The effect of decentralized decision making on quality of financial reporting

The results of both factor analysis and regression model established that decision making was the most influential component of the financial decentralization and a better predictor of quality of financial reporting in KCC. The findings of the study further established that decentralized decision making was the main contributor to quality of financial reporting in KCC as compared to decentralized budgeting, planning and accounting information system since its inception.

It was established that decision making process in KCC became more transparent; guided by accurate, relevant and timely information, consistent with the organization's mission and objectives which led to autonomy and freedom in decision making process in respect to format, content, how and when to produce the financial reports as stipulated in section 77 of LGA CAP 243. This reduced on the incidence of errors, material mis statements and conflicting decisions due to its flexibility, which made the financial reports more reliable, relevant and timely as asserted by (Kinalwa, 1993). It also led to standardization of financial reports that significantly improved on the aspect of comparability which enhanced performance evaluation.

The study findings concurred with the earlier observations made by (Fissman and Gatti, 2000) that decentralizing decision making to local governments would significantly improve on the quality of reports they produce.

5.2.2 The effect of decentralized Budgeting and Planning on quality of financial reporting

The results of the factor analysis indicated that decentralized budgeting and planning account for fourteen percent to the financial decentralization in explaining improvement in quality of financial reporting in KCC. Specifically, it created independence in budget formulation, approval, implementation, monitoring and controlling which significantly improved on the budget monitoring reports. The findings supported the earlier observations made by Tanzi (2000). The foregoing findings means that budget monitoring reports in KCC were regularly produced, discussed by both technocrats and councilors and it constituted the largest portion of the financial reports to council. Although the results of correlation revealed a significant positive relationship between decentralized budgeting/planning and quality of financial reporting in KCC, it was lower compared to the one between decision making and qualities of financial reporting. This therefore explains why even though budgetary controls were in place, the incidence of corruption, flouting of budgetary guidelines, material misstatements remained high (Treisman, 2000). The above findings were in support of the queries pointed out in the Commission of Inquiry by LG on KCC report, 2005.

5.2.3 The effect of accounting information system on quality of financial reporting in KCC

The findings of the study indicated that accounting information system was the least predictor and contributor to the quality of financial reporting in KCC. This suggests that even if more efforts were invested in having automated accounting information system like (IFMS), this was bound to produce insignificant impact on the quality of financial reporting as it was observed by (Muphy, 2004) that financial decentralization in local government would create better and effective accounting information system that will improve quality of financial reporting in LGs. Secondly, where as section 77 of the LGA CAP 243 mandate each LG independently to account for its affairs in form of financial reports, the study findings further established that accounting

information system was a poorest predictor and had the weakest relationship with quality of financial reporting in KCC. This explains why financial accountability in form of financial reports in KCC is still a big problem despite computerized accounting system (Auditor General (2005). This is because it was always done in an un transparent manner outside the guidelines resulting into a lot of funds remained doubtful and un accounted for.

5.2.4 Relationship between independent and dependent variable

The strength of association between the two dimensions of financial decentralization namely decision making, budgeting and planning and accounting information system another independent variable were tested using Pearson's product moment correlation coefficient model.

5.2.4.1 Relationship between decentralized budgeting /planning and quality of financial reporting in KCC

It was established that there was a significant positive relationship between decentralized budgeting/planning and financial reporting in KCC. This means therefore that when decentralized budgeting and planning were effectively implemented, it would control expenditure through budgetary control and guide the financial operation of council through budgeting monitoring reports that would result into improved quality of financial reporting.

Therefore, if KCC perfects the budgeting and planning process such as improved monitoring, controlling, evaluation, wider consultations, formulation, regularly produced and the budgets report discussed in addition to sticking on budgetary control guidelines, quality of financial reporting would be realized as pointed out by (Lock wood, 2005). Though the study confirmed a positive significant relationship it was not perfect. This means therefore, that it is not automatic that whenever there is decentralized budgeting and planning process such as monitoring and controlling budget performance, KCC will experience tremendous improvement in quality of financial reporting.

The results of the regression model also indicated that, budgeting and planning was a weaker predictor of the quality of financial reporting in KCC compared to decentralized decision making as evidenced by ($r = 0.579$) and ($r = 0.484$) respectively. The findings justify the continuous problem of the flouting of the budget guidelines in council such as over spending the budget votes, failure to produce and discuss the budget monitoring reports on time as pointed out in the query reports of Auditor General (2006), IGG (2003) and PAC (2007). It also explains the rampant incidence of irregularities in monitoring, controlling and reporting on expenditure in KCC that was reported by the Internal Audit (2006).

Therefore, the study findings disproved the assertion made by Bassajja Balaba (2003) that decentralization of budgeting and planning functions to LGs would control the irresponsible utilization of resources, impart financial discipline and improve on quality of financial reporting through monitoring of performance and regular production of budget reports.

5.2.4.2 Relationship between decentralized decision making and quality of financial reporting

The findings of the study established that there was a significant positive relationship between decentralized decision making and quality of financial reporting in KCC. This suggests that when decisions are relevant, effective, suitable and timely for instance regarding format, content and type of financial reports regarding whom, when and how, then the quality of financial reports is bound to be good. The study findings were in support of the earlier observations made by (Fissman and Gatti, 2000) that, when the decisions that affect reliability, relevance and timeliness of financial reports in local government are effectively transferred from the centre to autonomous local authorities the problem of poor, delayed financial reporting to the stakeholders would be addressed.

Secondly, the results of the regression model showed that decentralized decision making was a better predictor of the quality of financial reporting in KCC than the decentralized budgeting and planning as well as accounting information system. This therefore, means that if quality of financial reporting was to improve in KCC, management and other key stakeholders should direct their efforts towards improving decision making such as promoting independence and freedom in decision making especially among technical staff, avoiding making conflicting decisions that would impair quality of financial reporting such as application of different accounting policies and bases, defining clearly what decisions made at the district and divisions. Finally, decision making process should be guided by accurate and relevant information in additions to the organization's objectives and mission.

5.2.4.3 Relationship between decentralized accounting information system and quality of financial reporting.

The results of Pearson correction coefficient established that there was a significant positive relationship between accounting information system and quality of financial reporting in KCC. However, it was a weak one compared to the one that existed between the dimensions of financial decentralization and quality of financial reporting. This means that the effect of accounting information system such as independent reporting on how the entrusted resources have been utilized would cause significant improvement on the quality of financial reports in respect to reliability, relevant, comparability and timeliness.

In addition, the results of the regression model also revealed that accounting information system was a least predictor of quality of financial reporting in KCC compared to the components of financial decentralization namely decision making, budgeting and planning. Therefore, in an effort to improve the quality of financial reporting in KCC, emphasis should be directed in having effective decision making process and realistic budgeting and planning than concentrating on having effective accounting information system.

This is because in KCC, the incidence of un accounted for funds and delayed final accounts are on the rise despite having automated accounting information system as pointed out in the report of (PAC, 2005). However, the above revelation disagrees with the assertion made by (Geeri, 1993) that there would be improvement in financial reporting in local government if the functions and roles of accounting for the funds utilized at the grass root are automated and transferred to the respective local governments.

It should be therefore, observed that efforts aimed at improving quality of financial reporting in KCC should not only concentrate on decision making, budgeting and planning but seen to consider accounting information system as well. This is because (AIS) had a significant positive relationship with quality of financial reporting.

5.2.4.4 Relationship between financial decentralization and quality of financial reporting

According to the results of Pearson correlation coefficient, the study established a significant positive relationship between the independent and dependent variable. Secondly, it was further established that there was a positive relationship between the dimensions of financial decentralization namely decentralized decision making, planning budgeting with quality of financial reporting. This therefore, means that efforts that aimed at improving on the quality of financial reporting in KCC should be invested in having budgeting and planning consultative, participatory, comprehensive, flexible and effectively monitored, evaluated and discussed with all key stake holders.

Secondly, all decisions made should be consistent with the financial regulations, supported with accurate, adequate and relevant information. In addition it should be bottom-up in approach and free from biasness as well as un due influence of any kind.

Thirdly, accountability should be timely, transparent and conducted in a prescribed and acceptable manner as it would bring about good quality of financial reporting.

Therefore, it is evident from the study findings that once there is registered improvement in each of the dimensions of the independent variable such as improvement in the decision making process, budgeting and planning as well as effective accounting information system then, KCC was bound to register improvement in the quality of financial reporting.

5.3 CONCLUSION

The study established a significant positive relationship between accounting information system, financial decentralization and quality of financial reporting in KCC. However, although a positive relationship between the two independent variables was established, financial decentralization exhibited a more significant positive relationship than accounting information system with quality of financial reporting in KCC.

The study also established that in KCC, decentralized decision making, budgeting and planning portrayed a more significant positive correlation with quality of financial reporting than what exists between accounting information system and quality of financial reporting. Furthermore, it was established that forty five percent of quality of financial reporting could be explained by accounting information system and financial decentralization. However, decentralized decision making alone account for forty seven percent of the forty five percent compared to twenty eight and fifteen percent for budgeting/planning and accounting information system respectively. This means that to the extent of 55% prediction of changes in quality of financial reporting in KCC was by other factors other outside the scope of this study other than financial decentralization and accounting information system.

It was established that factors used in the study accounts for 66% of the independent variables of which 41% was contributed by decision making alone. This means that decentralized decision making is the main component of financial decentralization and therefore the most influential factor and best predictor of quality of financial reporting in KCC compared to decentralized budgeting, planning and accounting information system.

The results of the factor analysis, regression model and Pearson correlation coefficient, all confirmed that decentralized decision making was more influential, predictor and positively correlated to quality of financial reporting in KCC than budgeting, planning and accounting information system. Therefore, KCC management and MoLG should concentrate its effort in streamlining financial decision making than directing it in having realistic and effective budgeting and planning. It should put in place sound accounting information system if it is to register significant improvement in quality of financial reporting and achieving the requirements of section 79 of LGA CAP 243. These findings provides an explanation why in KCC the incidence of un accounted for funds is on the rise despite having introduced one of the best recognized accounting packages the integrated financial management system (IFMS).

Therefore, the above revelation disapproved the general assertion that decentralizing budgeting and planning; as well as automating the accounting functions and operation like the introduction of IFMS in local governments without decentralizing decision making especially financial decision making would tremendously cause improvement in the quality of financial reporting.

5.4 RECOMMENDATIONS

- (i) Strict adherence on the budget Act (2001) and financial planning guidelines as laid down in LGA CAP 243 should be enforced; this will address the non consultative, direct influence by MoLG and reverse the top-bottom approach in budgeting that have affected negatively the financial reporting in KCC. This will cause the budget and planning process to be participatory, comprehensive, realistic and effectively monitored and evaluated. It is believed that once this is achieved there will be improvement in the reliability, relevance and timeliness of the budget monitoring reports which will in turn improve quality of financial reporting.
- (ii) The management of KCC should put more effort on improving the budget monitoring through effective and efficient application of the vote books. This would assist in controlling irregular spending, flouting of budget guidelines that will result in timely production of budget reports which is still a challenge in KCC.
- (iii) The MoLG and Inspectorate of Government must take firm and timely action against whoever is engaged in corruption. The quality of financial reporting in KCC will not be achieved unless an aggressive attitude to all those involved in downplaying the critical success of financial decentralization are dealt with accordingly and precisely.
- (iv) KCC should design new strategies and procedures in decisions making that will restrict direct influence by MoLG especially those that would affect negatively quality of financial reporting. This will improve on the effectiveness of the decision making process which will positively impact on the quality of financial reporting in KCC.
- (v) The MoLG and KCC management should also ensure that staff is independent and free while making decisions especially those that affect the quality of the financial reporting which at the moment are lacking.

- (vi) More effort is needed to have decentralized decision making, budgeting /planning and accounting information system carried out in accordance with the legal framework. This must be jointly implemented with streamlining the problem of staff competence if quality of financial reporting in KCC is to be achieved.
- (vii) The quality of financial reporting is dependent on the strength and soundness of the internal control systems. Therefore, KCC must build capacity of the internal audit department that will continuously monitor and police internal control systems that will promote quality of financial reports and reporting generally.
- (viii) The accounting information system though computerized lacks specific attributes such as simplicity, flexibility which KCC cherishes. It should be therefore, customized as opposed to being developed by central Government for implementation by LGs. This will eliminate redundant modules that are not relevant especially in KCC settings.

5.5 AREAS OF FURTHER RESEARCH

- (i) The study conclusion was based on opinions from technocrats from finance department, councilors on finance and executive committees both at district and city division, Auditors and members of PAC who constitute 100% of the stake holders. Further research is needed to be carried out focusing on other stakeholders that are directly or indirectly affected by quality of financial reporting for instance donors, service providers, Member of Parliament, officials of MoLG etc. This will eliminate the question that the conclusions were based on internal respondents.
- (ii) The study concentrated on KCC and its five city divisions that make up Kampala district and Kampala city which was an urban setting. Therefore, further research need to be carried out in rural setting. This will assist in drawing concrete conclusions in a comparative manner on the impact of financial decentralization on quality of financial reporting in LGs in Uganda.

The following critical issues were encountered though not in the scope of the study but they deserve worth to be considered for further research:

- (iii) The impact of financial decentralization on internal controls in eliminating corruption in local governments in Uganda.
- (iv) The role of decentralized budgeting in controlling expenditure of local government in Uganda.
- (v) The effect of decentralization legal framework, accounting information system and quality of financial accounting in LGs in Uganda.

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Appendix. 1

MAKERERE UNIVERSITY BUSINESS SCHOOL

DEPARTMENT OF ACCOUNTING

Questionnaire on Accounting Information System, Financial Decentralization and Quality of financial reporting in Kampala City Council.

Requests

Dear respondent,

I am carrying out a study on Accounting Information System financial decentralization and quality of financial reporting in Kampala City Council (KCC).

The study will provide current information to different stake holders including policy makers at various levels in understanding the contribution and relationship between financial decentralization, accounting information system and quality of financial reporting in Local governments and Urban Authorities in Uganda and KCC in particular.

Section A: GENERAL INFORMATION

✓ Please tick inside the box that corresponds with your choice

Name of the organization:-

- i. K.C.C
- ii. Central Division
- iii. Lubaga Division
- iv. Audit Department

- v. Nakawa Division
- vi. Makindye Division
- vii. Kawempe Division

Category of respondents:-

- i. Public Servant
- ii. Councilor
- iii. Service provider
- iv. Contractor
- v. PAC Member
- vi. Auditor

Sex:-

- Female
- Male

Department

- i. Finance
- ii Administration
- ii. Audit
- iii. Statutory bodies
- iv. Engineering
- v. Health
- vi. Gender

Current position

Category of position:

- Senior Executive
- Executive Member
- Senior Officer
- Officer
- Junior Officer

Years in service in KCC

- Less than 5 years
- 5 – 10 years
- 11- 15 years
- 16 – 20 years

- Above 25 years
- 20 - 25 years

Section B

Please tick your answer in the box corresponding to your choice to indicate whether you Strongly agree (SA) = 5, Agree (A) = 4, Undecided (UD) = 3, Disagree (DA) = 2 and Strongly disagree (SDA) = 1

(a) FINANCIAL DECENTRALIZATION

	SA	A	UD	D A	SDA
Financial decentralization in KCC greatly enhanced the financial reports to be easily understood by the users.					
Quality of financial reporting in KCC significantly improved since the inception of financial decentralization.	5	4	3	2	1
Financial decentralization significantly standardized financial reports in KCC.	5	4	3	2	1
The implementation of financial decentralization in KCC greatly streamlined the financial reporting challenges.	5	4	3	2	1
Financial decentralization significantly increased the reliability of the financial reports in KCC.	5	4	3	2	1
The usefulness of the financial reports in KCC significantly improved after the adoption of financial decentralization.	5	4	3	2	1
Financial decentralization significantly simplified financial reporting in KCC.	5	4	3	2	1
Financial decentralization completely created full autonomy in financial reporting in KCC.	5	4	3	2	1
Monitoring of financial performances in KCC greatly improved after the introduction of financial decentralization.	5	4	3	2	1
Supervision of financial operations in KCC greatly improved after the implementation of financial decentralization.	5	4	3	2	1
Intended mistakes in the financial reports in KCC significantly reduced after the introduction of financial decentralization	5	4	3	2	1
Internal controls have been significantly strengthened in KCC as a result of implementing financial decentralization.	5	4	3	2	1
Transparence in financial reporting in KCC significantly improved as a result of implementing financial decentralization.	5	4	3	2	1
Financial decentralization greatly facilitated customizing financial reporting in KCC.	5	4	3	2	1

(i) Decentralized Decisions making

	S	A	UD	DA	SD
All decisions that influence quality of financial reporting in KCC are completely decentralized.	5	4	3	2	1
Decision making in KCC is always consistent with the existing regulatory framework.	5	4	3	2	1
Financial decisions in KCC are always guided by accurate and relevant information.	5	4	3	2	1
Decentralized decision making has greatly improved quality of financial reporting in KCC.	5	4	3	2	1
KCC staffs are always free and independent while making decisions.	5	4	3	2	1
KCC is absolutely independent while making decisions on the format, contents, type and frequency of financial statements/reports.	5	4	3	2	1
The approach in decisions making in KCC significantly changed after the adoption of financial decentralization.	5	4	3	2	1
Financial decentralization made financial reports in KCC very important in decision making.	5	4	3	2	1
Quality of financial reports in KCC is significantly influenced by decision making process.	5	4	3	2	1
Financial decentralization has effectively spread decision making to all levels of management in KCC.	5	4	3	2	1
The introduction of financial decentralization in KCC has made decision making more effective and appropriate.	5	4	3	2	1
Financial decentralization effectively made decision making in KCC to be always guided by the organization's mission and objectives.	5	4	3	2	1
Financial decentralization in KCC has caused timeliness of information more crucial in decision making.	5	4	3	2	1
Decision making in KCC is always consultative in nature.	5	4	3	2	1
Financial decentralization significantly reduced on conflicting financial decisions in KCC.	5	4	3	2	1
Financial decentralization made decisions making process in KCC more transparent.	5	4	3	2	1
Financial decentralization has made decision making process in KCC more flexible.	5	4	3	2	1

(ii) Decentralized planning and budgeting.

Decentralized budgeting in KCC greatly improved quality of financial reporting.	SA 5	A 4	UD 3	D A 2	SDA 1
KCC is more independent in formulation, approval and implementation of its financial budgets and development plans.	5	4	3	2	1
Decentralized planning in KCC significantly influences quality of financial reporting.	5	4	3	2	1
Budgeting in KCC is regularly monitored, evaluated, reported and discussed.	5	4	3	2	1
Budgeting in KCC always guide the financial activities.	5	4	3	2	1
Budgeting and financial planning in KCC became more flexible after the introduction of financial decentralization.	5	4	3	2	1
Financial decentralization spread budgeting/ planning process to all levels of management in KCC.	5	4	3	2	1
Financial decentralization made budgeting/planning and quality of financial reporting in KCC more linked.	5	4	3	2	1
Budgeting monitoring and evaluation reports contribute the largest portion of the financial reporting in KCC.	5	4	3	2	1
Planning in KCC is regularly monitored, evaluated, reported and discussed.	5	4	3	2	1
In KCC, spending is significantly controlled by budget allocation.	5	4	3	2	1
In KCC, vote books are more used in budget monitoring and controlling than before the introduction of financial decentralization.	5	4	3	2	1
Budget monitoring reports in KCC are usually discussed by both technical staff and councilors.	5	4	3	2	1
Planning and budgeting in KCC became more of wastage of time and resource after the introduction and implementation of financial decentralization.	5	4	3	2	1
Budgeting and Planning functions in KCC were never decentralized completely.	5	4	3	2	1

(b)ACCOUNTING INFORMATION SYSTEM

The accounting information system that produces financial reports in KCC is simple and user friendly.	5	4	3	2	1
Accounting functions in KCC have greatly improved as a result of being electronically prepared and maintained.	5	4	3	2	1
In KCC, the accounting information system that produces financial reports is very flexible.	5	4	3	2	1
The current accounting information system in KCC significantly controlled the intended errors and mistakes.	5	4	3	2	1
The accounting information system in KCC effectively standardized all aspects of financial reporting.	5	4	3	2	1
The accounting information system in KCC adequately addressed all its financial reporting challenges.	5	4	3	2	1
Customized accounting Information system of KCC allows maximum consultation before financial reports are produced and	5	4	3	2	1

submitted.					
The accounting information system has significantly improved quality of financial reporting in KCC.	5	4	3	2	1
KCC has greatly benefited from automating its accounting information system.	5	4	3	2	1
.The accounting information system in KCC significantly strengthened its internal controls.	5	4	3	2	1
.Kampala city council effectively operates a decentralized accounting information system.	5	4	3	2	1
The current accounting information system in KCC is largely consistent with decentralized legal frame work.	5	4	3	2	1
Accountability in KCC tremendously improved since council adopted financial decentralization system.	5	4	3	2	1
Improved quality of financial reporting in KCC is mainly due to decentralizing the accountability functions.	5	4	3	2	1
In KCC, accountability is always done in a more transparent and sincere manner.	5	4	3	2	1
Accountability in KCC is highly considered a crucial factor in producing good quality financial reports.	5	4	3	2	1
Accountability in KCC is highly considered a collective responsibility for all the stake holders.	5	4	3	2	1

(c) QUALITY OF FINANCIAL REPORTING

In KCC, Financial reports are usually prepared by technically qualified accountants.	5	4	3	2	1
Information contained in financial reports in KCC is always free from intended errors.	5	4	3	2	1
In KCC, Information contained in financial reports is usually complete and not biased.	5	4	3	2	1
Financial reports in KCC normally are cross checked by a senior officer before they are signed and disseminated.	5	4	3	2	1
Electronically prepared financial reports in KCC have increased its reliability.	5	4	3	2	1
Financial reports in KCC are ever audited before they are used.	5	4	3	2	1
Information contained in the financial reports generally represents all the financial activities of this organization.	5	4	3	2	1
In KCC Information contained in the financial reports is absolutely useful in making sound decisions.	5	4	3	2	1
Information in the financial reports in KCC is very important in monitoring and controlling the organization's activities.	5	4	3	2	1
In KCC, Information in financial reports is significantly useful in ascertaining the financial position.	5	4	3	2	1
Financial decentralization made Information contained in financial reports very useful in predicting KCC economic trends.	5	4	3	2	1
In KCC, financial decentralization made financial reports absolutely useful in forming opinion regarding financial state of affairs.	5	4	3	2	1

Quality of financial reporting in KCC is solely hinged on comparison of the contents in its reports.	5	4	3	2	1
Standardization of financial reports in KCC greatly increased its comparability over periods & between organizations.	5	4	3	2	1
The contents in financial reports in KCC are always used in establishing the level of performance.	5	4	3	2	1
Financial decentralization adequately enhanced comparability of contents in different financial reports.	5	4	3	2	1
Comparing contents of different financial reports in KCC always assisted in ascertaining level of its performance.	5	4	3	2	1
Financial reports in KCC are consistently prepared and submitted periodically as required by financial legal framework.	5	4	3	2	1
In KCC, timely reporting does not compromise the accuracy of the financial reports.	5	4	3	2	1
There is always undue delay in the presentation of financial reports in KCC.	5	4	3	2	1
Timeliness of reports is always considered a crucial factor in financial reporting in KCC.	5	4	3	2	1
Financial decentralization significantly improved timely production of financial reports.	5	4	3	2	1
Financial decentralization significantly improved timely submission of financial reports in KCC.	5	4	3	2	1
Financial decentralization has significantly helped timely discussion of the financial reports in KCC.	5	4	3	2	1

THANK YOU VERY MUCH

APPENDIX.2

THE INTERVIEW GUIDE FOR FOCUSED GROUP

(a) **Background Information**

- (i) Designation:
- (ii) Education:
 - Certificate
 - Diploma
 - First Degree
 - Post Graduate Qualification
- (iii) Gender:
 - a) Male
 - b) Female

(b) **Financial reporting system and practices used in Kampala City Council**

- What are the different accounting practices used in financial reporting by KCC?
- What are the types of reports prepared by KCC?
- Internal financial reports (to managers & councilors)
- External financial reports (to rate payers, residents and government)
- How is reporting to the different levels of stakeholders done?
- What kind of information does KCC include in; Internal financial reports (to managers & councilors) External financial reports (to rate payers, residents and government).

APPENDIX. 2

- What are the internal controls in place to ensure proper reporting systems and practices in KCC?
- Proper and accurate record keeping
- Accurate documentation
- Timely reporting
- Regular financial review meetings
- Others
- What are the principles observed by KCC to ensure good financial reporting?
Relevance, Comparability, Reliability, Understandable
- When is financial monitoring done in KCC (and who does it?)
- How often is financial reporting done?

(c) The relationship between financial decentralization and reporting in KCC

- What level of autonomy does KCC have regarding financial decision making?
- What level of autonomy does KCC have regarding planning for grants from government?
- How often does KCC review responsibilities and financial delegated authority among staff?

(d) The impact of financial decentralization on the quality of financial reporting in KCC

- How timely are the financial reports that KCC makes to the different stakeholders?
- Comment on the impact of financial decentralization on the quality of financial reporting in KCC

APPENDIX.2

(ii) For key informants

- ✓ What is the level of autonomy given to KCC to plan for and spend funds as granted by central government and from other sources?
- ✓ What types of reports do you receive from KCC?
- ✓ How compliant are the reports to the principles of good financial reporting? (Are they relevant, comparable, reliable and understandable?) *Explain.*
- ✓ How often do you receive the reports mentioned?
- ✓ What is the role of your office in the supervision and monitoring of funds disbursed to / by KCC?
- ✓ What is the relationship between your office and the finance department of KCC?
- ✓ What would you say has been the impact of financial decentralization on the quality of financial reporting in KCC?

Thank you very much

APPENDIX. 3

6th April 2010

MR./MS/DR./REV.....

The Field assistant

There has been increasing concern among different category of people over the quality of financial reporting in Local Governments in Uganda and KCC in particular after the adoption and implementation of Financial Decentralization in 1997. This has attracted serious concerns including conducting studies in an attempt to indentify suitable remedies to the problems.

In respect to the above, **Bamwira John Richard** who is pursuing a Master of Science Accounts and Finance Degree in Makerere University Business School is conducting a study in KCC in order to contribute to the body of knowledge. In order to have this study successful, it was discovered that you are interested in the subject in addition having special skills and access to the relevant stakeholders who are to provide required information.

To the above regard, you have been appointed as a field assistant to this study. One of your duties will include administering questionnaires and collecting it from the indentified respondents after it has been filled.

Your Sincerely

Bamwira John Richard

The Researcher.

