

Internal Control System and Revenue Collection in Local Governments. A Case Study of Lira District Local Government

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Abstract

The study assessed the effects of internal control system on revenue collection in Lira District local government. The main objective was to assess the effects of internal control system with emphasis on control environment, control activities and monitoring of controls on revenue collection. Specific objectives were to: examine the influence of control environment on revenue collection; assess the effects of control activities on revenue collection; and determine the effects of monitoring on revenue collection. The research adopted cross-sectional research design with descriptive and quantitative approaches, and employed both primary and secondary method of data collection with 93 respondents selected from the population of district staff and executives. To determine the reliability of research instruments a pilot study was conducted before the actual data collection and further split half method was carried out to calculate Cronbach alpha. A value of above 0.899 was obtained and confirmed the reliability of the research instruments. The data was analyzed using both inferential (multiple regression and correlation) and descriptive statistics (frequencies, percentages, mean and standard deviation) and was presented by use of tables and charts. The study findings indicated that that control environment and monitoring had no significant effect on revenue collection whereas control activities had significant effect on revenue collection (coefficient =0.542, $p=0.005$). The study recommends that, Lira district local government should ensure compliance with laws, regulations and operational controls in their internal control systems. Finally, there is need to avail competent internal and external professionals who have responsibilities of making an effective and efficient control environment as well as ensure effective control activities in their institution.

Keywords: control environment, control activities, monitoring, revenue collection

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1. Introduction

Globally, Local governments are under pressure to deliver basic services such as storm water drainage, waste management, adequate street lighting and primary healthcare to their citizens (McCluskey, Huang, Doherty and Franzsen, 2019). The concept of revenue collection has attracted considerable attention over recent years and has become an important issue for modern local governments (LGs) including municipal local governments (SEATINI Uganda and KIWEPI, 2017).

Local Revenue refers to a sum of payments made to a Local Government (LG) by individuals and organisations meant to finance service delivery and devolved expenditure functions within a LG area and within the jurisdiction of a LG as approved by an Act of Parliament (SEATINI [Southern and Eastern African Trade, Information and Negotiations Institute] & KIWEPI [Kitgum Women Peace Initiative] Report, 2014). Furthermore, Aggestam-Pontoppidan (2017) define revenue as influxes of assets obtained for products or services rendered to clients. Government revenue comprises all sums of money obtained from the government external sources. Big governments typically have an agency or division that takes part in government revenue collection from corporations as well as people. It similarly comprises printed reserve bank currency.

Awitta (2010) defined revenue collection as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time.

A sound revenue system for local governments is an essential condition for the success of effective service delivery because no public institution or entity can provide goods and services to communities without having money available to cover its operational costs (Pieters, 2015).

Improvement process of local revenue mobilisation is key to functioning of the decentralisation process and for the provision of social services such as health, education, water, roads and security because with insufficient revenue, LGs are unable to fulfill their mandate of service delivery, hence hindering the decentralisation process (SEATINI Uganda & KIWEPI, 2017).

As such, in many African countries, local governments are mandated to collect a variety of taxes and user fees including trade licensing, property taxes, market fees, garbage collection fees and road user fees to fulfill

their mandate of service delivery.

In Kenya, Mutua and Wamalwa (2017) in their study on Enhancing Mobilization of Own Source Revenue (OSR) in Nairobi City County observed that, Local revenue is an important income source for the County given that own source revenue is critical to meeting budgetary and service delivery needs.

In Uganda, local governments collect revenue in order to bridge the funding gaps between central government transfers and the actual amount of funds budgeted by the local government. In addition, local revenue mobilization has the potential to foster political and administrative accountability by empowering communities (Mapaata, Lubogoyi & Okiria, 2017). Local revenues provide the most discretionary source of financing and therefore local revenue enhancement is a critical component of Local government financing mainly for recurrent operations and sustainability of infrastructure investments - fiscal decentralization (LGPA [Local Government Performance Assessment Report] Report, 2018).

On the other hand, management is having the duty to institute as well as up hold an internal control system that is operational. The audit committee is to watch over these controls and assess their effectiveness in entirety (Kumuthinidevi, 2016).

COSO report (2012) defines control activities as guidelines and methods that enable appropriate initiation of responses in case the organization is facing risks. Ngugi, (2011) refers internal control system as an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business. According to Hongming (2012), internal control system resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management and is directly linked to the organizational structure and rules of the business.

Internal control is pertinent to every individual in the place of work because it exemplifies their ethical obligation to comprehend and adhere to entity's policies and procedures, as well as to hold themselves accountable. The key drive being to help protect an entity and promote its goals. They similarly aid to lessen risks as well as protect resources, guarantee accuracy of information, facilitate operational efficiency, and promote observance to policies and regulations. Management has the duty to institute as well as uphold an internal control system that is operational. The audit committee is to watch over these controls and assess their effectiveness in entirety (Kumuthinidevi, 2016).

An effective internal control system offers rational guarantee that guidelines, processes, responsibilities, conducts as well as other organization aspects, collectively, are portioning efficiency, safeguarding the quality of internal and external recording, as well as upholding conformity to relevant guidelines. Internal control keeps an entity on track toward its goals as well as the realization of its objective, and reduces risks on the course. Internal control facilitates operational effectiveness, minimizes the asset loss risk, and assists to ensure conformity to relevant guidelines. Theoretically therefore, an establishment with effective internal control system is anticipated to efficiently and effectively accomplish its objectives (Al-Zwyalif, 2015)

Internal control systems are a fundamental aspect of management stewardship responsibility to provide interested parties with reasonable assurance that their organisation is effectively controlled and that the information they receive are accurate and dependable (Mahmoud, 2017). The overall purpose of internal control systems is to help an organization achieve its mission through promoting orderly, economical, efficient and effective operations, and producing quality products and services consistent with the organization's mission, safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud; and promote adherence to laws, regulations, contracts and management directives as well as develop and maintain reliable financial and management data, and accurately present that data in timely reports (Musya, 2014).

Internal controls are essential to corporate success and survival because they provide reasonable assurance on the achievement of objective in a number of categories including: effectiveness and efficiency of operations; reliability in financial reporting; and compliance with applicable laws and regulations (Muhibat, 2016).

According to COSO [Committee of Sponsoring Organizations of the Tread Way Commission], Internal Control Integrated Framework (2012), five elements of internal controls are mentioned namely: controlling of environment, analysis of risk, control of activities, communication of information, and systematic review of these elements. The five elements of internal control systems: Control environment, control activities, information and communication, risk assessment and monitoring of control must be available for internal control system to work (Ongeri, 2015). However, this study is limited to the three elements of internal control systems namely control environment, control activities, and monitoring of control.

Uganda was among the first African countries to embrace a decentralised system of government in the 1990s with the objective to bring services closer to the people while at the same time enhancing local participation and democracy. The success of decentralisation was, however, greatly dependent on the amount of funds and other resources available to local governments. Before it was scrapped, graduated tax a form of poll tax contributed a significant part of local government own source revenue (Bakibinga & Ngabirano, 2019).

The Constitution of the Republic of Uganda 1995 (as amended), and the Local Government Act (CAP 243)

also devolved service delivery mandates to Local Governments (LGs). The Local Government Amendment Act, (2015), and the Local Government Accounting and financial regulations (2007) have devolved the mandate of service delivery to Local Governments. The Central Government in accordance with Article 195 of the Constitution is mandated to provide grants to local governments and Article 191 of the Constitution and Sec 80 of the Local Government Act (CAP 243) require local governments to prepare their own development plans and budgets, mobilize revenues locally to facilitate funding for recurrent and development expenditure for service delivery. The Local Government Act section 77(1) empowers local governments to formulate, approve and execute their budgets and plans and to collect revenue and spend it (SEATINI Uganda & KIWEPI, 2017); and the public Finance Management Act (2015) through Appropriation in Aid also gives power to local governments to collect and spent local revenues to supplement their spending on service delivery

Since financial year 2015/16, Government of Uganda started to implement reforms to improve the way LGs are financed to implement their mandates as enshrined in the law(s) governing them. Government has embarked on reforms to finance LGs to enable them to better deliver the mandated services. Among these is the Intergovernmental Fiscal Transfer Reform that started in FY 2014/15 that focuses on three main objectives: a) Restore adequacy in financing of decentralized service delivery; b) Ensure equity in allocation of funds to LGs for service delivery; and c) Improve the efficiency of LGs in the delivery of services (LGPA Report, 2018).

In addition, since the financial year 2011/12, the Local Government Finance Commission has supported a number of LGs through, among other activities, installing a local revenue database system to improve taxpayer data and increase collection. Currently those which are effectively operational are 24 districts and the 14 Municipalities under the USMID program (BMAU [Budget Monitoring and Accountability Unit], 2019).

However, despite the above legal provisions, reforms and supports, revenue collection remains a major challenge facing many jurisdictions but this is more acute in developing countries. Various audit findings and researchers revealed that almost all local authorities rely on Central government (CG) grants in order to run their operations and developmental activities well without which almost all Local governments could collapse (McCluskey, et al, 2019).

In Sierra Leone and Malawi, Fish (2015) noted collecting revenue from large numbers of businesses and citizens as an ongoing challenge especially in developing countries.

In Tanzania, Mdagachule (2014) also assessed factors affecting revenue collection in Local government authorities in Mpwapwa District Council and found several problems in collecting revenue from its own sources.

In Uganda, local revenue enhancement in local governments continues to be a very big challenge despite the various interventions from the different stakeholders (Local Government Performance Assessment report, 2018). Over the years, the inadequacy of Uganda locally generated revenue has remained a major challenge for LGs with recent studies showing that collections of local revenues are highly inadequate and that local governments are highly dependent on central government grants in running their operations (Bakibinga and Ngabirano, 2019), as newly introduced taxes have been unable to fully compensate for Graduated Tax leaving a financing gap (BMAU, 2019).

The contribution of local revenues to the Local Government budgets has remained low, at less than 3% for district local governments, and 7% for Town Councils and Municipalities (BMAU, 2019). According to the Local Government Performance Assessment report (2018), it has been inevitable to have a poor local revenue performance and an eye opener to realise that only 22% of the local revenue potential is being collected which raises questions as to what happens to the remaining 78% uncollected.

In Lira district local government, the Auditor General's Reports, 2017/2018 highlighted ineffectiveness in the Internal Control System; and a shortfall in revenue collection by 57%. The revenue performance report for the financial year 2018/19 reveals that 59% of the planned local revenue was not realised while for the financial year 2019/20, out of the budgeted local revenue, 63% was not realized (Lira District revenue performance reports, 2018/19; 2019/20). This implies that not all planned activities in the respective financial years were implemented. In Lira Municipal council too, poor local revenue collection has been reported (Internal Audit Reports, 2018/2019).

Most of the Local governments are still unable to finance their budgets from locally generated revenues (SEATINI Uganda & KIWEPI, 2017). As a result, SEATINI Uganda & KIWEPI's report indicates that, Local governments largely depend on central government transfers who are usually conditional earmarked by the Central Government for provision of specific services. This has led to dominance of Central Government (CG) transfers for financing. CG grants to Local Governments contribute over 85% of financing to LG budgets with more than 90% of this funding coming in form of conditional grants (BMAU, Reports, 2019).

In most of the Uganda local governments, there is poor service delivery due to inadequate revenue available for the local governments to perform quality services to the community (SEATINI Uganda & KIWEPI, 2017). Local government financing is not sufficient to meet the level of demand for service delivery. There is an increasing inability of LGs to finance operation and maintenance of their investments in the wake of reducing local revenues. Focus has now been more on minor repairs leading to a backlog of rehabilitation and

reconstruction which is partly the cause of breakdown of public infrastructure investments like boreholes, bridges, and roads. The local revenue collected across most Local governments cannot even cover the sitting allowances for councilors in a financial year (BMAU, 2019).

This undermines the whole essence of decentralisation which, among other things, aims at strengthening the autonomy of local governments (Bakibinga & Ngabirano, 2019). From the above background, it can be seen that very little is known whether internal control systems are responsible for reduction in local revenue collection in Lira District local government. This has therefore prompted the researcher to assess the effects of internal control system on revenue collection in Lira district local government.

1.1 Problem Statement

The Government of Uganda has been implementing reforms to improve the way LGs are financed to implement their mandates as enshrined in the law(s) governing them. Despite the reforms, local revenue enhancement still remains a big challenge. The contribution of local revenue to the LG budgets has remained low to the extent that is less than 3% for district local governments, and less than 7% for Town Councils and Municipalities (LGPA Report-F/Y 2018/2019). In Lira district local government, the Auditor General's Reports, 2017/2018 highlighted ineffectiveness in the Internal Control System; and a shortfall in revenue collection by 57%. The revenue performance report for the financial year 2018/19 reveals that 59% of the planned local revenue was not realised while for the financial year 2019/20, out of the budgeted local revenue, 63% was not realized (Lira District Revenue Performance Reports (2018/19, 2019/20)). Despite the strategies put in place by the local government in local revenue collection, this trend seems not to improve. This implies that not all planned activities in the respective financial years were implemented. There is an increasing inability of Local Governments to finance operation and maintenance of their investments in the wake of reducing local revenues. Local government financing is not sufficient to meet the level of demand for service delivery. However, what remain unclear are the actual causes of poor local revenue collection in local governments (McCluskey, et al, 2019). It is upon the above glitches that the researcher assessed the effect of the internal control system on revenue collection in Lira district local government.

1.2 General Objective of the study

The main objective of the study was to assess the effect of internal control system on revenue collection in Lira district local government.

1.2.1 Specific Objectives

The study sought to achieve the following specific objectives:

- i) To examine the effect of Control environment on revenue collection in Lira District Local government
- ii) To assess the effect of control activities on revenue collection in Lira District Local government
- iii) To determine the effect of monitoring on revenue collection in Lira District Local government

1.3 Research Questions

The study sought to answer the following questions

- i) To what extent does control environment effect revenue collection in Lira District Local government?
- ii) How do control activities affect revenue collection in the Lira District Local government?
- iii) To what extent does monitoring of control affect revenue collection in the Lira District Local government?

1.4 Theoretical Underpinning

The study was grounded on two theories: Institutional theory and the Agency theory.

1.4.1 Institutional Theory

This theory, more sociological in character, originates from work done by Meyer and Rowan (1977) who emphasized that institutional theory is important theoretical perspective in accounting and theory research (Dillard, Rigsby & Goodman, 2004). According to this theory, entities develop and design structures, processes and systems not primarily based on rational economic cost benefit analysis, but because they are more or less required in incorporating new practices and procedures.

According to Meyer and Rowan (1977), organizations are driven to incorporate the practices and procedures defined by the prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures.

For the purpose of this study, Institutional theory was used because local revenue collection entities apply a system of corporate governance where there are several stakeholders, that is, the political class, the managerial class and the community or society. Institutional theory focuses more on the environmental factors being experienced by an organization such as "external or societal norms, rules, and requirements which organizations

must conform to, for them to receive legitimacy and support. This theory helped the researcher to understand the relationship that exists between different stakeholders and how it affects local revenue collection. Local Authorities use political structure of governance, which means their management is controlled by the political class in terms of policy making, decision making, revenue allocation and expenditures.

1.4.2 Agency theory

Agency theory was put across by Jensen and Meckling (1976), and later expanded on by Sarens and Mohammadi, (2010). Agency is a voluntary relationship between two or more parties in which one party is authorized by expressed or implied consent to act for and on behalf of the other, called the principal. The agent can thus affect or conduct the legal affairs of the principal with others as in the case of an agreement called “power of attorney” (Payne, 2003).

Deegan and Unerman (2006) noticed that with the agency theory the firm itself is considered to be a “nexus” of contracts. These contracts are used with the intention of ensuring that technocrats who are agents align their own interest with the interest of the principal to achieve its objectives. Central government (principal) does not directly promote the achievements of the objectives of the council but uses the Local government structures to do so by setting up the government rules and incentives to align the interest of the technocrats to that of the council.

The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents. As such, the theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents (Jensen & Meckling, 1976).

Agency theory helped the researcher to understand how internal control is used as one of numerous mechanisms in public-private organizations and businesses to address the agency problem such as agency costs that affects the overall performance of the relationship as well as the benefits of the principal (Payne, 2003). Ndungu (2013) discourses that, internal control system enhances the provision of additional information to the principal about the behaviour of the agent, reduces information gap and reduces investor risk and low revenue

2. Literature Review

2.1 The effect of control environment on revenue collection

Messier (1997) and Sri Lanka Auditing Standards (2013) have mentioned that Control environment is the attitude toward internal control and control consciousness established and maintained by the management and the employees of an organization. It may be viewed as the foundation for other components of internal control providing discipline and structure.

Alhassan (2018) in his study conducted in the Metropolitan, Municipal and District Assemblies in Ghana positively connected internal control system to the achievement of general objectives and more specifically revenue collection. In this study, correlational research design was used. The study population was 123 while the sample size for the study was 100. The lottery method of simple random sampling procedure was used to select the respondents. Questionnaire was used to collect data. The Cronbach alpha reliability coefficient of the questionnaire was 0.851, which was deemed appropriate and significant. The data were analyzed using inferential statistics. The finding identified control environment among the most effective control mechanism that provides support in the revenue collection, eliminating income and resource loss, identifying and preventing fraud.

Wangeci (2018) investigated the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection. The study utilized descriptive research design and targeted 3 level five hospitals in Kiambu County namely; Kiambu, Thika and Gatundu. Primary information was gathered using structured questionnaires. Analysis of the quantitative data was done via Special package for social science (SPSS) and tables were used to present the results. A chi-square was used to study the correlation between internal controls and revenue collection. The findings revealed a significant correlation between control environment and collection of revenue exists and thus concluded that an increase in environment of controls leads to revenue collection increase by the level five hospitals in Kiambu.

In a study conducted by Amutu (2017) to review the association between internal controls and revenue collection for commercial state corporations in Kenya, it was observed that there was a positive and statistically significant correlation between control environment and revenue collection for commercial state corporations in Kenya. In a research conducted by Ahimbisiwe (2018) in Bushenyi, it was established that there was a significant relationship between the control environment and the level of revenue collection at URA, Bushenyi Branch.

Ibrahim (2017) investigated the internal control and public sector revenue generation in Nigeria and revealed that control environment has positive and significant effect on local revenue collection in Federal Inland Revenue Service in Nigeria. Muhibat (2016) found a positive and significant relationship between control environment and revenue generation. They all concluded that control environment is very necessary in revenue

generation.

2.2 The effect of control activities on revenue collection

Control activities are the policies and procedures that help ensure that necessary actions are taken to address the risks involved in the achievement of the entity's objectives (Messier, 1997).

There is positive relationship between the elements of control system including control activities and the achievement of general objectives and more specifically revenue collection, and that control activities are among the most effective control mechanism that provides support in the revenue collection, eliminating income and resource loss, identifying and preventing fraud (Alhassan, 2018).

Musya (2014) undertook a study to examine the part played by internal control system in the collection of revenue by county governments in Kenya. The research was conducted using both qualitative and quantitative approaches. The study established that weak controls activities have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study therefore concludes that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in county governments in Kenya.

Oladimeji (2016) in his research on the Impact of Internal Control System on Revenue Generation in Public Establishment in Nigeria revealed that the internal control system has some impact on service delivery and revenue generation; and that weak control encourages embezzlement of collected revenue, collusion to fraud and loss of revenue.

Amutu (2017) reviewed the association between internal controls and revenue collection for commercial state corporations in Kenya. The study used a descriptive research design with census methods being used. The study targeted all the 43 commercial banks as unit of analysis. The unit of observation in the commercial banks was the senior operations manager, senior risk manager and senior internal auditor per each bank. The study involved a census of 129 respondents. Qualitative data was analyzed using content analysis with themes being developed as per the responses obtained. Using SPSS, quantitative data was analyzed and findings presented and organized in tables for easy understanding and this was in line with the specific objectives. A multiple linear regression was used to determine the extent to which each internal control affect financial performance among commercial banks in Kenya. It was observed that a positive and statistically significant relationship exist between Control activities and revenue collection for commercial state corporations. Ibrahim (2017) also investigated the internal control and public sector revenue generation in Nigeria and disclosed that control activities have positive and significant effect on local revenue collection in Federal Inland Revenue Service in Nigeria. Finally, Ahimbisiwe (2018) in Bushenyi, found out that there was a significant relationship between the control activities and revenue collection at Uganda Revenue Authority (URA) Bushenyi Branch.

2.3 The effect of monitoring of controls on to revenue collection

Monitoring is used to evaluate the quality of entity's internal control performance by tracking the internal control frame and operational status and take the necessary actions to ensure that internal control operate effectively. According to Mwachiro (2013), the role played by internal controls, especially, monitoring cannot be over undermined in ensuring effective revenue collection process as poor monitoring can encourage fraud, collusion, and embezzlement of the revenue collected and loss of revenue.

Ibrahim (2017) investigated the internal control and public sector revenue generation in Nigeria and disclosed that monitoring has positive and significant effect on local revenue collection in Federal Inland Revenue Service in Nigeria. Amutuaa (2017) conducted a research in Kenya and concluded that monitoring had a positive and significant association with revenue collection for commercial state corporations in Kenya.

Wangeci (2018) investigated the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection and established that an increase in monitoring control measures leads to an increase in the revenue collection.

2.4 The Gaps in Literature

The literature above gives a general overview of the relationship between revenue collection and internal controls, but information about monitoring, control environment and control activities which depicted a strong relationship with organisational revenue performance in Lira District LG is insufficient. Therefore, the results of this study would help identify and fill the gaps within the systems of internal control in Lira District LG.

3. Method

The research employed a cross sectional design. This design has been chosen because it allows data to be gathered just once in order to make inferences about the population (Wanje, 2014). In addition, the cross-sectional study design also appropriately fits in the time allowed to undertake a study that is academic in nature. This study was descriptive, quantitative and employed both primary and secondary data method of data

collection.

3.1 Study Population

According to information from Human Resource department, Lira district local government, 2019, there was 23 staff in the departments of finance, Audit, commercial and administration. In addition, information from the statutory department, 2019 shown that there were 50 Executive committee members both at the district and sub counties, and there were also 50 finance committee members both at the district and the sub counties. Therefore, the total population for the study was 123 people. Key informants included: Chief Finance Officer, Senior Finance Officer-Revenue, Principal Commercial officer, Senior Assistant Accountant, District Internal Auditor, and Internal Auditor, chosen based on the fact that they have the knowledge about Internal Control System and revenue collection in the district local governments.

3.2 Sampling Size and Selection

Using Krejcie and Morgan, (1970), formula, a sample size of 93, respondents were drawn from a population of 123 people. The approach of sample size determination is suitable for any number of participants, taking a 95% confidence level and an error margin of 5%, the number of respondents to be chosen.

Stratified random sampling was used to first group the respondents. Stratified random sampling refers to a process of dividing a population into smaller groups known as strata basing on the members' shared attributes. This was done by grouping the councilors in to committees and employees according to departmental levels. Stratification was done to minimize variability is within categories since the distribution of activities is generally not uniform across the groups. Simple random sampling and purposive sampling was then used to select the respondents. Purposive sampling technique refers to a process whereby the researcher selects a sample based on experience or knowledge of the group to be sampled. Purposive method was applied when selecting the committees and the staffs because there was need to specifically get information from those members who deal directly in local revenue issues.

3.3 Data Collection and Analysis

The research used primary method of data collection to obtain data from the respondents. Primary data refers to raw facts collected or generated in a given research for the first time. The primary data was generated by the researcher from the sample population by use of the questionnaire and interview.

Data obtained from the field in raw form was edited, coded, and was then entered into a SPSS software.

Data was then analyzed using SPSS. Descriptive statistical analysis was used to summarize the variables. Inferential statistics were used for data analysis. Under inferential, Pearson's correlation coefficient was also used to determine the relationship between the two variables which are internal control systems and revenue collection. Ordinary least squares multiple regression econometric model was used in estimating the effect of internal controls on revenue collection in the study. The multiple regression model is specified as follows:

$$RC = \alpha + \beta_1 CA + \beta_2 CE + \beta_3 M + \epsilon$$

Where RC indicates Revenue collection;

CA represents Control activities;

CE denotes the control environment;

β_i represents the coefficients of the independent variables, and the α is constant term.

4. Findings and Discussion

Findings are presented and discussed under the following sections; on the influence of Control environment on revenue collection, the effect of control activities on revenue collection, and the effect of monitoring on revenue collection.

4.1 The effect of Control environment on revenue collection

The study found that control environment as an element of internal controls has no significant effect on revenue collection in Lira District Local government ($\beta = -0.042$, $p > 0.05$). This finding inconsistent with Alhassan (2018), who conducted a study in the Metropolitan, Municipal and District Assemblies in Ghana and his finding positively connected control environment to the achievement of general objectives and more specifically revenue collection; and that control environment was among the most effective control mechanism that provides support in the revenue collection, eliminating income and resource loss, identifying and preventing fraud. This finding also disagreed with the study conducted by Amutu (2017) on the association between internal controls and revenue collection for commercial state corporations in Kenya and observed that control environment had significant effects on revenue collection. Wangeci (2018) further investigated the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection and found that control environment significantly impacts on revenue collection and that an increase in environment of controls leads to

increased revenue collection. Similarly, Ahimbisiwe, (2018) in Bushenyi established that control environment had significant effect on the level of revenue collection at URA, Bushenyi Branch. The findings were also not in line with research by Ibrahim (2017) who investigated the internal control and public sector revenue generation in Nigeria and revealed that control environment has positive and significant effect on local revenue collection. Finally, Muhibat (2016), found that control environment was very necessary in revenue generation and had significant effect on revenue generation.

4.2 The effect of control activities on revenue collection

The study found that control activities as an element of internal controls has a significant and positive effect on revenue collection. This result was found significant at 1% level of significance. With its coefficient of 0.542, a 1% improvement in the score of control activities will result in 0.542% enhancement in the revenue collection. This implies that control activities of internal controls are significant determinant of revenue collection in Lira district local government.

This finding concurs with research findings by Alhassan (2018), that elements of control system, including control activities influence the achievement of general objectives and more specifically revenue collection. In support to this finding, Oladimeji (2016) conducted a research on the Impact of Internal Control System on Revenue Generation in Public Establishment in Nigeria and revealed that the internal control system has some impact on service delivery and revenue generation. The research findings were similar to that of Amutu (2017), who reviewed the association between internal controls and revenue collection for commercial state corporations in Kenya and observed Control activities positively impacts on revenue collection for commercial state corporations. The findings were similar to research findings by Ibrahim (2017) who investigated the internal control and public sector revenue generation in Nigeria and disclosed that control activities have positive and significant effect on local revenue collection in Federal Inland Revenue Service in Nigeria. Likewise, the research finding was in line with a research conducted by Ahimbisiwe (2018) in Bushenyi and found that control activities have significant effect on revenue collection at URA, Bushenyi Branch. This finding was similar to findings by Oladimeji (2016), who conducted a research on the Impact of Internal Control System on Revenue Generation in Public Establishment in Nigeria and revealed that weak control encourages embezzlement of collected revenue, collusion to fraud and loss of revenue.

4.3 The effect of monitoring on revenue collection.

The study found that monitoring as an element of internal controls has no significant effect on revenue collection in Lira District Local government ($\beta = -0.012$, $p > 0.05$). The above results explain why there is a controversy in this field of study. The statistics so obtained provide mixed results, depending on the Model. There are internal controls that have no statistical significance; and some have positive statistical significance on estimating revenue collection. This finding was in line with research finding by Ibrahim (2017) who investigated the internal control and public sector revenue generation in Nigeria and disclosed that monitoring has positive and significant effect on local revenue collection. This finding was also similar to findings by Amutuaa (2017) who conducted a research in Kenya and concluded that monitoring had a positively and significantly impacts on revenue collection for commercial state corporations in Kenya. Wangeci (2018), investigated the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection and established that an increase in monitoring control measures leads to an increase in the revenue collection. This research finding was in line with findings by Mwachiro (2013), that the role played by internal controls, especially, monitoring cannot be over undermined in ensuring effective revenue collection process, as poor monitoring can encourage fraud, collusion, and embezzlement of the revenue collected and loss of revenue.

4.4 Conclusion

Basing on the findings and discussions, this study concludes that, control environment and monitoring had no significant effect on revenue collection in Lira district while control activities had significant effect on revenue collection in Lira district

4.5 Recommendations

To improve on the effectiveness of revenue collection, the local government should ensure adequate and effective policies on revenue collection.

For effective revenue collection, support from top management including good practices and good working principles should be encouraged.

Auditors furthermore should ensure effective control activities in their institution including the policies and procedures ensuring necessary actions are put into place to address risks to the achievement of the set objectives.

Local government should ensure that there are effective control policies regarding revenue collection.

The local government should ensure periodic monitoring of revenue activities and periodic review by both

internal and external auditors.

4.6 Areas for further research

This study makes a significant contribution with respect to implementing internal controls to enhance revenue collection. However, the study looked at only three internal controls, namely control environment, control activities and monitoring. Therefore, the effect of the other internal controls namely; risk assessment and information and communication was not established. Therefore, further research should study risk assessment and information and communication. Besides this study was carried out on a local government. Therefore, future studies can be carried out on urban councils.

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