

**INTERNAL AUDITING AND FINANCIAL PERFORMANCE OF COMMERCIAL
BANKS IN UGANDA; A CASE OF CENTENARY BANK,
ADJUMANI BRANCH**

BY

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS
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DECLARATION


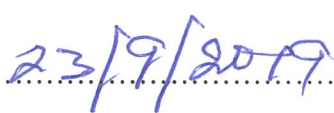
I, Jamila Umari hereby declare that this research report is my original work and has never been presented to any other educational institution for the award of any degree or certificate.

Signature 

Date 15/2/2019

APPROVAL

This is to certify that the research report has been under my supervision and is now ready for submission to the College of economics and management for the award of the degree of business administration of Kampala International University.

Signature  Date 

Supervisor Dr. Kirabo K. B. Joseph

DEDICATION

I dedicate my research report to my parents Mum Rebecca Peter and my father Peter Brown plus family your effort and struggle has been important towards my life especially education and completion of my study.

ACKNOWLEDGEMENT

During the process of carrying out my research and through the production of this report, many people have assisted me. I therefore wish to express my sincere gratitude to all those who helped me materially and morally.

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I will not forget the different people including friends I interacted with and offered me assistance in different ways. I cannot forget my family which offered the greatest support financially during the process of carrying out my research.

LIST OF ACRONYMS

CEO Chief Executive Officer

IA Internal Audit

IAS Internal Audit Standards

ICT Information Communication and Technology

KIU Kampala International University

ROA Return on Assets

ROE Return on Equity

UK United Kingdom

USA United States of America

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ABSTRACT

The study was set to examine the impact of internal auditing on financial performance of commercial banks in Uganda. The objectives nature of the internal auditing function financial performance of centenary bank, examine the challenges faced in the internal audit function in financial performance of centenary bank and determine the effect of internal audit function on financial performance of centenary bank. The study was conducted used a descriptive correlation design. This design was selected because the researcher intended to establish facts that already existed as opposed to creating new information that would have necessitated experimental research. The data was collected from the respondents using the questionnaires from 50 respondents of the bank. The study conclude that that nature of auditing in the banks was coupled by the use of internal auditing standards suitable for auditing in the banks, the internal auditing standards are sufficient to enable bank operations, bank periodically review the audit standards the bank periodically review the audit standards, professional audit competency. the study on the second objective conclude that a series of the factors challenges include igh degree of frauds and errors hinder effective auditing, high costs of auditing in the banks, operational challenges hinder effective operation of the bank, high degree of banking interruptions affect the auditing function. The third objective conclude that there is need for enhancing the communication within the organization, Increase effectiveness in credit control, improves marketing activities of the organization and detection of failures for redress in the organization. The study recommend that the management of commercial banks should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor. The management of the bank should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The management of the bank should also procure the latest ICT audit software's that would enhance fast delivery of services and detection of frauds or any mischief in this field.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter intends to present the background of the study, problem statement, general research objectives, and objective of the study, research questions, scope of study and significance of the study and conceptual frame work.

1.1 Background of the study

1.1.1 Historical Perspective

For most of its history internal audit has served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting to Board of Directors, management or External Auditors. In recent times, however, a combination of different forces has led to a quiet revolution of the profession. Organizations have to demonstrate accountability in the use of shareholders money and efficiency in the delivery of services. Organizations now demand great competency and professionalism from internal audit, and scarce resources must be deployed more efficiently to minimize and manage risks. Technological advancement makes it possible to track and analyze data with continually increasing speed thus making it essential for organizations to be well advised by the internal audit department. Internal audit varies from one organization to another, and making change to modern internal audit can be a substantial undertaking. The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organizational changes. In many bank institutions staff is poorly paid and unmotivated, ethical standards are weak, and governance practices are ineffective leading to asset mismanagement (Ramamoorti, 2003).

All over the world there is a realization that the Internal Audit activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of Internal Auditing from the Institute of Internal Auditors (the IIA). Commercial banks have come to the realization that internal audits essential in improving management of assets in the organizations improved financial performance of banks (Basel Committee, 2002)

On the African continent the need for objectivity and impartiality is of particular importance for the internal audit department in organizations across Africa in not well emphasized, this does not exclude the possibility that this department, too, may contribute to advisory and consultancy activity, if the independence of analyses and evaluations is ensured. Some banks have also introduced a system of evaluating their activities, which does not replace, but supplements the function of the bank's internal audit. This is a formal and documented process whereby management and employees analyze their activities and evaluate the effectiveness of the related internal control procedures (Otieno, 2012). Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank, however which bears final responsibility that the bank's management applies an appropriate and effective system of internal audit, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Likewise, the bank's management is responsible for drawing up procedures which identify measure, monitor and control the risks that the bank faces.

Mawanda (2008) in Uganda most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. An effective internal audit service, in particular, helped reduce to reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance. He also stated that internal audit is an invaluable tool of management for improving performance. Internal auditors help run a company more efficiently and effectively to increase shareholders value. Finally Aguola (2012) argued that the existence of an effective internal audit function is associated with superior organizational performance.

At the empirical level, a survey conducted by Chepkorir (2010) found that the internal audit function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

1.1.2 Theoretical Perspective

The study will be based on Contingency theory of Carlisle (1976). A contingency theory is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. A contingent leader effectively applies his own style of leadership to the right situation. The theory attempts to relate research on many management variables, for example, research on professionalism and centralized decision making or worker education and task complexity. It allows you to analyze a situation and determine what variables influence the decision with which you are concerned. The goal of an audit is to test the reliability of a company's information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company's final results, and the contingency theory takes these factors into account during the audit process.

1.1.3 Conceptual Perspective

Pickett (2000) stated that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit is a part of the repetitive monitoring of the internal control systems of the bank and its procedures for evaluating internal capital. As such, it assists management and the board of directors in the effective performance of their responsibility as outlined above (Gramling, 2007).

Financial performance is taken to be the function of an organizational ability to meet its objectives by exploiting the available resources in an effective and efficient way (Upadhaya Munir & Blount, 2014) adds that, performance entails effectiveness which refers to a firm's ability to serve and produce what the market requires at a particular time and efficiency which means meeting objectives at the lowest possible cost with the highest.

Financial performance is taken to be the function of an organizational ability to meet its objectives by exploiting the available resources in an effective and efficient way (Power, 2009) adds that, performance entails effectiveness which refers to a firm's ability to serve and produce

what the market requires at a particular time and efficiency which means meeting objectives at the lowest possible cost with the highest.

Financial performance of organization can be gauged via the degree of attainment of their organizational objectives like meeting both short-term and long-term objectives as and whenever they fall due. Optimal resource utilization should ensure maximum output in the projects named in the organizational objectives. Organizations cannot afford to waste their limited financial and skilled man power resources on unproductive ventures (Upadhaya & Blount, 2014).

Performance in this study was gauged by profitability, sales, market share. Profit/Surplus, this is a control dimension that ensures that users of financial information, who include all the stake holders, get an accurate and reliable summary which communicates the firm's financial affairs (Pandey 2012) define the concepts of profitability, sales growth and market share.

1.1.4 Contextual Perspective

In Uganda, the factors responsible for poor corporate performance especially in banks emanate from auditing issues such as lack of transparency, accountability and poor ethical conduct (Mutua, 2012). Commercial banks failures have been linked to self-inflicted causes resulting from bank owners; ICB(International Credit Bank), GBL(Greenland Bank), and Coop Bank were afflicted with the one-man management syndrome of corporate governance exemplified by Thomas Kato (ICB), Sulaiman Kiggundu (GBL) and USAID (Co-op Bank). There was no separation between senior management and the board of directors in ICB or GBL and that management took little account of depositor's interests.

The board of ICB consisted of 4 members of the Kato family including a six -year- old child. GBL had two boards of directors but neither had a say in the running of the bank for instance ICBs audit report cited connected or insider lending to a tune of US\$4 billion. In the case of GBL the July 1998 Bank of Uganda (BOU) Audit Report stated that as per 30th June 1998, Insider lending stood at US\$22, 722 million representing 47 percent of customer deposits and accounting for 55 percent of the total loan portfolio yet the maximum amount the bank could lend according to FIS 1993 was US\$975 million only. The report also cited that in most cases credit was extended on sole instructions of then Managing Director without any or minimal

documentation (BOU, 1999). It is thus entirely unreasonable for industrialists to accuse shareholders of short termism when selling shares that have not performed to expectations. One of the key stakeholders includes the government. Government formulates rules and regulations that enterprises should follow as they transact their business, organizations are also expected to file returns to the tax authorities for instance Uganda Revenue Authority and Bank of Uganda, the expectation of government is that, information from these enterprises should not be biased and misleading. Management has to take into account the stakeholders expectations when they set a strategic direction but this can only be attained through sound corporate governance (Wanyoike, 2007).

1.2 Problem Statement

The commercial banks in Uganda though of good repute and profitable is faced by many challenges among them is financial performance occasioned by poor financial performance despite being key in providing the requirements of citizens of Uganda, this is coupled with increased operational costs that has seen bank's activities slow down resulting in a shrunken market share, low sales volumes, customers dissatisfaction, and inability to pay suppliers including under capitalization of banks that has resulted to October 2016 Crane bank take over furthermore the closure of Green land bank, Uganda commercial bank and Global trust bank far back due to under capitalization could be affiliated to internal audit inefficiencies. According to Mawanda (2008) the closure of Green Bank provides an indication of poorly performing commercial banks. Studies in the UK and the US have shown that weak auditing function particularly cause poor financial performance (Sayag, 2010). Audit has become an indispensable management tool for achieving effective control in both public and private organizations. By detecting weaknesses in management operations and providing a basis for correcting deficiencies that have eluded the first line of defense before these deficiencies become uncontrollable Wanyoike (2007). The issues however are to what extent financial performance is improved through internal auditing. It was based on this that the research is set to examine the effect of internal auditing function on financial performance of commercial banks

1.3 Purpose of the study

The purpose of the study was to examine the impact of internal auditing on financial performance of commercial banks in Uganda

1.4 Research Objectives

- i. To establish the nature of the internal auditing function financial performance of Centenary bank.
- ii. To examine the challenges faced in the internal audit function in financial performance of Centenary bank.
- iii. To determine the effect of internal audit function on financial performance of Centenary bank

1.5 Research Questions

- i. What is the nature of the internal auditing function financial performance of Centenary bank?
- ii. What are the challenges to the internal audit function in financial performance of Centenary bank?
- iii. What is the effect of internal audit function on financial performance of Centenary bank?

1.6.0 Scope of the study

1.6.1 Subject Scope

The study was conducted on the internal auditing function and how they affect financial performance of organization. The focus areas will include nature of the internal auditing, challenges to the internal audit function and determining the effect of internal audit function on financial performance.

1.6.2 Geographical Scope

The study was conducted in Centenary bank located in Adjumani district. The case study is due to a range of activities handled by the organization in line with the topic assessed and its accessibility by the researcher.

1.6.3 Time Scope

The research was carried out for the period of 3 months. This period is chosen to help the researcher obtain enough information on the topic under investigation

1.7 Significance of the study

This study will help in increasing the role and image of internal audit in commercial banks to make it more effective and professional. It will help the shareholders appreciate the role of the

internal audit as one of the most important managerial control systems in an organization required to safeguard their interests.

Management of organizations will be able to look for ways of making Internal audit a completely independent function from the management thus making it more effective. By implementing recommendations given on the internal audit reports management will be able to enhance performance of the organizations.

For scholars it will help them to appreciate and enhance their knowledge of internal audit so as to adhere to the professional ethics as required by the IAS.

Researchers and academicians will benefit from the study as it will add knowledge to the existing body of literature in the subject area. The study will stimulate further research and it's expected to be used as reference material under literature review in future research.

1.8 Operational Definition of key terms

Pickett (2000) stated that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Financial Performance in this study was gauged by profitability/surplus, cost per unit and degree of goal attainment. Profit/Surplus, this is a control dimension that ensures that users of financial information, who include all the stake holders, get an accurate and reliable summary which communicates the firm's financial affairs (Pandey 2012).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter includes the theoretical review, conceptual framework. The review empirical review and the gaps in the study.

2.1 Theoretical review

Various theories have been formulated on internal audit and financial performance. This study was based on the contingency theory of Carlisle (1976). A contingency theory is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. A contingent leader effectively applies his own style of leadership to the right situation. The theory attempts to relate research on many management variables, for example, research on professionalism and centralized decision making or worker education and task complexity. It allows you to analyze a situation and determine what variables influence the decision with which you are concerned.

The goal of an audit is to test the reliability of a company's information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company's final results, and the contingency theory takes these factors into account during the audit process.

The contingency theory of leadership and management states that there is no standard method by which organizations can be led, controlled and managed. Organizations and their functions depend on various external and internal factors. The functions of audits are themselves, types of organizations that are affected by various factors in the environment. The presence of such factors is why auditing can be managed by applying the contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors

On a broad level, the audit process is straightforward. Auditors require access to documents, systems, policies and procedures to manage an audit. They must remain compliant with industry standards, government regulations and internal requests. Audit teams may begin the audit process with meetings where they gather risk and control awareness, after which the field work

begins. During the audit process, auditors perform substantive procedures and test controls. They then draft reports that they submit to management and regulatory authorities. The audit sub processes, particularly in planning and field work, include contingencies such as business type, employee skill level, applicable laws, available audit workforce, available technology and systems, and deadline.

Daft (2012) in his book writes that contingency theory. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project.

Audit teams use a mix of structure and contingency to get the output rolling quickly. The subject of auditing projects can include such diverse areas as evaluation of production processes, inspection of company accounts, and assessment of compliance with industry standards. Selecting auditors with specialized training or those who have a particular skill set in the subject area minimizes the learning curve and reduces opportunities for errors. The quality and output of audits remain assured when audit teams use resources according to expertise and experience, and when auditors are flexible and can adapt to process fluctuations. For example, an auditor experienced in evaluating financial instruments can be effective in an audit exercise of a bank or hedge fund, even when the financial instruments the institution offers do not fit the typical mould (Davoren, 1994).

2.2 Conceptual Review

Figure 2.1: Conceptual framework showing the linkage between internal auditing and financial performance of organizations

Independent variable

Internal auditing function

- Internal Audit Standards
- Professional audit Competency
- Internal Controls audits

Dependent variable

Financial Performance

- Profitability
- Sales growth
- Market share growth

Source: Adopted from Fish & Young (2012).

The conceptual framework shows the relationship between internal audit function and financial performance of the organizations. The internal controls are measured through internal audit standards, professional audit competency and internal control audits. The dependent variable is financial performance measured through profitability, sales growth and market share growth. The presence of positive internal auditing has a positive effect on financial performance and absence of internal auditing function strength reduce the financial performance.

2.3 Nature of internal auditing in commercial banks

2.3.1 Role of Internal Audit Standards

Internal audit Standards are principles-focused, mandatory requirements consisting of: Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.

Ashton (1999) acknowledges that every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely. In smaller banks internal audit is often provided externally. The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day to day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the bank.

Bou-Raad (2000) argued that standards for audits and audit related services are published by the IIA 2008 and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach. This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou Raad 2000). It can thus be argued that greater quality of IA work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution will improve the audit's effectiveness.

Members of the internal audit team may not participate in the organization's operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the bank. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided. The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the

department's employees must always be ensured, as must their regular training. The internal audit department is responsible to the bank's management and its board of directors, possibly also to the audit committee, if the bank has one. These bodies of the bank should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department's objectives (Carcello, Hermanson & Raghunandan, 2005).

2.3.2 Effect of professional audit Competency

Detecting fraud is a challenging task. Perpetrators actively engage in deception in an attempt to conceal their behavior, auditors may have limited experience in fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect (Cashell, 2010). Hence, the organization would be optimally served by identifying and utilizing those individuals who, because they appear to share certain unique personality traits or characteristics, may be best suited to the fraud detection task. Internal auditors play an important role in fraud detection with most frauds identified by the internal audit function (Chun, 2007). Due to the importance of effective fraud detection, any measures that can enhance the efficacy of auditors should be of value. While experience and ability are undeniably important in the detection process, certain individual characteristics may be predictive of the capacity to detect fraud (Ashton, 1999). Understanding how auditors are perceived, and how these perceptions lead to beliefs regarding their detection abilities, is an important first step in relating personality traits to the efficacy of auditors.

A review of the research reveals a general acknowledgment that the five factor model can be used as a descriptive mechanism for the most salient elements of an individual's personality (Dunjia, 1997). Conscientiousness is the personality dimension primarily responsible for organizing and directing individual behavior and conscientious individuals may be characterized as responsible, diligent, persevering and thorough.

Indeed, some studies have demonstrated that conscientiousness correlates with task performance just as strongly as cognitive ability (Eden, 2006). Previous research has demonstrated a linkage between conscientiousness and task performance, and the linkage has been shown to be stable across time. Conscientiousness can affect job performance in a number of ways. Conscientious

employees are generally more reliable, more motivated, and harder working; they are also likely to devote more energy to the task at hand and spend less time daydreaming (Viswesvaran, 2006)

Schiroma (2003) conducted a series of interviews with successful fraud examiners and found that these individuals exhibited a cluster of common traits including perseverance, diligence and integrity each of which is an attribute of the conscientiousness dimension. Within the context of the five factor model, only conscientiousness has been found to reliably predict job performance across all occupational groups.

2.3.3 Effect of internal controls audits

Controls audits are designed to ensure that appropriate controls over systems and software are in place to ensure that internal controls and internal checks are functioning as designed. Controls audits can have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Controls audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. Internal controls audit objectives relate to management's plans, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes planning, organizing, directing, and controlling program operations and the systems put in place to measure, report, and monitor program performance (Esmailjee, 1993).

Peursem (2004) in his effort to provide evidence on the effectiveness of particular audit techniques in detecting errors that affect the financial statements suggested that all intentional errors are concentrated in relatively few audits and these are fairly predictable by industry. The great majority of such errors affect income but the direction of effect may either be an understatement or over statement. Regarding the signaling of an error, they found that the large portion of financial statements errors are initially signaled by less rigorous audit procedures such as analytical review and discussions with the client. Client personnel problems such as inexperience, incompetence and insufficient knowledge and inadequate control follow up or reviews were found instrumental in causing the errors.

Reinikka & Svensson (2002) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the

greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the existence of control is very crucial especially under today's condition with severe competition which place premium on reliable customers' services, on consideration of cash, on realization of capital assets and manpower and on other reduction costs.

Esmailjee (1993) studied the internal controls of Nyayo Bus Service Corporation a state corporation. He observed that cash receipts as well as cash disbursements bear fairly strong controls attributed to the fact that the government accounting system is still in operation. However, the payroll and the stores accounting systems had a lot to be desired. Regarding the Organizational chart, a lot of information was missing. The internal auditor was being underutilized as he was charged with the responsibility of performing routine control checks which were also performed by the examination section. This led to duplication of efforts and down playing of the internal auditor's effective role.

Rutto (2011) in a study of internal audit control functions and its implications for risk assessment by the internal auditor: A case of quoted companies concluded that even though the extend of reliance on internal control is not sensitive to the strengths of audit departments, companies should not do away with it. This is because as a management tool it should assist management in its day to day operations and not necessarily of any relevance to the external auditor. This may be attributed to the fact that external auditor may have specific considerations which may be beyond the strength of internal controls. However, though the system of internal control was ranked as the most important factor in obtaining audit evidence other indicators followed. It therefore implies that once the auditor establishes the strength of the audit department, other risk indicators come into play notwithstanding the strength of internal control

2.3.4 Challenges to the internal audit function in financial performance of commercial banks

In modern business conditions, the IA function plays an important role in establishing an effective managerial control. Sarens & Beelde (2006) state that through the IA process, managers can gain insight into the entire organization, although the core of its operations is based on the

audit of final accounts. Due to the dynamics which governs global markets today, it is essential that internal auditors are properly qualified and thoroughly familiar with the organization of the company, its business, plans for development and internal processes.

According to Spencer (2003) the main task of IA departments is to be able to recognize and separate functional from non-functional processes in a company, the advantages and disadvantages of its operations and procedures, as well as the level of exposure to risk.

Ridley and D'Silva (1997) states that IA departments are rapidly expanding their portfolio of services, while the audience which has direct interests for the final results of these services is wider than ever. Additionally, modern business conditions require greater depth in the IA, rather than just expanding the number of services of IA departments. Moreover, expectations in terms of the IA are at a very high level. The recent world economic crisis confirms this statement. The growing expansion and complexity of markets in which organizations are performing and the requirements of regulatory bodies raised the stakes as well. When it comes to the recent crisis, it should be noted that IA did not have a significant role in the emergence of the crisis, but it also was not the important part of its solution.

If we take a look at one of the most famous financial scandals at the beginning of this century, Enron, or at one that took place during the last economic crisis, Lehman Brothers, one must wonder what was the role of IA department. How in these situations the focus of IA was on risk reduction and the separation of functional from the non-functional processes in the company? (Spencer, 2003) in their research reported that the IA department in these companies had identified many shortcomings, but these warnings were ignored. The supervisory committees were not focused on reducing risk exposure and general importance of the IA function. Ridley and D'Silva (1997) points out that among stakeholders, in managing of the companies, the IA function was hardly seen as a source of solutions to problems that led to the financial crisis, and that the scope of its participation in the solution of these problems in the aftermath of the crisis has not increased. It is undeniable the essential thing for the future of profession is to obtain depth in its activities in order to be considered as an important guideline in the GCG practice. Internal auditors have to be reconciled with the fact that in volatile and transitory periods, there

is no perfect practice of internal auditing and the recipe for success and effective reduction of risk at any level.

The current situation in the markets requires internal auditors to submit reports and estimations that are significantly more detailed and precise, based on extensive analyzes and procedures, with the aim of more precise estimation of the future events. IA is now considered in assisting management in order to create realistic picture of the organizations operations, its performance, potential hazards, as well as opportunities for the improvements. Spencer (2003) points out that the future of the IA is about strong analytical skills that will be crucial for predicting the course of organizations.

As the Institute for Wanyoike (2007) points out the IA function in the public sector is of great importance and must be structured in a manner that ensures the fulfillment of their accountability and transparency to the general public, while at the same time allows them to efficiently, effectively and cost-effectively meet its goals. For the IA in the public sector the key point is the credibility and the level of independence with which this function is performed. One must keep in mind that the staff of these departments is also an integral part of particular public organizations, so credibility and independence, as well as their advisory role, is becoming an increasing challenge and the point of potential conflicts of interest.

The IA function in the public sector differs from one institution to another in the organizational sense, which primarily relates to a method of delivering its services. This is logical, if the complexity and size of the public sector are considered. In many countries the burst of IA faces significant obstacles due to the different strengths of accounting standards that are applied, the availability of institutional capacities and in general existence of social consensus to carry out the audit function across the tree in the public sector. There is a need to strengthen the IA function in the public sector, and this applies particularly to countries in transition and developing countries, where Serbia also belongs.

2.4 Relationship between internal auditing and financial performance of organizations

According to Cooper and Craig (1983) on his study on the role of internal audit in the Asia Pacific region. This seminal research on internal audit in Australia found a number of issues that were of concern to the profession. It was found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time. There was nevertheless strong support for internal audit by CEO's and at the time it was seen as offering long-term career prospects. However, the profession in Australia in the early 1980's suffered from an image problem, it did not have a strong professional body to represent its interests as it has now, and there were no generally accepted professional qualifications recognized as necessary to practice as an internal auditor. The study was undertaken before the development of modern internal auditing, as we know it now. It did, however, set the scene for a number of subsequent studies in Australia, Hong Kong and Malaysia.

According to Peruse (2004) in a study, internal auditors were asked to come to a view on whether functions they perform in connection with audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. The research constituted a survey of New Zealand auditors, all of whom were members of the New Zealand branch of the IIA. A very high percent (73%) response rate was achieved over the original and follow-up survey. The study found that characteristics of a true profession exist but do not dominate. Significantly, and as subgroups, Peruse also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy-trained auditors may enjoy greater status owing to the mystique of the activities emanating from their membership of well-known accountancy professional bodies. The fundamental questions how an effective internal auditor can overcome the tension of working with management to improve performance, while also remaining sufficiently distant from management in order to report on their performance. The research found that there are three concepts characteristic of those who best balanced their role: the internal auditor external professional status; the presence of a formal and an informal communication network; and the internal auditor's place in determining their own role

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls.

A survey, by Ernst & Young, polled 695 chief audit executives and C-suite executives and found that 80 per cent of them admitted that their organization's internal audit function has room for improvement. The report found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance. An equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issues.

Ndege (2012) researched on Performance and financial ratios of commercial banks in Kenya. The objective of his study was to identify factors, in a ratio form that shape bank performance as measured through return on assets (ROA) and return on equity (ROE). In his study he concluded that ROA and ROE can be used to measure financial performance of banks in Kenya. Internal audit operations and recommendations do not only have short-term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However it seems that laxity has crept in and it is in light of this view that we seek to analyze the factors affecting implementation of internal audit reports in Kenyan banks.

Eden (2006) assigned 224 bank branches to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. While that study offers a useful jumping-off point for understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why internal audit works, and the conditions that facilitate or impede it. Helping to bridge this gap will be one of the main contributions of this study.

Mutua (2012) researched on impact of risk based audit on financial performance of commercial banks in Kenya. Although her study concentrated on risk based audit she acknowledged that financial performance requires appropriate effective and efficient internal audit. From the findings, the study concluded that risk based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

2.5 Research Gaps

The empirical studies conducted were in the environment slightly different from those of Uganda especially that most were traced from Kenya, Nigeria among other countries hence presenting geographical gaps in the study. The studies were also conducted in the presentable environment different from the time of this research, besides the geography the time of these studies were before 2014 presenting a time gap. Therefore based on these the researcher established to conduct the evaluations for the study.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter deliberate on the type of research design, the description of the population, the sample and sampling procedures, data collection procedures, data quality control measurements and data analysis procedures.

3.1 Research Design

The study used descriptive design. This design was selected because the researcher intend to establish facts that already existed as opposed to creating new information that would have necessitated experimental research. Descriptive studies deal with information that already exists. The findings established can be used to confirm validity of theories and examine relationships between variables encompassed by the study. The study used a cross-sectional because data was gathered from the respondents at one point and there were repeat sessions. It was carried out using both qualitative and quantitative methods to generate information by use of questionnaires and interviews. The study therefore be based on the views of the respondents to draw conclusions and also make recommendations.

3.2 Population of the study

The population of the study employees was from centenary bank. The commercial bank has a population of (57). The employees were in three categories namely management, accountants and operational employees. The populations of these are courtesy of the human resource manual of the respective bank in 2017/2018. The bank is chosen because they have been in existence for quite a long period of time so attaining the data from these was an appropriate representation of the entire population.

3.3 Sample size

Out of the total population of the study, the researcher selected a sample of respondents who were identified from the total population of 57. This number was arrived at by use of the Slovene's formula as illustrated herein after.

: Slovene's Formular

$$n = \frac{N}{1+N(e)^2}$$

$$n = \frac{57}{1+57(0.05)^2}$$

$$n = \frac{57}{1+57(0.0025)}$$

$$n = \frac{57}{1.1425}$$

$$= 50$$

50 respondents

Table 3.1: Showing Breakdown of Population and Sample of Respondents

The table below presents the population that includes management, accountants and operational employees in the organization. These categories are deemed to have sufficient information on auditing and financial performance of commercial banks.

Category of Respondents	Population	Sample	Sampling Technique
Management	05	4	Purposive
Accountants	07	6	Purposive
Operational employees	45	39	Purposive
Total	57	50	

Source: Primary Data, 2018

3.3.2 Sampling Procedure

The researcher used both purposive and random sampling techniques to gather data. The Management and accountants were purposively selected since they head different departments of the selected companies and thus have sufficient knowledge concerning internal controls and financial performance of commercial banks. Operational employees were randomly selected so as to get equal representation of the respondents. In that way, every member were given equal chance to be selected.

3.4 Research Instrument

Questionnaires

The questionnaires were used to obtain quantitative data for the research because it has been observed that in considering the various research options for systematically gathering information, the questionnaire has earned the right to be a perennial favourite, a frequent choice of researchers because of its being versatile, time efficiency and cost efficiency including the ability to get the job done. Here, self-administered questionnaires were employed containing close-ended questions. These were delivered to management, accountants and operational employees.

3.5 Validity and Reliability of the instrument

3.5.1 Validity

The tool validity of the research instrument were checked and confirmed using retest method, three weeks later between the first and second application, the value for retest is to be a content validity index (CVI.) judges were used to establish a validity for each item. The inter judge coefficient validity was computed to be $CVI = \frac{\text{number of judges declared item valid}}{\text{total no of judges}}$ to arrive at an average acceptable for the study using the research instrument.

According to Amin (2005) Validity of instrument is determined by the formula:

$$CVI = \frac{RQ}{TQ}$$

Legends: CVI = Content Validity Index

RQ = Relevant Questionnaires

TQ = Total Number of Questions

Total numbers of questions for the instrument accepted as valid were based on the average index which will be computed. A value of 0.7 and above implied that the instrument is valid.

3.5.2 Reliability of the instrument

The reliability of the questionnaires were improved through pre-testing of pilot samples. This enabled the amendment of some questions. Furthermore, reliability of the scales was carried out with the application of the Cronbach Alpha Coefficient for the computations so as to check for

the internal consistency of the scales. The Cronbach coefficient Alpha on internal consistency test was used with the results to be presented in a table. The reliability indices/coefficients for all constructs used in the study. All alpha reliabilities (α) for all scales were computed and be above 0.5, ranging from meet acceptance standards for research.

3.6 Sources of data

Both primary and secondary data was used.

3.6.1 Primary Data

The researcher used gather data by means of key format interviews, and questionnaires which were given to the respondents in order to capture the information about internal auditing and financial performance. This used to compare the status quo in terms of previous and current information on internal auditing.

3.7 Data Collection Procedure

The data collection procedures were undertake three phases that included pre data gathering, actual data gathering and post data gathering

Pre data gathering

- i. An introductory letter was secured from the University to conduct the study after which permission from the organizations were sought to distribute questionnaire to their respondents.
- ii. The researcher oriented and brief his research assistants on the sampling and data gathering procedures.
- iii. The questionnaires for actual distribution were prepared and code accordingly.
- iv. The non-standardized instruments were tested for validity and reliability.

Actual data gathering

- The respondents were requested to answer the questionnaires as objectively as possible and not to leave any option unanswered.

Post Data Gathering

- The data was collected, organized and entered into the Excel Microsoft package for data processing and analysis in order to prepare the final report for submission to the college of economics and management

3.8 Data Processing and Analysis

3.8.1 Data Processing

In this section the researcher ensured that responses and data collected is processed into logical, consistent and relevant information. The researcher classified answers to the questions into categories as a process which involves editing, copying and tabulating the research findings as presented in chapter four of this research study.

3.8.2 Data presentation and analysis

Once the researcher had obtained the necessary data from the field, the researcher analyzed, and interpreted it in relation to the objectives of the study. The researcher presented the findings in form of tables in from of frequency and percentages. Analysis and presentation of the findings in this way form enhanced the easy understanding of the interface made thereby improving reliability and validity.

3.9 Ethical Considerations

While undertaking this study took care taken not to offend the respondents and other stakeholders involved. In order to achieve this, the following measures were taken. The respondents consent form before they were allowed to take part in the study.

They will not be forced to give their sensitive information if they did not feel like. In each question found in the questionnaire, there were options for the respondent to claim neutrality.

The research instruments were coded in order to provide the respondents with anonymity. The workplaces will not be visited during busy hours of the day so that the employees.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

4.0 Introduction

This chapter comprises of the findings that were gathered by the researcher staff members of centenary bank in relation to the topic (Internal auditing and financial performance of commercial banks in Uganda). The data is presented and interpreted in view of the objectives mentioned in chapter one of this research. The interpretation also seeks to answer the research questions that were raised in chapter one. Presentation and interpretation of data in this chapter has been done with the aid of quantitative and qualitative methods for example the use of tables, percentages and personal analysis and interpretation presented in essay form. Questionnaires were provided to 50 respondents who filled them.

4.1 Demographic Characteristics

4.1.1 Gender of respondents

Table 4.1.1 Showing Gender respondents

Respondents	Frequency	Percentage
Male	32	64
Female	18	36
Total	50	100

Source: primary data 2018

From the table 4.1.1, it can be seen that the majority of respondents are male that is 32 respondents representing 64% of the total respondents and 18 respondents are female representing 36% of the respondents. From the above presentation, it is clear that although many of the respondents were male representing the highest percentage, the issue of gender sensitivity was adhered to by few female who were selected.

4.1.2 Academic Qualifications

Table 4.1.2: Showing academic qualifications of the respondents.

Qualifications	Frequency	Percentage
Certificate	10	20
Diploma	12	24
Degree	23	46
Other	05	10
Total	50	100

Source: Primary data, 2018

From table 4.1.2, it is seen that that the majority of the respondents of centenary Bank are degree holders representing 46% followed by diploma holders at 24% of the total respondents, followed by certificate holders representing 20% and respondents having other education levels were 5 respondents representing 10%. This implies that the respondents of Centenary bank are well educated and therefore the information obtained from them can be relied upon for the purpose of this study.

4.1.3 Age of respondents

Table 4.1.3: showing the age of respondents

Age brackets	Frequency	Percentage
20– 30	15	30
30 -40	25	50
40-50	7	14
50+	3	6
Total	50	100

Source: Primary data 2018

From table 4.1.3, it is seen that 15 respondents are in the age bracket of 20 -29, representing 30% of the total respondents, 30-39 were 25 respondents representing 50% of the respondents, 40-49

had 7 respondents representing 14% of total number of respondents and 50+ had 3 respondents representing 6% of the total number of respondents. From the above presentation, it is clear that the age bracket of 30-40 had the highest percentage of 50% of the total respondents because they were considered to have information (internal auditing and financial performance of commercial banks in Uganda). This was followed by the age bracket of 20-30 with 30 respondents representing a total percentage of 30%. The age bracket of 50 and above had the lowest of total percentage of the respondents due to several reasons among which include, retirement and they are therefore considered to be having little information compared to any age bracket of respondents as shown in the table above.

4.14 Findings Period of work

Table 7: Shows the period of work of respondents

Time	Frequency	Percentage
Less than 2 years	2	4
Above 2 years	20	40
Above 5 years	28	56
Total	50	100

Source: Primary data, 2018

The study findings on the time respondents have been in centenary bank, it was found that majority respondents had been in the company for Above 5 years 56(56%), above 2 years were 40(40%) of the respondents, followed by less than 2 years with 4(4%). It implies that many respondents had been in the organization for long so have information about the organization.

4.2 Nature of the internal auditing function financial performance of Centenary bank.

The first objective of the Study was to establish the nature of the internal auditing function financial performance of centenary bank. The data collected was presented as below.

Table 4.2: Showing responses on the nature of the internal auditing function financial performance of centenary bank.

Nature	Strongly Agree		Agree		Not Sure		Disagree		Strongly Disagree		Total	
	F	%	F	%	F	%	f	%	f	%	F	%
There are internal auditing standards suitable for auditing in the bank	30	60	10	20	4	8	5	10	1	2	50	100
The internal auditing standards are sufficient to enable bank operations	35	70	4	8	9	18	0	0	2	4	50	100
The bank periodically review the audit standards	32	64	9	18	2	4	4	8	3	6	50	100
Professional audit competency is existing in this commercial bank	25	50	14	28	5	10	4	8	2	4	50	100
The auditors are effectively operating and have high work competency	23	46	7	14	10	20	8	16	2	4	50	100
The internal audit function has a high degree of expertise and control	28	58	14	28	2	4	3	6	2	4	50	100

Source: Primary Data, 2018

The data collected above shows that: In line with the nature of the internal auditing function financial performance of centenary bank, There are internal auditing standards suitable for auditing in the bank had 60% of the respondents who strongly agreed, 20% agreed, 8% disagreed, 10% respondents were not sure and 2%strongly disagreed.

The internal auditing standards are sufficient to enable bank operations had 70% of the respondents who strongly agreed, 8% agreed, 18% disagreed, none of the respondents strongly disagreed and 4% were not sure. This is where most respondents agreed and strongly agreed.

‘The bank periodically review the audit standards’ had 64% of the respondents who strongly agreed, 18% agreed, 4% disagreed, 8% of the respondents were not sure and 6% strongly disagreed.50% of the respondents strongly agreed with Professional audit competency is existing in this commercial bank, 28% agreed, 10% disagreed 8% were not sure and 4% of the respondents strongly disagreed.

The auditors are effectively operating and have high work competency had 46% of the respondents who strongly agreed, 14% agreed, 20% were not sure, 15% disagreed and 4% of the respondents strongly disagreed.

The internal audit function has a high degree of expertise and control had 58% of the respondents who strongly agreed, 28% agreed 4% were not sure 6% disagreed and 4% strongly disagreed.

According to the responses from the staff of centenary bank as shown above per the respondents who strongly agreed and agreed to there are internal auditing standards suitable for auditing in the bank according to 80% of the respondents, the internal auditing standards are sufficient to enable bank operations, followed by 78% of the total respondents who strongly agreed,

Followed by the bank periodically review the audit standards the bank periodically review the audit standards with 82%, professional audit competency is existing in this commercial bank had 78% of respondents who strongly and agreed, 60% of the respondents strongly agreed and agreed with the auditors are effectively operating and have high work competency, finally, 78% of the total respondents strongly agreed and agreed to the internal audit function has a high degree of expertise and control. Basing on staff responses of centenary bank, it's clear that the nature of auditing practiced in centenary plays an important role.

4.3 Effect of internal auditing on financial performance of organizations

The second objective was to determine the effect of internal audit function on financial performance of centenary bank. The researcher presented the information collected as below.

Table 4.3: Showing the responses on effect of internal audit function on financial performance of centenary bank.

Effects	Strongly Agree		Agree		Not Sure		Disagree		Strongly Disagree		Total	
	f	%	F	%	F	%	f	%	f	%	F	%
Enhance the communication within the organization	37	74	3	6	4	8	1	2	5	10	50	100
Increase effectiveness in credit control	30	60	7	14	2	4	8	16	3	6	50	100
Improves marketing activities of the organization	20	40	10	20	5	10	7	14	8	16	50	100
Detection of failures for redress in the organization	15	30	8	16	7	14	8	16	12	24	50	100
Enhanced control over organizational activities	25	50	5	10	0	0	8	18	11	22	50	100
Mechanism for stimulating risk management	20	40	15	30	5	10	5	10	5	10	50	100
There is realization of value for money in the bank operations	15	30	25	50	3	6	5	10	3	6	50	100
Effective internal control lead to proper credit control	40	80	5	10	0	0	4	8	1	2	50	100
Auditing of financial books lead to increased profitability	28	56	10	20	3	6	4	8	5	10	50	100
Proper financial management leads to effective collection of tuition from students	32	64	8	16	5	10	3	6	2	4	50	100

Source: primary data 2018

From the table 4.3 show that 74% strongly agreed with, enhancing the communication within the organization 6% agreeing as well, while 8% respondents were recorded for not being sure, 2% disagreed and 10% strongly in disagreed

60% of the respondents strongly agreed with; Increase effectiveness in credit control. 14% agreed, 4% of the respondents were not sure, 16% disagreed and 6% strongly disagreed.

Improves marketing activities of the organization had 40% respondents who strongly agreed, 20% agreed, 10% were not sure, while 14%disagreed and 16% strongly disagreed.

Detection of failures for redress in the organization had 30% oof the respondents who strongly agreed, 16% agreed, 14% were not sure, 16% disagreed and 24% strongly disagreed.

Enhanced control over organizational activities had 50% of the respondents who strongly agreed, 10% agreed, none were not sure, 18% disagreed and 22% strongly disagreed.

40% of the respondents strongly agreed with; mechanism for stimulating risk management 30% agreed, 10% of the respondents were not sure, 10% disagreed and 10% strongly disagreed.

There is realization of value for money in the bank operations had 30% respondents who strongly agreed, 50% agreed, 6% were not sure, while 10% disagreed and 6% strongly disagreed.

Effective internal control lead to proper credit control had 80% who strongly agreed, 10% agreed, none were not sure, 8% disagreed and 2% strongly disagreed.

Auditing of financial books lead to increased profitability had 56% of the respondents who strongly agreed, 20% agreed, 6% were not sure, 8% disagreed and 10% strongly disagreed.

Proper financial management leads to effective collection of tuition from students had 64% of the respondents who strongly agreed, 16% agreed, 10% were not sure, 6% disagreed and 4% strongly disagreed.

According to the above findings on the effect of internal audit function on financial performance of centenary bank. 80% Of the respondents agreed and strongly agreed on enhance the communication within the organization, this was followed by increase effectiveness in credit control with 94% of the respondents who agreed and strongly agreed, improves marketing

activities of the organization had 60% of the total respondents who agreed and strongly agreed, followed by 46% of the total respondents who strongly agreed and with detection of failures for redress in the organization, and followed by 50% of the total respondents who strongly agreed and agreed with Enhanced control over organizational activities.

Mechanism for stimulating risk management was 70% of the total respondents who strongly agreed and agreed, there is realization of value for money in the bank operations was presented with 80% of the total respondents who strongly agreed and agreed, effective internal control lead to proper credit control with 90% of the respondents who strongly agreed and agreed, 76% of the total respondents strongly agreed and agreed on auditing of financial books lead to increased profitability .and finally 80% who strongly agreed and agreed on Proper financial management leads to effective collection of tuition from students. Basing on the responses, this implies internal audit function has effect on financial performance of centenary bank.

4.4 Challenges faced in the internal audit function in financial performance of Centenary bank.

The third objective of the study was to examine the challenges faced in the internal audit function in financial performance of Centenary bank. The information collected was presented as below.

Table 4.4: Showing responses to the Challenges faced in the internal auditing function

Weight Challenges	Strongly Agree		Agree		Not Sure		Disagree		Strongly Disagree		Total	
	F	%	F	%	f	%	F	%	F	%	f	%
High degree of frauds and errors hinder effective auditing	20	40	15	30	3	6	10	20	2	4	50	100
High costs of auditing in the banks	32	64	5	10	2	4	10	20	1	2	50	100
Operational challenges hinder effective operation of the bank	30	60	2	4	14	28	1	2	3	6	50	100
High degree of banking interruptions affect the auditing function	20	40	10	20	5	10	15	30	0	0	50	100
Limited evidence due to lack of paper work in the operations	10	20	8	16	12	24	7	14	13	26	50	100
Low level of the management of organizational activities	12	24	5	10	13	26	11	22	9	18	50	100
High degree of rigidities in operations	15	30	10	20	5	10	8	16	12	24	50	100

Source: Primary Data 2018

From the table 4.4, 40% of the respondents strongly agreed that it is the High degree of frauds and errors hinder effective auditing, 30% of the respondents agreed, 6% were not sure, 10% of the respondents disagreed and 4% of the respondents strongly disagreed.

‘High costs of auditing in the banks’ had 64% of the respondents who strongly agreed, 10% agreed, 4% were not sure, 64% of the respondents disagreed and 2% strongly disagreed.

‘Operational challenges hinder effective operation of the bank’ had 60% of the respondents who strongly agreed, 4% agreed, 28% who disagreed and 2% who strongly disagreed and 6% were not sure.

High degree of banking interruptions affect the auditing function had 40% of the respondents who strongly agreed, 20% agreed 10% were not sure and 30% disagreed and none strongly disagreed

‘Limited evidence due to lack of paper work in the operations had 20% of the respondents who strongly agreed, 16% agreed, 24% were not sure, 14% disagreed and 26% strongly disagreed.

‘Low level of the management of organizational activities’ had 24% of the respondents who strongly agreed, 10% agreed, 26% who disagreed and 22% who were not sure and 18% who strongly disagreed

High degree of rigidities in operations had 30% of the respondents who strongly agreed, 20% agreed 10% were not sure and 16% disagreed and 24% strongly disagreed.

As seen above, the key challenges faced in the internal audit function in financial performance of centenary bank was presented by 70 % of respondents who agreed and strongly agreed on high degree of frauds and errors hinder effective auditing, this is following high costs of auditing in the banks with 74 % of the respondents who agreed and strongly agreed, operational challenges hinder effective operation of the bank had 64% of the total respondents who agreed and strongly agreed, followed by 60% of the total respondents who strongly agreed and with high degree of banking interruptions affect the auditing function, followed by 36% of the total respondents who strongly agreed and agreed with limited evidence due to lack of paper work in the operations low level of the management of organizational activities had 34% of the total respondents who strongly agreed and agreed and finally 60% who strongly agreed and agreed on High degree of rigidities in operations. This critically implies that there are challenges faced internal audit function in financial performance of centenary bank.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter contains a summary and discussions of the findings to the variables therein with the objective of examining the impact of internal auditing on financial performance of commercial banks in Uganda, case study of Centenary bank

5.1 Discussion of findings

The discussion of the findings was presented based on the statistical data obtained in chapter four and backed by empirical evidence from chapter.

5.1.1 Discussion on the nature of the internal auditing function financial performance of Centenary bank.

Findings from chapter four in 4.1.2 indicated that the nature of the internal auditing function has great role on the financial performance of Centenary bank. According to the responses from the staff of Centenary Bank, the nature of auditing prevailed with the internal auditing standards suitable for auditing in the banks, the internal auditing standards are sufficient to enable bank operations, bank periodically review the audit standards the bank periodically review the audit standards, professional audit competency is existing in this commercial bank, the auditors are effectively operating and have high work competency, Finally the internal audit function has a high degree of expertise and control.

These finding are in agreement with IIA (2008) who argued that attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach. This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou Raad 2000). It can thus be argued that greater quality of IA work understood

in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution will improve the audit's effectiveness.

More so, Mgr Lon Bogdan Dumitrescu in his article of internal audit in organizations (2004) acknowledges that every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely. In smaller banks internal audit is often provided externally. The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day to day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the bank.

5.1.2 Discussion on the effect of internal audit function on financial performance of Centenary bank

Findings from chapter four in Table 4.4.1: critically revealed that internal audit function has effect on financial performance of centenary bank, enhance the communication within the organization, Increase effectiveness in credit control, improves marketing activities of the organization, Detection of failures for redress in the organization, enhanced control over organizational activities, mechanism for stimulating risk management, there is realization of value for money in the bank operations, effective internal control lead to proper credit control, Auditing of financial books lead to increased profitability .and finally proper financial management leads to effective collection of tuition from students. The study findings are in agreement with previous findings such as Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. According to Peruse (2004) in a study, internal auditors were asked to come to a view on whether functions they perform in connection with audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. Cooper and Craig (1983) on his study on the role of internal audit in the Asia Pacific region. This seminal research on internal audit in Australia found a number of issues that were of concern to the profession

5.1.3 Discussion on the challenges faced in the internal audit function in financial performance of centenary bank.

Findings from chapter four in Table 4.3.1: shows that there are challenges faced in the internal audit function in financial performance of Centenary bank. High degree of frauds and errors hinder effective auditing, high costs of auditing in the banks, operational challenges hinder effective operation of the bank, high degree of banking interruptions affect the auditing function, Limited evidence due to lack of paper work in the operations low level of the management of organizational activities and finally on high degree of rigidities in operations. This critically implies that there are challenges faced internal audit function in financial performance of Centenary bank.

These findings are in connection with the findings in chapter two: Lenz and Sirens (2011) emphasize that if we take a look at one of the most famous financial scandals at the beginning of this century, Enron, or at one that took place during the last economic crisis, Lehman Brothers, one most wonder what was the role of IA department. How in these situations the focus of IA was on risk reduction and the separation of functional from the non-functional processes in the company? Lenz and Sirens (2011) in their research reported that the IA department in these companies had identified many shortcomings, but these warnings were ignored. The supervisory committees were not focused on reducing risk exposure and general importance of the IA function. Baker (2010) points out that among stakeholders, in managing of the companies, the IA function was hardly seen as a source of solutions to problems that led to the financial crisis, and that the scope of its participation in the solution of these problems in the aftermath of the crisis has not increased. It is undeniable the essential thing for the future of profession is to obtain depth in its activities in order to be considered as an important guideline in the GCG practice.

Jackson (2011) states that IA departments are rapidly expanding their portfolio of services, while the audience which has direct interests for the final results of these services is wider than ever. Additionally, modern business conditions require greater depth in the IA, rather than just expanding the number of services of IA departments. Moreover, expectations in terms of the IA are at a very high level. The recent world economic crisis confirms this statement. The growing expansion and complexity of markets in which organizations are performing and the requirements of regulatory bodies raised the stakes as well. When it comes to the recent crisis, it

should be noted that IA did not have a significant role in the emergence of the crisis, but it also was not the important part of its solution.

5.2 Conclusion

The study was set to examine the impact of internal auditing on financial performance of commercial banks in Uganda. The objectives nature of the internal auditing function financial performance of Equity bank, examine the challenges faced in the internal audit function in financial performance of Equity bank and determine the effect of internal audit function on financial performance of Equity bank. The study conclude that that nature of auditing in the banks was coupled by the use of internal auditing standards suitable for auditing in the banks, the internal auditing standards are sufficient to enable bank operations, bank periodically review the audit standards the bank periodically review the audit standards, professional audit competency. the study on the second objective conclude that a series of the factors challenges include high degree of frauds and errors hinder effective auditing, high costs of auditing in the banks, operational challenges hinder effective operation of the bank, high degree of banking interruptions affect the auditing function. The third objective conclude that there is need for enhancing the communication within the organization, Increase effectiveness in credit control, improves marketing activities of the organization and detection of failures for redress in the organization.

5.3 Recommendations

The management of commercial banks should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor.

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The management of the bank should also procure the latest ICT audit software's that would enhance fast delivery of services and detection of frauds or any mischief in this field. Internal auditors should be fully trained on how to use the software's and fresher courses should also be increased in this regard. Frequent upgrading of the software's should be done to keep abreast with the changing technology.

5.4 Areas for further studies

This research recommends a similar study to be done but concentrate on the government parastatals and government ministries to establish the status quo in government entitles. There is need for a study to be conducted to determine the challenges facing internal audit in commercial banks, this will help in enhancing the internal audit in the Ugandan commercial banks.

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APPENDICES

Appendix i: Research Questionnaire

Dear respondent,

I, Charity Anthony Peter, A student of Cavendish University Uganda conducting a study on “impact of internal auditing function on financial performance of Centenary bank, as part of the requirement for the award of the Degree of Bachelor of business administration. Your response to the questions below will be treated with utmost confidentiality and all information be used for only this purpose. I’m privileged to have you as my respondent and the information given to me is purely academic and will be treated with confidentiality.

Section A: Demographics of respondents

1. Gender

- a) Male ☐
- b) Female ☐

2. Education background

- a) Certificate ☐
- b) Diploma ☐
- c) Degree ☐
- d) others ☐

3. Age

- a) 20 - 30 ☐ c) 40 – 50 ☐
- b) 30 – 40 ☐ d) 50+ ☐

4. How long have you worked in this organization

- a) Less than 2 years ☐
- b) Above 2 years ☐
- c) Above 5 years ☐

5. From which department?

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SECTION B: Nature of Internal auditing

The use of likert scale were 1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.

		Rankings				
	Internal Auditing in Centenary bank	1	2	3	4	5
a)	There are internal auditing standards suitable for auditing in the bank					
b)	The internal auditing standards are sufficient to enable bank operations					
c)	The bank periodically review the audit standards					
d)	Professional audit competency is existing in this commercial bank					
e)	The auditors are effectively operating and have high work competency					
f)	The internal audit function has a high degree of expertise and control					
g)	There are effective internal control audits in this commercial bank					

Section C: Effect of internal auditing on financial performance of organizations.

The use of likert scale were 1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.

		Rankings				
	Internal control audits	1	2	3	4	5
a)	Enhance the communication within the organization					
b)	Increase effectiveness in credit control					
c)	Improves marketing activities of the organization					
d)	Detection of failures for redress in the organization					
e)	Enhanced control over organizational activities					
f)	Mechanism for stimulating risk management					
g)	There is realization of value for money in the bank operations					
h)	Effective internal control lead to proper credit control					
i)	Auditing of financial books lead to increased profitability					
j)	Proper financial management leads to effective collection of tuition from students					

SECTION D: Challenges faced in the internal auditing function

The use of likert scale were 1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.

		Rankings				
	Challenges	1	2	3	4	5
a)	High degree of frauds and errors hinder effective auditing					
b)	High costs of auditing in the banks					
c)	Operational challenges hinder effective operation of the bank					
d)	High degree of banking interruptions affect the auditing function					
e)	Limited evidence due to lack of paper work in the operations					
f)	Low level of the management of organizational activities					
g)	High degree of rigidities in operations					

Appendix ii: Study Budget

	Item	Description of Cost Item	Amount
1	Transport	Fare	UGX 050,000
2	Stationery	Note Books, Pens, Files etc.	UGX 050,000
3	Broadband/Internet	Modem, Subscriptions to Packages	UGX 100,000
4	Secretarial Services	Typing, Printing, Binding	UGX 050,000
6	Purchase of Books	From Online Libraries	UGX 100,000
7	Other Costs	Relevant to the Study	UGX 100,000
			UGX 450,000

Appendix iii: Time Frame

This entails different activities and their stipulated weeks when to be preformed.

NO	ACTIVITY	Time	
	Pilot study	Feb	2018
	Proposal write up	March	2018
	Questionnaire and other data collection development	April	2018
	Methodology & literature review	April	2018
	Data collection	Early May	2018
	Data processing & analysis	Mid May	2018
	Complete dissertation review	Late May	2018