Quality of Accounting Information and Financial Performance of Uganda's Public Sector

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ABSTRACT

The study aimed at establishing the relationship between the quality of accounting information and financial performance of the public sector in Uganda. Despite the continuous production of accounting information as required by the Government Financial and Accounting Regulations and adoption of IPSAS, there is widespread reported misuse of resources and poor accountability. The central question of the study was whether quality of accounting information had any impact on the financial performance of the public sector. The researcher adopted a blend of cross-sectional and descriptive research designs and stratified random sampling. The primary respondents were the City division who participate in the allocation and control of financial resources and act as watchdogs of the financial management process of the divisions on behalf of their electorates. A research questionnaire that addressed the quality attributes of accounting information was tested for validity and reliability and administered to collect primary data. Audited financial performance data was also analyzed. It was discovered that Relevance, reliability, understandability, accuracy and timeliness were true measures of the quality of accounting information through factor analysis. T-tests and ratio analysis revealed that the reporting units where financial accounting information was perceived of high quality reflected higher levels of financial performance. Regression and correlation analyses revealed a significant positive relationship with approximately 58% of the financial performance levels attributed to financial information quality. It is therefore desirable that public sector entities employ highly skilled professionals that adhere to reporting requirements of the legal and regulatory framework.

Key Words: Accounting, accountability, Information, financial, Performance, IPSAS, Public sector

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Introduction

As a result of the decentralization policy in Uganda, the amount of funds transferred by the center to the local governments has been increasing tremendously over the years. By the financial year 2002/2003, about 30% of the central government budget was being executed through the local Governments. This trend implies that Local Government managers now have more resources to budget for and more financial decisions and accountabilities to make. In view of the above, finance staff in Local governments need to improve on their capacity to manage resources, keep proper and updated books of accounts and produce accurate and timely financial reports. (Participants' Handbook, MOLG, 2004)

Performance information is necessary for the discharge of accountability and financial and accounting information is often emphasized in determining accountability (Kloot, 1999). Indeed accounting plays a significant role in promoting accountability, efficiency and effectiveness of the public sector services (Zahiru, 2001). The purpose of national governments is to deliver services to its constituents that often do not give rise to revenue. Frequently governments make such resource allocation decisions with poor quality financial information that is not reliable, not timely and limited in its data on assets and liabilities (IPSASB, 2013).

Justification

Despite the continuous production of accounting information as required by the Local Government Financial and Accounting Regulations aimed at improving financial performance, there is persistent misuse of resources and poor accountability in the Local Governments of Uganda. For instance, the Auditor General's report on Kalangala District Administration accounts, revealed excess expenditure totaling to UGX. 409,888,867. This was contrary to the financial regulations for lack of authority, non-accountability of funds and excess expenditure on council, committee, Boards and commissions (Muwanga, 2001). Further evidence revealed that Public accountability was still Very poor in nearly all Local Governments. The finance report 2003/2004 Nakawa division reveals a biased reporting on incomes and expenditure with no attention on the assets and liabilities and other relevant financial information necessary for decision-making. The purpose of the study was therefore to determine the relationship between the quality of accounting information and the level of financial performance in the public sector of Uganda. The study was intended to cover the specific aspects of quality of accounting information to include Reliability, Understandability, Relevance, accuracy, and Timeliness. (SAC 3, 1990/ ASB, 2000) and (Barrett, 2004) and how this quality affects the level of financial performance in terms of Revenue collection, expenditure and financial accountability that focus on achievement of value for money (Ewama, 2003). The study contributes to the existing body of knowledge in areas of financial performance in the public sector.

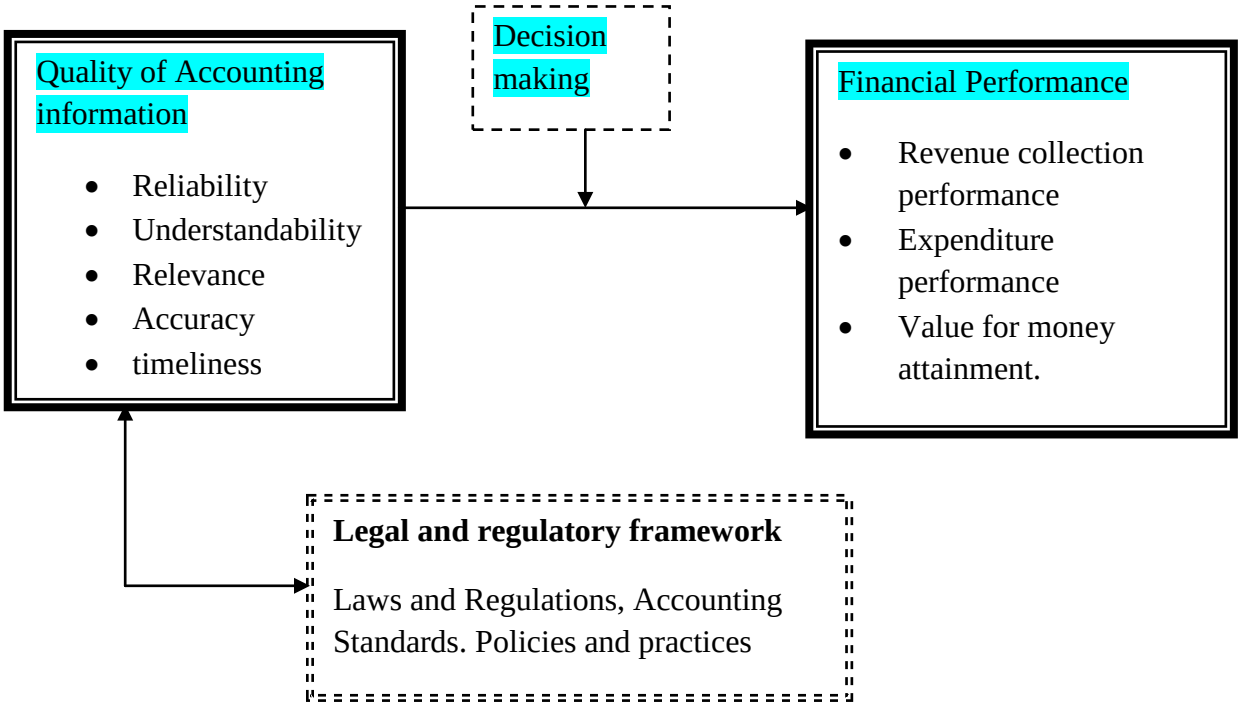

Figure 1: Conceptual Framework

Source: Based on Ewama, (2003) and SAC 3, (1990) & (Barrett, 2004)

The relationship in the conceptual framework is further supported by Bisnow (2004) statement that quality reporting is a critical part of the performance management effort, it improves communication with internal and external stakeholders, leads to better decision making and ultimately improves performance. The conceptual framework above further posits that that once the quality of accounting information is good, the resulting decisions can affect the levels of financial performance. The conceptual dimensions of financial performance include Revenue collection performance, expenditure performance and financial accountability that focuses on achievement of value for money (Ewama, 2003) and those of quality of accounting information are Reliability, Understandability, Relevance, Timeliness, and Accuracy for purposes of this research. The quality attributes are chosen on the basis of what is provided for in the Statement of accounting concepts (SAC 3, 1990) IAS, and (Barret, 2004).

Literature review

The researcher reviewed extant literature about the quality of accounting information and how it affects decision-making, financial performance in the public sector especially local

governments and the relationship between the quality of accounting information and financial performance, with emphasis on Local Governments.

Quality of accounting information

Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information (Wood, 1996). Data quality is a crucial issue for most organizations and local governments are not an exception. It is almost axiomatic that accrual accounting is able to produce better quality information for decision makers and accountability mechanisms Under the Financial Management and accountability Act 1997 (FMA Act) and the Common wealth Authorities and Companies Act 1997 agencies and other federal government bodies are required to prepare annual financial statements to be audited by the Auditor-General, who is required to report each year to the relevant Minister(s) on whether the entity's financial statements have been presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements (Barrett, 2004).

Quality characteristics of accounting information

The Quality characteristics are the attributes that make the information provided in financial statements useful to others (Goitom, 2003). In its statement of principles for financial reporting, the Accounting Standards Board (ASB) in the United Kingdom outlines reliability, relevance, materiality, comparability, understandability and timeliness as the qualitative characteristics of accounting information useful to information users (Stein, 2000). For financial information to serve its intended objective, it should be of good quality to enhance good decision-making. Below is the discussion of the quality attributes.

Reliability

The ultimate criterion of reliability is one that satisfies conditions that users know precisely the meaning of the information and the limits to the knowledge content of the information provided (Glaucier and Underdown, 1980). Accounting information should be reliable in use and this implies that the users should be able to rely on some basic assumptions about the quality of accounting information produced by accountants. The ultimate criterion of reliability is one, which satisfies the conditions such as: The users know precisely the meaning of the information and are not deceived in their analysis, that the users know precisely the limits to the knowledge content of the information provided (Glaucier & Underdown, 1980). Information is also reliable if: It can be depended upon by users to represent faithfully what it purports to represent or could reasonably be expected to present. It is free from deliberate or systematic bias, It is free from material error, It is complete with in bounds of materiality and prudence that has been applied in exercising judgment and making the necessary estimates. (Stein, 2000) as quoted by (Kigoma, 2003). Reliability of financial information will be determined by the degree of correspondence between what the information conveys to the users and the underlying

transactions and events that have occurred and have been measured and displayed. Reliable information will, without bias, or undue error faithfully represents those transactions (SAC 3, 1990). It is important that information is reliable. Information may be of a type which bears upon users' decision making. That is. be relevant but be as unreliable in nature or representation as to be useless or potentially misleading. If information is to be reliable, it should be free from bias, (that is be neutral) and should not be designed to lead users to conclusions, that serve particular needs, desires or perceptions of the preparers. Bias can stem from deliberate misstatement of financial information for fraudulent purposes and it can also stem from misguided conservatism, resulting in preparers filtering the information provided and thereby usurping the rights of users to make their own decisions. General purpose financial reporting should also be free from undue error if it is to be reliable (SAC 3, 1990).

Relevance

For financial information to be relevant, it must have value in terms of assisting users in making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by preparers. Financial information is to assist users in making decisions about the allocation of scarce resources by assisting them in making predictions, about future situations and in forming expectations and or it must play a confirmatory role in respect to their past evaluations (SAC 3, 1990). The information that the board receives must have relevance to their responsibilities and tasks (Stoner et al, 1995). Information is relevant if it is able to influence economic decisions of users and is provided in time to influence those decisions. Relevant information has predictive value. Information has predictive value if it helps users to evaluate or assess past present or future events. Information has confirmatory Value if it helps users to confirm or correct their past evaluations and assessments.

Accuracy

Information relating to an entity is accurate if all data to that entity have been reflected in its records (Stein, 2000). The more accurate the information is, the higher the quality and the more securely managers can rely on it in making decisions (Stoner et al., 1995).

Timeliness

Information is useful to users if provided in time when required. Impairment of reliability by reporting in time or and delaying reporting to include reliable information are unneeded actions. Therefore, the information provided by any information system must be available to the right person at the right time for appropriate action to be taken (Stoner et al, 1995)

Understandability

It is not good having all the points attended to if the financial statements are then presented in a way difficult for users to understand. An essential quality of information provided in financial statements is that it should be presented in such away that it is readily understandable by users

(IASC, 2000). According to the IASC framework, users are assumed to have abilities or reasonable knowledge of business and economic activities. Understandability measures text reader interaction and thus the ability of a reader to gain knowledge from the text. SAC 3 (1990) also states that it is the ability of users to understand financial information that depends upon their own capabilities and in part on the way in which information is displayed

Balance between quality characteristics

It may not be possible to reconcile conflicts between the characteristics of relevance, reliability, comparability and understandability and a trade off may be necessary (Neil, 2000). In constructing the report; the accountant must combine information elicited from the firm's manager with other information directly observable to the accountant. The manager's information is assumed to be directly observable only by the manager and to bf of superior quality to the other information available to the accountant. Reliability relevance trade-offs arise because as the accountant places more weight on the manager's report, potentially more useful information gets included in the report, at the cost of encouraging the manager to distort his or her information to a greater extent (Ronald & Sridhar, 2004).

Factors influencing quality of accounting information

In the developing countries, financial reporting practices are more of a result of "different sources of accounting influence" (Goitom 2003) and the various legal requirements. In Uganda Local governments, have been regulated by: The Local Government Resistance Council Statute 1993, The Constitution of the Republic of Uganda, 1995, The Local Governments Act 1997, The Local Government Financial and Accounting Regulations, 1998, The Local Government Finance Commission Act, 2003 (Banyoya, 2004). The Constitution also specifies the different modes of transfers as unconditional, conditional and equalization grants. Since it declared the decentralization policy, government has established the following to implement it: Extensive local council system, the Decentralization Secretariat in the Ministry of Local Government (1993-2002) and the review of Government Ministries to identify appropriate structures. The LG institutional framework is supported by strong central institutions to promote, guide, coordinate and sustain decentralization. These include: Ministry of Local Government, Sector Line Ministries, Auditor General, Local Government Finance Commission, Inspectorate of Government etc (Banyoya, 2004). Compliance with IAS guarantees "true and fair view presentation of accounting information" which is equated to quality of accounting information (IAS, 1997), the International Public Sector Accounting Standards (IPSAS) issued by the International Accounting Standards Board play a great role. The generators of financial statements who are supposed to be qualified accountants and competent personnel are also one of the important factors in the disclosure process of quality accounting information.

Accounting information users and their information requirements

Users of accounting information include investors, lenders, suppliers and other creditors, employees, customers, government agencies, the public and management (Stein, 2000). Suppliers are interested in information that not only helps them to decide whether to sell to the entity, but also assess the likelihood that the amount owing to them will be paid when due. Employees are interested in information that enables them assess their employment opportunities, retirement and other benefits. Governments and their agencies are interested in not only the allocation of resources but also activities of the entity. The public is interested in information that is useful in assessing trends and recent developments in the entity prosperity and the range of its activities that may affect their welfare. Management will be interested in analysis of revenues and expenses and the cost consequences of a particular course of action to aid their decision-making.

Financial performance in the public sector

The conceptual framework above clearly indicates that the major dimensions of financial performance under study include revenue collection performance, expenditure performance and value for money performance.

Revenue collection performance

When a public sector unit like a City division needs more revenue, Division staff can assist by identifying possible new revenue sources and by developing revenue projections (Susana, 2004). Governments rely on a wide variety of tax instruments available for their revenue needs, such as direct, indirect, general, specific, business and individual taxes. The decentralization of revenue collection can also serve to increase the cots of collection and compliance, both for the public sector and for the private sector. There will need to be rules for allocating tax revenues among jurisdiction; in their absence, some tax bases may face either double taxation or not taxation at all. (Jennie, 2004) Constitution empowers local governments to plan and levy taxes, directs Government to transfer funds to local governments in form of unconditional, conditional and equalization grants, provides for the LGFC to recommend to the President the amount to be allocated to local governments. The role of the central government ministries is to develop policy, monitor and coordinate government programs and activities as they apply to local governments. Local government expenditures are funded through transfers (over 80%), local revenues (less than 10%) and direct donor support (5 - 10%), For FY 2003/04, Central transfers account for about 34% on the National Budget, 88.4% of transfers are composed of conditional grants, 11. 16% are unconditional and 0.44% are equalization grants, Most of the transfers are recurrent (76%) and development is 24%. The major source of LG local revenue is Personal Graduated Tax (80-90%) for rural and (40-70%) for urban. Other sources are property tax, fees and fines, user charges, trading license etc. (Banyoya, 2004).

Local revenue is vital because it: Contributes funds for service delivery and it is not subject to central government control but it is faced by challenges such as Political interference, inadequate

records/register management systems, poor tax collection systems and weak incentives, weak tax benefit linkages as a result of inadequate sensitization and tax education, inappropriate laws such as the ones governing property rating and trade licensing, rampant corruption affecting tendering systems and the cash collected, inadequate capacities to effectively manage local revenue collections, enforcement and poverty, decayed attitudes leading to rampant tax evasion and avoidance, inadequate technical skills of tax management in local governments (Banyoya, 2004). However, it was stated that Kampala City Council gross revenue had grown from 24 billion shillings in 1997/98 to 69.7 billion in 2004/2005, which represented an average growth rate of 16.5% per year over 8 years.

Expenditure Performance

Local governments can earn additional revenues by initiating a cash management and investment program. Managing cash ensures an efficient use of idle money and increases revenue. Whether money is invested for one month or for five years, local governments must be sure that their investments are legal, safe, and liquid (Susana, 2004). The Local Government Act 1997, confines expenditure on certain items to a certain percentage of total revenue (Muwanga, 2001). For instance, the Auditor General's report revealed that the local government act 1997 confined expenditure on the councils committees, commissions and boards to 15% of the total revenue collected during the preceding financial year. However, flexibility is needed on both the revenue and expenditure sides of local budgets and that budget flexibility is reduced when the budgeting process is rigid.. i.e. when the volume and structure of the budget are hampered to react to a changing business environment (Susana, 2004).

Local governments have a number of potential ways to cut costs including intergovernmental agreements. The local government act (1997), confines expenditure on certain items to certain percentage of total revenue private contracting, and accounts control (Muwanga, 2001). Awareness of how much individual services cost can lead to an examination of ways to make those services more cost-efficient or pay for themselves. The Australian government's financial framework is now firmly based on an accrual-based outcome and outputs model. It is designed to allow the Parliament to ascertain the real cost of delivering benefits to the Australian community (outcomes) and agency goods and services (outputs) (Barrett, 2004).

Value for money attainment

Value for money audit conducted by the Director of Audit (auditor general) is a formal tool of evaluation on government programmes. It helps improve public accountability by providing information on the performance of the government, which the public may not have access to (Raymond, 1995) It is widely known that performance information is necessary and financial and accounting information is often emphasized in determining accountability (Kloot, 1999). Efficiency, effectiveness and economy are the major components of value for money attainment with Efficiency being about making sure that a given course of action has been carried out and that appropriate outputs have been produced and that the ratio between inputs and outputs is the

most favorable (Day & Klein, 1987). Effectiveness is about making sure that a given course of action or investment of resources has achieved its intended results. The ultimate question is whether intended outcomes have been produced and the desired impact made (Day & Klein, 1987) and Economy is concerned with minimizing the cost of resources acquired or used, having regard to appropriate quality.

Relationships between quality of accounting information and financial performance

The key components of effective financial management include: access to relevant information; use of that information to enhance management standards; and assurance that the information is accurate, relevant and secure (Barrett, 2004). Accounting information systems maintain and produce the data (e.g., financial statements containing information about accounts and their balances) used by organizations to plan, evaluate, and diagnose operations and financial position (Peters et al, 2001), therefore, the aim of the regulators should be to make a system (accounting) that offers maximal benefits at lowest possible costs. Indeed, it was argued that an improvement in the revenue collection performance in Nakawa division was due to improvement in collection and compilation of reliable data.

According to Goitom, (2003), the better the quality of accounting information, the greater the possibility for a business success and this is possibly because accounting can be viewed as an information measurement and communication system to serve macro and micro-economic activities. Sometimes decision makers may be fed with irrelevant and useless information than they can use, they may overlook information on serious problems (Stoner et al, 1995). Investment decisions made in a vacuum are gambles; useful decisions are made depending on useful information (Sserwanga, 2003). Financial reporting that does not reflect economic reality will result in improper decision-making. It is therefore proper that, the public enterprises' managers, the supervision authority and the government as controllers to appreciate the need for quality accounting information in order that tax payers' money is not wasted. The objective of accounting is to provide information that is useful to the users in making rational decisions. Usefulness is characterized by relevance and reliability. It should be noted that the restoration of financial discipline in local governments through enhanced reporting standards and practices would be an important step leading to improvements in the quality of municipal governance and in the quality of citizens lives (Temple, 2002),. It was noted further that quality reporting is a critical part of the performance management effort it improves communication with internal and external stakeholders, leads to better decision-making and ultimately improves performance (Bisnow, 2004).

Methodology

The researcher here presents a description of the methodology that was employed in carrying out the study. The chapter spells out the research design, the study population and area, the sampling method, size and procedure, data collection, processing and analysis procedures and techniques. The methodology was generally in line with the requirements in Sekaran (2000). A

blend of cross-sectional and descriptive research designs was adopted. Descriptive research design helped to provide a clear understanding of the quality of accounting information, and the financial performance attributes in the public sector. To study the quality of accounting information, the researcher focused on regulation of financial management of the divisions and for consistence in the unit of analysis and generally for purposes of this research, division councilors for all the five divisions were considered for response. Table I below shows the number of councilors per division. A stratified random sampling technique was employed to choose respondents from the list of the respondents in each of the divisions. Samples were proportionately randomly selected from lists of the councilors in each of the divisions. The proportionate sample sizes are clearly indicated in table I below. The sample size was determined using the scientific formula for a finite population (Kaberuka, 2003) $n = Z^2.p.q.N/(e2\ (N-1)+Z^2.p.q) = 1.96^2X0.5X0.5X220/(0.05^2\ (220-1)+1.96^2.X0.5X0.5)= 141$. n = sample size, Z = Value of standard variate at 95% level of confidence, P = assumed percentage proportion (50%) Without knowledge about the population proportion, q = 1-p, N = population size of division councilors in Kampala and e = error margin. The sample size of each stratum was thus $n_i = (N_i/N)*n$, Where n_i _ Strata Sample, N_i = Strata population as shown in the table below. A mixture of primary and secondary sources of data was used. Primary data was collected using a questionnaire to obtain perceptions of respondents who were the division councilors. Secondary data was collected from Kampala City Council through review of the budget report and other financial documents. The comprehensive questionnaire was used to collect the primary data about the perceived quality of accounting information. It comprised of closed ended questions based on existing theory in the literature. The instrument was first pre-tested through a pilot study to get rid of any possible errors and improve its validity and reliability. Research assistants were hired and guided to ease the data collection process Secondary data was collected by the researcher personally visiting Kampala city Council offices with an introductory letter from the Graduate Research Centre. The research instrument was tested for reliability and Validity using the Content Validity Index (CVI) determined at 0.837 and Crombachi's alpha coefficients at 0.6945 for reliability, 0.7285 for relevance, 0.8247 for understandability, 0.8591 for accuracy, and 0.6633 for timeliness. This was to ensure that the CVI and alpha coefficients were above 0.5, for the data collection instrument, which is the cut off for validity and reliability of the research instrument. The data collected was edited, coded and analyzed using computerized analysis. The statistical package for scientific research (SPSS) is a computer Programme that was utilized to code and analyse data. Windows Excel Programme was also utilized in computing financial performance ratios. Regression and correlation analyses were conducted to determine the nature and degree of the relationship between the variables.

Findings

This chapter presents the analysis, interpretation and discussion of findings of the study based the primary and secondary sources of data. It presents the findings on the quality of accounting information in the chosen local governments, their levels of financial performance and

the relationship between the perceived quality of accounting information and financial performance of the local governments under study.

Demographic features of respondents

This shows the necessary characteristics of the respondents to include their location, length of service, level of knowledge and participation in the financial activities of the divisions. Table 1 below shows a response rate of 100% in all the divisions achieved due to high level of effort involving professional data collectors.

Table 1: Response rate per division

Division	Expected number of respondents	Actual number of respondents	Percentage
Central	25	25	100
Kawempe	30	30	100
Lubaga	30	30	100
Nakawa	28	28	100
Makindye	28	28	100
Total	141	141	100

Source: Primary Data

Table 2 below shows that the majority of the respondents about 67% had experience of over five years. This provided the researcher with a category of respondent that are highly familiar with the activities of' the divisions and thus with an ability to provide information that can be relied upon to make deductions about the quality of accounting information.

Table 2: Length of service

	Frequency	Percent	Cumulative Percent
< 5 years	33	23.4	23.4
5-9 years	42	29.8	53.2
10-14 years	42	29.8	83.0
15- 19 years	20	14.2	97.2
>20 year	4	2.8	100.0
Total	141	100.0	

Source: Primary data

Table 3 below shows further that the target respondents were good enough to guarantee credible findings with only approximately 2% and 4% indicting a very low and low level of Knowledge and participation in the financial activities of their divisions

Table 3: Level of knowledge and participation

	Frequency	Percent
Very Low	3	2.1
Low	6	4.3
Medium	49	34.8
High	67	47.5
Very high	16	11.3
Total	141	100.0

Source Primary data

Factor analysis was done to extract factors that measured the perceived quality of' accounting information, using principal component analysis and varimax rotation methods. Factors with Eigen values greater than 1.0 were extracted. Eigen values measured the amount of variation in the total sample accounted for by each factor. The Kaiser rule is to drop all components with Eigen values under 1.0 and Kaiser Criterion is the default in SPSS and most computer programs (Carson, 2002). Total variance explained by reliability, relevance, accuracy, timeliness and understandability in quality of accounting information was 59.597%. Factor analysis revealed that the components in the matrix were represented as: 1-Reliability, 2-Relevance, 3-Accuracy, 4-Timeliness and 5-Understandability. This implied that reliability, relevance, accuracy, timeliness and understandability are true measures of the quality of accounting information in the public sector in that order, indicating a 59.597% explanation of the variance in the quality of accounting information. This is confirmed in (SAC 3/990 and ASB, 200) and Barren, (2004) who states that the key components of effective financial management include: access to relevant information, use of the information to enhance management standards and assurance that the information is accurate, relevant and secure. The chosen quality characteristics for study can also be confirmed in the conceptual framework (fig. 1) in chapter I. This also serves as a confirmatory test for the validity and reliability of the questionnaire as seen in chapter one.

Quality of accounting information in the public sector

The researcher here sought to determine the perceived quality of accounting information presented to the stakeholders to aid decision-making. The researcher confirmed the general quality results by conducting a t-test per quality attribute and division. This analysis was presented in Table 4 below.

Table 4 shows significant differences in the perceptions of the reliability of accounting information among Kampala city division councilors. The highest significant mean deference was recorded in Nakawa Division at 4.0714, followed by Kampala central at 3.7200, Lubaga at 3.700, Kawempe at 3.700 and lastly Makindye at 3.2857. This therefore implied that Nakawa division had the most reliable accounting information, then Kampala central, Lubaga, Kawempe and Makindye respectively. The 2-tailed test showed very significant positive responses on reliability implying that the financial accounting information provided to the decision makers was generally

perceived to be free from systematic or deliberate bias, material or significant error, not fraudulent and was complete in terms of presentation of transactions facts relating to the incomes, expenditure, assets and cash flows of the divisions as provided for in (SAC 3, 1990).

Table 4: A t-test for perceived quality attribute and division

Kampala Central	N	Mean	t	df	Sig.(2-tailed)
Reliability	25	3.7200	34.343	24	.000
Relevance	25	3.9600	29.300	24	.000
Accuracy	25	3.6800	18.618	24	.000
Understandability	25	3.8000	24.877	24	.000
Timelines	25	3.6800	19.468	24	.000
General quality	25	3.7600	25.988	24	.000
Nakawa					
Reliability	28	4.0714	46.256	27	.000
Relevance	28	4.0714	82.146	27	.000
Accuracy	28	3.1786	43.124	27	.000
Understandability	28	4.0357	64.450	27	.000
Timelines	28	3.5357	36.838	27	.000
General quality	28	4.0000	54.991	27	.000
Lubaga					
Reliability	30	3.7000	43.480	29	.000
Relevance	30	3.6667	36.737	29	.000
Accuracy	30	3.4333	33.089	29	.000
Understandability	30	3.8000	37.783	29	.000
Timelines	30	3.0667	66.205	29	.000
General quality	30	3.5667	38.760	29	.000
Makindye					
Reliability	28	3.2857	20.347	27	.000
Relevance	28	3.7500	26.403	27	.000
Accuracy	28	2.8571	21.438	27	.000
Understandability	28	3.2857	17.816	27	.000
Timelines	28	2.8929	17.492	27	.000
General quality	28	3.2143	23.040	27	.000
Kawempe					
Reliability	30	3.7000	37.881	29	.000
Relevance	30	3.7667	26.660	29	.000
Accuracy	30	3.5333	24.937	29	.000
Understandability	30	3.7333	20.860	29	.000
Timelines	30	3.6667	28.240	29	.000
General quality	30	3.7333	31.966	29	.000

Source: Primary data analysis

Significant mean differences were also recorded in the perceived relevance of the accounting information with the highest mean difference recorded again in Nakawa division at 4.071, followed by Kampala Central at 3.9600, Kawempe at 3.76667, Makindye at 3.7500, and Lubaga at 3.6667 respectively. This implied that Nakawa division councilors had the best perception of relevance of the accounting information provided, followed by Kampala central, Kawempe, Makindye and Lubaga in that order. At the above levels of significance it was discovered that the information provided to the stakeholders had high levels of predictive and

confirmatory value that assisted them in making allocation decisions of scarce resources. This was inline with the recommendations of Stoner et al. (1995) and SAC 3, (1990).

The table further shows significant mean differences in the perceived accuracy of the accounting information with the highest mean difference recorded in Kampala Central at 3.6800, and then Kawempe at 3.5333, Lubaga at 3.4333, Nakawa at 3.1786, and Makindye at 2.8571 respectively. This implied that Kampala central had the highest perceived accuracy of accounting information, followed by Kawempe, Lubaga, Nakawa and Makindye in that order. However, the high significant levels further imply that the financial information provided to division councilors was generally perceived highly accurate with minimal over or understatement of transaction values. This was in line with the requirements in Stein, (2000) and therefore implied high quality financial information that can securely be relied upon in making decisions as provided for by Stoner et al. (1995).

It was further discovered that there were significant differences in the perceived understandability of accounting information provided with the highest mean difference recorded in Nakawa at 4.0357, then Lubaga at 3.8000, Kampala central at 3.8000, Kawempe at 3.7333 and Makindye Respectively. This implied the highest level of perceived understandability in Nakawa Division, and then followed by Lubaga, Kampala central, Kawempe and Makindye Respectively. With high significant levels in all the divisions, it was discovered that the financial information is generally understandable to the decision makers. This implied that probably accounting information was well displayed and or the experience possessed by many of the councilors with 66.6% of the councilors having served for more than 5 years and over 94% possessing between medium and very high level of knowledge and participation in the financial activities of the divisions (see Table 2 and 4 above), possess the proficiency necessary to comprehend, this is supported by (IASC, 2000) and SAC 3, 1990)

Finally, the t-test also revealed significant mean differences in the perceived timelines of the accounting information provided. Kampala central had the highest mean difference at 3.6800, followed by Kawempe at 3.6667, then Nakawa at 3.5357, and Lubaga at 3.0667, and Makindye at 2.8929. This implied that Kampala Central was perceived to provide the timeliest information, followed by Kawempe, Nakawa, Lubaga, and Makindye respectively. With significant responses on timeliness in all divisions, it was perceived that reporting met acceptable limits of length of time. This implied that information did not lose its relevance due to undue delays. This meant that information would be available to the right people at the right time to facilitate appropriate action. This was also in line with the requirements stated by Stoner et al 1995 and SAC 3, (1990)

It should be noted however that, the perceived quality in terms of the individual quality attributes is not necessarily consistent with the overall perceived quality with different divisions ranking best and worst in different attributes. The researcher attributed this to the difficulty in striking a balance between characteristics as confirmed by Ronald & Sridhar (2004) that in constructing the report; the accountant must combine information elicited from the firm's manager

with other information directly observable to the accountant. Reliability-relevance trade-offs arise because as the accountant places more weight on the manager's report, potentially more useful information gets included in the report.

Expenditure, revenue and value for money performance

Table 5 below shows the financial figures relating to all the Divisions for the financial year 2004/2005. The information indicates the budgeted and actual revenue, and then the budgeted and actual expenditure.

Table 5: Budgeted/actual revenue and Expenditure 2004/2005

Division	Budgeted Revenue	Budgeted Expenditure	Actual Revenue	Expenditure Actual
Central	8,605,000,000	5,948,000,000	9,040,445,260	6,300,000,000
Nakawa	2,355,337,898	3,571,000,000	3,571,073,597	4,138,000,000
Lubaga	1,102,829,320	1,889,000,000	1,305,299,265	1,377,500,000
Makidye	1,768,452,827	1,786,000,000	1,630,823,114	1,668,000,000
Kawempe	1,308,547,597	1,892,000,000	1,485,911,485	1,964,800,000

Source: Kampala city council budget book (District estimates) (200415)

Table 5 above shows, Kampala central with the highest levels of Budgeted revenue, Budgeted expenditure, actual revenue and actual expenditure with amounts over 8 billion shillings and 9 billion shillings for budgeted and actual revenue respectively and over 5 and 6 billion shillings for budgeted and actual expenditure respectively. In terms of levels of income and expenditure, next were Nakawa, Lubaga, Makindye and Kawempe respectively. As absolute figures for revenue and expenditure value could not give good comparative levels of financial performance, ratios were computed and presented in Table 6 below.

Table 6: Financial performance ratios for Kampala City divisions

Division	**Revenue Performance (Budgeted/Actual)**	**Expenditure Performance (Budgeted/Actual)**	**Value for Money (actual rev./Actual Exp.)**
Central	1.05	1.06	1.43
Nakawa	1.52	1.16	0.86
Lubaga	1.18	0.73	0.95
Makidye	0.92	0.93	0.98
Kawempe	1.14	1.53	0.76

Source: Computed by researcher based on Kampala city council Budget book. (2004/5)

Revenue performance was computed as a ratio of actual revenue and budgeted revenue and showed a fairly good performance in all the divisions exceeding the revenue performance expectations. In the lead was Nakawa Division with 152% performance. Lubaga division followed with 118% performance next was Kawempe with 114%, Kampala central with 105% and

Makindye coming last as the only division with less than 100% performance at 92%. This implies that four of the Kampala city divisions collected more revenue than budgeted for. The positive performance of the four divisions above was in line with the City Council of Kampala's budget performance report on revenue collection performance. It was stated that council gross revenue had grown from 24 billion shillings in 1997/98 to 69.7 billion in 2004/2005, which represented an average growth rate of 16.5% per year overe 8 years. It is further revealed that business (licenses were the highest contributors to the district income bringing in 14.5% of district's total revenue collection. It was followed by graduated tax, 13%. Land premium, car parks and property rates were also great contributors. These sources of income are in line with the sources identified by Banyoya, (2004). One possible reason for good revenue collection performance is the identification of new possible sources and developing revenue projections. Other factors responsible for the above level of performance may include limited political interference, adequate record management systems, the nature of the tax collection systems and incentives, sensitization and tax education and improved laws, adequate capacities to effectively manage revenue collections, reduced tax evasion and avoidance and adequate skills of tax management in local governments (Banyoya, 2004)

Further findings indicated that three of the divisions exceeded their budgeted expenditure or funds provided for expenditure. These were the divisions with expenditure ratios above 1, which is the 100% mark. These divisions included Kawempe at 153%, Nakawa at 116% and Kampala central at 106%. The other two divisions Makindye and Lubaga spent less than the budgets had provided. The three divisions exceeding the funds available for expenditure managed a flexible budget that was an essential requirement for effective service delivery. This was in line with Susana (2004) who stated that flexibility is needed on both the revenue and expenditure sides of local budgets and that budget flexibility is reduced when the budgeting process is rigid. However, excess expenditure should be in line with the financial regulations. It was observed that the local government act 1997, confines expenditure on certain items to certain percentage of total revenue (Muwanga, 2001). Though the researcher could not determine whether the excess expenditure in the three divisions of Kawempe, Nakawa and Kampala central was in line with the regulations, it was observed that all the divisions in question had achieved more income than budgeted giving them more flexibility to exceed budgeted expenditure.

Value for money attainment was computed for purposes of this research as a ratio of actual income and actual expenditure, with actual income looked at as the output. Expenditure was viewed as the input that is an investment that enables local governments collect revenue though revenue collection is not the sole objective having service delivery among others. This is supported by Day and Klein (1987) who stated that efficiency, effectiveness and economy are the major measures of Value for money attainment with efficiency being about making sure that a given course of action (revenues collection for purposes of this research) and that appropriate outputs have been produced and that the ratio between inputs and outputs is most favorable. Kampala central division was the only division to have exceeded the 100% value for money attainment mark with 143%. The rest of the divisions were also above the rule of thumb average

mark of 50% with Kampala central followed in terms of performance by Makindye division at 98%, Lubaga at 95%, Nakawa at 86% and finally Kawempe at 76%. This generally implied that the divisions are quite efficient and effective in terms of achieving targets, showing a high level of value for money. The researcher also found that the ratios are reflective of a relatively high level of economy that is concerned with minimizing the cost of resources acquired or used as stated by Day and Klein (1987) with the resources being the revenue collected and the cost of the resources being the actual expenditure.

Quality of Accounting Information and Financial Performance

The researcher here established the relationship between the perceived quality of accounting information and the financial performance of the public sector focusing on Kampala city divisions. Spearman's correlation matrix was used to determine the nature of relationship between each of the quality attributes of accounting information and the levels of financial performance. It was discovered as seen in the matrix Table 7 below that there is a positive correlation between the quality of accounting information and financial performance.

Table 7: spearman's Correlations Matrix Extract

	Revenue performance	Expenditure performance	Value of money performance	Overall performance
Reliability	0.894*	0.671	0.224*	0.918**
Relevance	0.707**	0.707	0.354*	0.725
Accuracy	0.447	0.671 **	0.783**	0.803**
Understandability	0.894*	0.671**	0.224*	0.918**
Timeliness	0.738**	0.949**	0.369*	0.973

**** * Correlation significant at 0 01 level of significance, *significant at 0.05 level of significance***

Source: Primary analysis

Results in Table 7 above show that reliability had a significant positive relationship with financial performance (r- 0.918, P-value <0.01). Relevance also had a significant positive relationship with financial performance (r = 0.725, P-value <0.01). Accuracy, understandability, and timeliness were also found to have a significant positive relationship with financial performance at r- 0.671, and 0.949, P-value <0.01. A multiple regression model was also used to confirm the relationships established above and also determine the nature and degree of the relationship between the perceived quality of accounting information and financial performance of Kampala City Divisions as shown in Table 8 below.

Table 8 indicates that the quality of accounting information is linearly related to the financial performance of the public sector under study (F=3.695, sig. =0.004) with reliability, relevance, understandability and timeliness significantly explaining 58.1% of the total variance in performance. This implied that the perceived quality of accounting information significantly explained 58.1% of the financial performance levels of the divisions. Relevance contributes the most (Beta = 0.643) followed by reliability (Beta =0.567), understandability, (Beta = 0.548) and

timeliness at Beta =0.395. The above findings are supported by (Kayongo, 2005), who stated that the improvement in the revenue collection was due to improvement in collection and compilation of reliable data. The relationship between the quality of accounting information and the financial management that leads to good performance was confirmed further by (Temple, 2002), who asserted that the restoration of financial discipline in local governments through enhanced reporting standards and practices would be an important step leading to improvements in the quality of municipal governance and in the quality of citizens lives. It was noted further that quality reporting as a critical part of the performance management effort improves communication with internal and external stakeholders, leads to better decision-making and ultimately improves performance (Bisnow, 2004).

Table 8: Multiple regression model

	Unstandardised coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
Reliability	0.596	0.198	0.567	3.159	0.000
Relevance	0.747	0.174	0.643	2.898	0.000
Accuracy	0.315	0.169	0.241	0.912	0.064
Understandability	0.578	0.190	0.548	2.754	0.000
Timeliness	0.580	0.160	0.395	2.633	0.000
	R	**R^2**	**Adjusted R^2**	**F**	**Sig.**
	0.776	0.602	0.581	3.695	0.004

Dependent variable (Constant): Financial performance ***Source: Data analysis***

Conclusions and Recommendations

The study sought to establish the relationship between the quality of accounting information and financial performance of the public sector focusing on Kampala City divisions. It was confirmed that reliability, relevance, accuracy, timeliness and understandability are true measures of perceived quality of accounting information in that order. Ratio analysis was done to determine the levels of financial performance in terms of revenue collection performance and expenditure performance based on budgeted and actual values. Regression and correlation analyses were conducted to determine the nature and magnitude of relationship between the perceived quality of accounting information and financial performance. The findings led to a conclusion that the financial accounting information provided to the decision makers of Kampala City Divisions was of high quality. It was perceived generally relevant, reliable, understandable, accurate and timely enough to facilitate sound decision-making. This meant that the decision makers received a high level of accountability to enhance positive decision-making that would lead to high levels of financial performance. It was no wonder that financial performance was fairly good in all the divisions exceeding the revenue performance expectations. Reasons for good

financial performance were identified as; adequate record management systems, the identification of new possible sources, limited political interference, the nature of the tax collection systems and incentives, sensitization and tax education and improved laws, adequate capacities to effectively manage revenue collections, reduced tax evasion and avoidance and adequate skills of tax management in local governments. Existing reports however indicate that the good financial performance is not replicated in Local governments out of the Capital City Kampala where there was a general outcry of declining levels of local revenue due to lack of proper financial management practices. The local government parts of the public sector may need to borrow a leaf from the Kampala Capital City division practices for improvement where it was discovered that the restoration of financial discipline through enhanced reporting standards and practices would be an important step leading to improvement in the quality of governance and communication with internal and external stakeholders, leading to better decision-making and improved performance.

Recommendations

- Enough effort should be directed towards the production of good quality accounting information in all the public sector especially local governments in order to improve financial performance. Such information should be free from systematic or deliberate bias, material or significant error, complete and not fraudulent with high levels of predictive and confirmutory value. Accounting practices that tend to over or understate, or even delay the reporting process should be avoided.
- To improve the quality of accounting information, local governments must employ highly skilled competent professional accountants to generate the financial information. These are generally believed to be responsible for the selection and application of accounting principles as well as the underlying estimates and judgments.
- Generators of the accounting information should adhere to the code of ethics and be able to comply with the requirements of the laws, regulations, policies and standards guiding the preparation and presentation of such information. Accountants who fail to comply with quality reporting requirements should be punished while those that comply should be rewarded.
- Training workshops and seminars aimed at sensitizing local government finance staff and other key decision maker's should be organized. This would enhance awareness of stakeholders of the need for good quality reliable and timely information to enhance proper financial management practices.

Recommendations for further research

Since the correlation coefficient revealed that the quality of accounting information determines 58.1% of the levels of financial performance, further studies should be carried out to determine the impact of other factors that affect financial performance in the public sector such as the legal and regulatory framework, the level of participation of society and other micro and macro economic factors.

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