



**MANAGEMENT CONTROL SYSTEM, INTERPERSONAL TRUST AND FINANCIAL
MANAGEMENT IN BUSOGA SUB-REGION LOCAL GOVERNMENTS**

BY

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DECLARATION

I **KAKUNGULU David Kigenyi**, declare that this research dissertation is my original work, except where due acknowledgement has been made. I declare that this work has never been submitted to this University or any other institution for partial fulfilment of any award.


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APPROVAL

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DEDICATION

This work is dedicated to my parents, Mr. Kakungulu James Zadoch and Mrs. Nakasango Jane; my cherished wife, Mrs. Namugaya Eva; and my children Fortunate, Peace, Ryan, and Ethan who provided me with financial and non-financial assistance. Thanks go to the Almighty God who has enabled me to accomplish my academic expedition.

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ACRONYMS

AG	Auditor General
FM	Financial Management
FY	Financial Year
GAO	Government Accountability Office
HCM	Human Capital Management
IFMIS	Integrated Financial Management Information System
IGG	Inspectorate of Government
IT	Interpersonal Trust
LGs	Local Governments
LST	Local Service Tax
MCS	Management Control Systems
MDAs	Ministries, Departments and Agencies
MoFPED	Ministry of Finance, Planning, Economic and Development
MoLG	Ministry of Local Government
NDP	National Development Plan
NPA	National Planning Authority
PAYE	Pay As You Earn
PBS	Programme Based System
UGX	Uganda Shillings (The national monetary currency of the Republic of Uganda)
URA	Uganda Revenue Authority
YLP	Youth Livelihood Programme

ABSTRACT

This study examined the mediating role of interpersonal trust in the relationship between management control system and financial management in Local Governments in the Busoga sub-region, Uganda; relying on the agency and stewardship theories. A cross-sectional survey approach was adopted targeting 120 local governments. Data were analyzed using SPSS v.27 and *MedGraph v3*. The study found a relationship between management control systems and financial management, established that interpersonal trust partially mediated the link between management control systems and financial management, and lastly, found that management control systems correlated with interpersonal trust. This study makes the following important contributions to the financial management literature: organisational leadership should endeavour to reinforce the existing management control systems because they are strong pillars that contribute to the stability and success of financial management in Local Governments, institutional managers should ensure that the interpersonal is promoted, since it builds group cohesion and later, galvanises teamwork that if it is well harnessed, heightens the existing quality of institutional financial management. The study limitations and areas for further research were: common method bias in self-reported data makes it challenging to accurately determine causal-effect relationships. Future research should use multiple source data, such as supervisor-subordinate dyads, to obtain independent ratings on management control systems, interpersonal trust, and financial management; also, the study's findings, based on Accounting Officers, which may not apply to other organisations or local populations, prompting future research with employees in other sectors, and finally, the research used a quantitative approach to explain financial management in Local Governments, but a hybrid approach with qualitative elements could provide deeper insights.

Keywords: Management Control Systems, Interpersonal Trust; Financial Management

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CHAPTER ONE

INTRODUCTION

1.1 Introduction to the Study

This chapter contains the background to the study, problem statement, study purpose, specific objectives, hypothesis, study scope, significance of the study, and the conceptual framework.

1.2 Background to the Study

Local governments (LGs) have been designated as centres of quality service delivery that primarily provide front-line services in most basic service areas (OPM, 2020). They deliver services to the community under health, education, works and transport, water and environment, lands, housing and urban development, trade and industry, production and marketing community-based services and public administration and management (Cathrine, 2021). This scale of mandate requires a culture of robust financial management to meet the increasing local governments' requirements such as planning, budgeting, accounting, financial reporting, assets management, procurement, and external auditing (Anwar & etl, 2014). Financial management is the science and art of financial planning, allocating, evaluating, and reporting financial resources to achieve the set objectives, goals and performance targets (Adekoya, 2023). Financial Management (FM) is associated with good governance, efficient management of public resources, proper budgeting and budget execution, planning, allocation of funds, revenue management, procurement, financial reporting and accountability to achieve organizational goals and success (MoFPED, 2017).

Despite the associated benefits of financial management, studies reveal declining financial management among local governments. For example, in the USA, there has been serious financial management weaknesses as the Federal Government has failed to adequately account for federal transactions and balances between agencies and properly prepare the financial statements accompanied by ineffective information system controls (GAO, 2021). Furthermore, in China, according to the recent development of state-owned enterprises, the situation pointed out that internal control imbalance, improper management of funds and inefficient personnel quality has daunted financial management (Tao & Jiao, 2018).

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