

OKELLO GEORGE PATRICK (2011-M104-40028)

Internal Controls and Financial Reporting Quality: A Case Study of Soroti Municipal Council

This study addressed the relationship between Internal Controls and Financial Reporting Quality looking at the case study of Soroti Municipal Council (SMC). The specific objectives of the study were to find out how effective segregation of duties is in SMC; how effective authorisation of transactions is in SMC and; to examine the relationship between Internal Controls and Financial Reporting Quality. Empirical data were collected on variables that included segregation of duties, authorisation of transactions and financial reporting quality. The researcher used a case study research design. Information was collected from respondents in the departments of Administration, Finance, Internal Audit, Council and other workers within SMC. Respondents were selected using purposive and systematic sampling techniques. Data were collected using questionnaires and documentary reviews. The study used both quantitative and qualitative methods of data analysis, with the help of the Statistical Package for the Social Sciences (SPSS) version 16.0. Empirical data revealed that there is effective segregation of duties and effective authorisation of transactions in SMC. The study showed that although segregation of duties and authorisation of transactions is exercised in SMC, adherence to their enforcement is limited. The study further revealed that implementation of segregation of duties and authorisation of transactions has a negative influence on the quality of financial reports prepared by SMC. The regression test performed on the relationship between segregation of duties with R square of 2% and authorisation of transactions with R square of 1.3% indicated that financial reporting quality is dependent on internal controls. The test also revealed that the factors that affect the financial reporting quality are; having payments made with proper authorisation, existence of a separate independent procurement and disposal unit and only the right people authorising transactions. The test revealed that improvements in internal controls directly contribute to improved financial reporting quality. The result of the Linear Regression performed revealed that there is a strong relationship between Internal Controls and Financial Reporting Quality. In addition, the ANOVA test was also performed and result showed that Internal Controls significantly affect Financial Reporting Quality. The study recommended that SMC puts in place measures that ensure that internal controls are implemented with strict adherence. The Senior Law Enforcement Officer and all those involved in the daily running of SMC should fulfil their job descriptions and most especially ensure that the policies of segregation of duties and authorisation of transaction is enforced and adhered to. Soroti Municipal Council should also establish mechanisms to ensure greater accountability, transparency and faithfulness.

Key words: Quality, control, Internal, Reporting