

# **THE EFFECT OF INTERNAL AUDIT ON THE FINANCIAL PERFORMANCE OF AN ORGANISATION**

**A CASE STUDY OF KAMPALA CITY COUNCIL HEADQUARTERS**

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**A RESEACH REPORT SUBMITTED TO THE DEPARTMENT OF BUSSINESS  
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## DECLARATION

Namutebi Florence declare that work presented here is the original and has not been presented to any university or college for any academic award.

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Signature. 

Date: 01/10/16

## APPROVAL

This research report has been prepared under my supervision and is ready for submission.

### Supervisor

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Date: 01/07/2009

Signature: 

## **DEDICATION**

The research paper is dedicated to my lovely mum Miss Jane Nakitto whose love and support can never be measured to any one except God.

## **ACKNOWLEDGEMENT**

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## **ABSTRACT**

Chapter 1 represents the background of the study i.e. for the topic and the case study, it also states the problem of the study and its objectives plus the purpose. It also presents the research questions, area and scope of the study and its significance to KCC. This particular research was analytical in nature where the researcher was more interested in answering questions like how? When, what and why therefore it helped the researcher identify the effects of internal audit on KCC's financial performance

Chapter 2 represents the Literature review, i.e. Literature on internal audit and financial performance and the understanding of different scholars or authors on such variables.

Chapter 3 represents the research methodology, It comprises of the research design, the study population Sample size and method, sources of data collection instruments and methods of data presentation.. The research was descriptive in nature where by interviews and questionnaires were used during data collection. It involved a direct interaction with the respondents where descriptive and detailed information was collected.

Chapter 4 gives out the findings of research in reference to the research questions Presentation of the data was done through tabulation and graphs for easy understanding of the information.

The last chapter that is 5 presents and summarize data in amore precise way . And also provides the recommendations and conclusions of the study .The researcher therefore hopes that at the completion of his research, it would improve the financial performance KCC.

## **ABBREVIATIONS**

KCC	:	KAMPALA CITY COUNCIL
KIU	:	KAMPAL INTERNATIONAL UNIVERSITY
I.E	:	THAT IS TO SAY
E.G	:	FOR EXAMPLE
ETC	:	AND SO ON

## **CHAPTER ONE**

### **INTRODUCTION**

#### **0 Introduction**

This study sought to examine the extent to which internal audit impacts on financial performance in KCC. This chapter presents the background to the study, statement of the problem, objectives, scope of the study, research questions, and significance of the study.

#### **1 Background of the Study**

Internal Auditing is an independent appraisal function within an organization for the review of activities as a service to all levels of management. It entails constant review and evaluation of activities of enterprise and reports on the same to its management thus ensuring the effective and safety of the assets and that the financial statements are reliable.

Internal auditing is a recent development in local council. Back to the inception of decentralization secretariat ministry of local government before that similar works were conducted by the department of finance as examiners of accounts in every district with the operation of decentralization internal Audit department is now flanked by the following legal requirements.

**Section 9 -1** of the legal government Act 1997 provides that, every district, city and municipal or town council shall provide for an internal Audit department.

The head of internal audit shall prepare quarterly audit reports and shall submit them to the council giving a copy to the local government public accounts committee.

**Regulations 176** of local government financial and accounting regulation 1998 provides that; Procedures for internal auditing are set out in the internal audit manual and shall be followed as far as they are relevant to the investigations and review being carried out and to the local situation.

All internal audits carried out in accordance with the requirements of the act and the internal audit manual shall be considered as statutory audits. It is therefore important to note that central government had to create institutions that would include and enhance accountability at the local level. As a result of this, the department of Internal Audit in local authorities becomes inevitable. It is universally recognized that for proper and effective use of public funds especially in the context of expanding activities of the state in social and economic sectors there should be supreme audit institution whose independence is guaranteed by law (Akoper Woho E. 2000).

Kampala city council is a public organization administered under the local government ACT 1997 as amended as well as the local government financial and accounting regulations 1998. It came into existence in 1962 and 1968, its boundaries were extended to include Mengo Municipality, Nakawa and Kawempe Town Council. It's located in the central of Kampala district at City hall. It is the head quarters of KCC. It is bordered with the parliament, DFCU building, Ministry of Finance, statistics house, Jubilee building, or its located at Kimathi avenue. KCC has got several activities and goals and these include, preparing the budget for city during the year thus planning for Kampala residents, to maintain roads and clean garbage around the city, maintain law and order, collect revenue from citizens, of Kampala, financing various sectors in the city, issuing licenses to various sectors and so on.

However KCC as a local government an organization faces challenges e.g. a problem of tax avoidance by the tax payers which becomes difficult for it to continue its development plans. Over population in some parts of the city, Floods that affect most the city parts like Bwaise, Kawempe and etc. It registers most of the road accidents due to congestions in the city by motor vehicles especially taxi and so on.

In summary auditors report is an important mirror of local councils operations. It is therefore evident that strengthening the internal audit department is a yard stick of effective performance by the municipal council operation. It is out of this research that the researcher established how effective the audit reports have been in reflecting the performance of the Kampala City Council.

## **2 Statement of the Problem**

Like any other service providing institution in Uganda, Kampala city council is regulated by the local government Act 1997 and financial accounting regulation 1998. However despite the existence of Act as well as the internal audit department, Kampala city council is still failing to comply with the regulation (auditors report dated 2007) it is on this basis that the researcher intends to identify the effects of internal audit on the financial performance. Normally when the internal audit is appropriate, we anticipate and expect the financial performance to be good. This research sought to respond to the issue by carrying out research on the extent to which internal audit impacts on financial performance in KCC.

## **3 Purpose of the Study**

To evaluate the effects of internal audit on the financial performance of KCC.

## **4 Objectives**

- i. To establish how internal audit leads to effective financial performance in Kampala City council.
- ii. To find out the relationship between internal audit and organizational performance
- iii. To evaluate the internal audit control system used in Kampala City Council.

**1.5 Research Questions**

- i. How will internal audit lead to effective financial performance in KCC?
- ii. What is the relationship between internal audit and organizational performance in KCC?
- iii. What internal audit control system is used in KCC?

**1.6 Area and Scope of the Study**

**1.6.1 Geographical scope**

This study was carried out in KCC Headquarters (City Hall) and research covered the following departments; internal audit, health works, engineering, education and others of Kampala city council.

**1.6.2 Conceptual scope**

The subject scope included internal audit activities compared to the standard activities and operations carried out by departments against the standard.

**1.6.3 Time Scope**

The study covered the financial year 2006 up to date (Four years and more).

**.7 Significance of the Study**

- i. The findings will help the management of Kampala city council in getting more knowledge about the internal audit activities.
- ii. The research findings will be used to improve the performance of Kampala city council as a whole.

- iii. It will reflect how other departments benefit from relying on internal audit department.
- iv. The municipal council management will benefit from the study by way of knowing how a weak internal audit department affects the performance of the municipal council in carrying out the stated activities.
- v. The study will help other town councils to see the importance of internal activity.
- vi. The study aims at helping the town council to achieve their stated objectives. This is done through utilizing a systematic methodology for analyzing business processes, producers and activities.
- vii. The study aims at helping the town council to comply with the laws and regulations governing internal auditing.
- viii. The study will help the town council with reliability on financial reporting determining and investigating fraud, safeguarding assets.
- ix. The research is a pre-requisite for the awarding of Bachelor's of Business administration in Accounts degree at Kampala International University.

## **3 Definition of Terms**

### **Audit**

The word audit is derived from a Latin word “Audire” meaning to hear. The report of the Committee on basic Audit concept of the American Association defines Auditing as “A systematic process of obtaining and evaluating evidence regarding assertions and established criteria and communicating the results to interested users. Walter. G. Kelleetal (1987)

### **Auditing**

According to Spencer and Pengler 1969, Auditing refers to an independent appraisal of an organizations financial statement, payment vouchers to see whether they reflect true and fair position as per the state of the firm’s financial position.

### **Grants and Funds**

#### **Un-conditional Grants**

These are funds released by the central government to be spent as per their priority work plans. These may be recurrent and development expenditure.

#### **Conditional Grants**

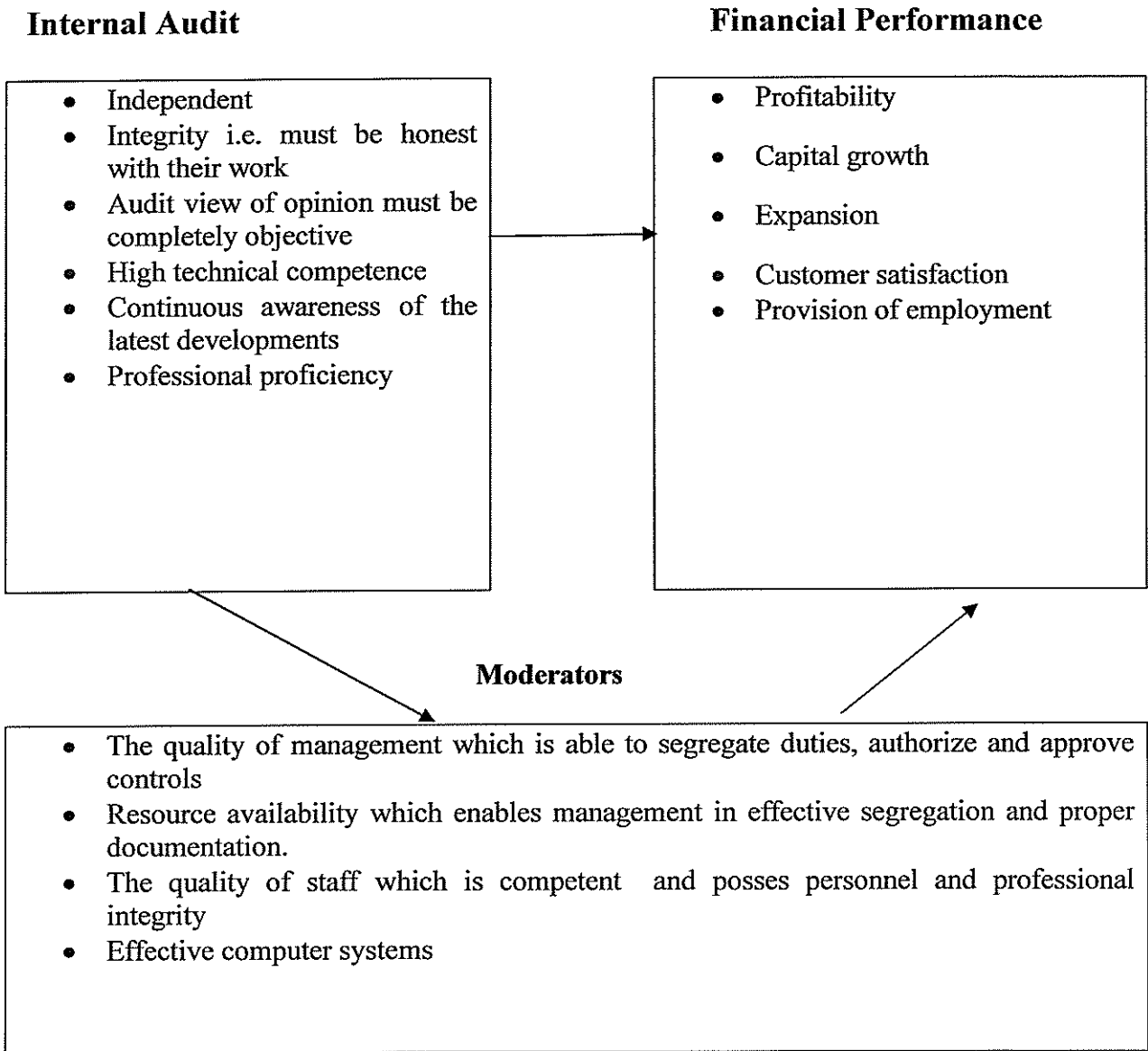
These are funds released to the district by the central government to be spent as per the conditions and guidelines of the central government. Examples include, school facilitations, Grants to primary schools, Agriculture extension grant, primary health care grant etc.

#### **Donor Funds**

These are funds given to the district by Non-Government organizations to be spent as per their guidelines. For example funds facilitating the operations of action Aid project in the district.



**9 Internal Audit and Financial Performance; Conceptual framework**



*Source: Literature*

From the illustration above, internal audit is related to independence, objectivity, integrity, competence as well as being up to date. This will, supposedly, translate into increased profitability, capital growth, expansion, customer satisfaction, and increased employment opportunities. However this process is shaped by variables such as management quality, availability of resources, quality of staff, and an effective computer system.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

In this chapter, the researcher reviewed some of the published data relating to internal Audit activities and how they are supposed to be. Also the researcher reviewed the published data in relation to the performance of the town council operations. The researcher went further ahead to explain and define some terms briefly and also specific interest areas on the philosophy and understanding of education and its processes was given.

#### **2.1 Internal Audit**

##### **2.1.1 The meaning of Internal Audit**

The Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions. With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law.

Frank A. Attwood defined "Internal Auditing as an element of internal control system set up by management as a method of imposing control".

Khisa (2000), "The Accountant-official Journal of the institute of certified public Accountants of Kenya of January/ March defined internal Audit as; An independent appraisal function within an organization set up for the reviewing of systems of control and quality performance.

As a service to the organization the internal Audit function objectively examines, evaluates and reports, on the adequacy of internal controls a contribution to proper and economic use of resources.

Internal auditing is a profession and activity involved in helping organizations achieve their stated objectives. It does this by using a systematic methodology for analyzing business processes, procedures and activities with the goal of highlighting organizational problems and recommending solutions. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The scope of internal auditing within an organization is broad and may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations.

Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

The local Government internal Audit manual (2000), states that the scope and depth of coverage of an audit will be influenced by the objectives of the audit, the assessed risk of distorting facts ,the complexity of the assignment and the time frame within which to report

Audit work should include planning the audit, examining and evaluating information, communicating results and follow ups.

Khisa (2000) also adds that, the audits plan should identify specific audit areas to be covered during the audit. The internal auditor must produce timely accurate and comprehensive reports to management on regular basis. This report should be on matters relating to the work carried out by the internal Audit Department.

According to Ramaswany (1960), performance audit can be categorized into the following ways:

- i. Continuous Audit. This is the audit where by the audit staff are engaged in checking the accounts for the whole year.
- ii. Final Audit: This is the Audit carried out after the closure of the financial year.
- iii. Management audit: Management audit is the audit of managerial actions and decisions of various managers in a business entity. This is normally carried out by a team of experts.
- iv. Balance sheet Audit is the verification of each of the items appearing in the balance sheet.
- v. In terms Audit: Here, the auditor conducts the audit for part of the accounting period.

Based on a risk assessment of the organization, internal auditors, management and oversight Boards determine where to focus internal auditing efforts. Internal auditing activity is generally conducted as one or more discrete projects. A typical internal audit project involves the following steps:

Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This involves review of documents and interviews. Flowcharts and narratives may be created if necessary.

- i. Describe the key risks facing the business activities within the scope of the audit.
- ii. Identify control procedures used to ensure each key risk and transaction type is properly controlled and monitored.
- iii. Develop and execute a risk-based sampling and testing approach to determine whether the most important controls are operating as intended.
- iv. Report problems identified and negotiate action plans with management to address the problems.
- v. Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.
- vi. Establish and communicate the scope and objectives for the audit to appropriate management.

Project length varies based on the complexity of the activity being audited and Internal Audit resources available. Many of the above steps are iterative and may not all occur in the sequence indicated. By analyzing and recommending business improvements in critical areas, auditors help the organization meet its objectives. In addition to assessing business processes, specialists called Information Technology (IT) Auditors review information technology controls.

## **.2 Independence of the Auditor**

Independence of an auditor is enshrined both in the legislation and in the code of ethics to be observed by practicing auditors. The company's Act chapter 85 sections 159-162 outline the

procedure for the appointment, remuneration and removal of an auditor. All this is done in order to safe guard the Auditors independence. The auditor is appointed by shareholders and can only be removed by the shareholders during Annual General Meeting (AGM) but not the management of the company. Such provisions in the Act are made to promote objective reporting by the auditor, it is imperative that he/she auditor is independent of the client (management). According to Washo (2000), as he discussed about Supreme Audit Institutions (SAIs) in Uganda. He quotes that "The role of Audit in the management of finances is a critical one. It is for this reason that most countries including Uganda has supreme Audit institutions to ensure that the finances of Government institutions are audited As derived from this statement she continues to say that, to be effective in carrying out this enormous responsibility, the Audit institution should be independent of the client.

Khisa (2000) quotes C. Mciugu C.P.A (K) in his article "THE ACCOUNTANT" Journal said. "The internal Audit Department has to be independent in approach, opinion and appearance, it has to be manned by staff who are independent objective and who should strictly adhere to professional ethics laid down. By recognizing professional accounting bodies".

E. mile (1986), in his book entitled auditing today states that "The objectives of internal and external auditing are similar except that the internal Auditors are employees of the company and responsible to management. They consequently lack the independence with which the external auditor is put".

### **.3 Integrity of an Auditor**

Integrity means moral soundness, the state of being whole, complete and unimpaired. This word comes from the Latin word integritas which means wholeness. Really, when applied to real life,

this word is simply difficult to execute. Most people associate integrity with honesty, morality and sometimes spirituality. In my humble opinion integrity means being able to fully say no and abhor those things that can make any person's life a misery. According to the international standards of auditing, an auditor should be honest in profession being aware of what his or her values and principles in life are and being able to execute them 100%.

Integrity requires three steps: (1) *discerning* what is right and what is wrong; (2) *acting* on what you have discerned, even at personal cost; and (3) *saying openly* that you are acting on your understanding of right from wrong. Integrity is not the same as honesty.

#### **.4 Objectivity of an Auditor**

Objectivity is a mental attitude which internal auditors should maintain while performing engagements. The internal auditor should have an impartial, un-biased attitude and avoid conflict of interest situations, as that would prejudice his/her ability to perform the duties objectively. The results of internal audit work should be reviewed before they are released in order to provide a reasonable assurance that the work has been performed objectively. Internal auditors should not assume any operational responsibility. According to the Professional Practices Framework II Objectivity can be presumed to be impaired when internal auditors perform an assurance review of any activity for which they had any authority or responsibility within the past year or a period significant enough to influence their judgment or opinion. Internal auditors should not accept gifts or favors from others such as employees, clients or business associates.

To perform their role effectively, internal auditors require independence from management, to enable unrestricted evaluation of management activities and personnel. Although internal

auditors are part of company management and paid by the company, the primary customer of internal audit activity is the entity charged with oversight of management's activities. This is typically the Audit Committee, a sub-committee of the Board of Directors. To provide independence, most Chief Audit Executives report to the Chairperson of the Audit Committee and can only be replaced with the concurrence of that individual.

### **1.5 Technical Competence of an Auditor**

According to HRH the Duke of Kent KG, one should maintain his technical competence through the following

- i. Attaining appropriate qualifications. For example for auditors professional courses such as degree in Business Administration, ACCA. CPA and so on
- ii. Improving IT skills by attending relevant courses offered by the organization; if such courses are not available pursue other sources, such as external courses, computer-based training or technical publications.
- iii. Keeping up to date with technological advances, through training, technical publications and specialist groups within professional bodies; recognize that information gained from the Internet may not be validated.
- iv. Committing to a continuing professional development (CPD) programme and seek further contemporary education and training on IT matters.



### **2.1.6 Professional Proficiency**

This is in regard to what the organization expects of the auditors. All audits should be done with proficiency and professional care. The Internal Audit Department should provide assurance on the following:-

- ❖ That the technical proficiency and educational background of internal Auditors are appropriate for the audit to be performed.
- ❖ That the internal Audit possesses the knowledge, skills and discipline needed to carry out its audit responsibilities.

## **.2 Financial performance**

### **.2.1 The meaning of Financial Performance**

It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

According to Investopedia, there are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

## 2 Profitability

It can be defined as either *accounting* profits or *economic* profits. Profitability is the primary goal of all business ventures. According to Don Hofstrand, without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses. Income is money generated from the activities of the business. Expenses are the cost of resources used up or consumed by the activities of the business.

Profitability is measured with an "income statement". This is essentially a listing of income and expenses during a period of time (usually a year) for the entire business. Decision Tool Income Statement - Short Form, is used to do a simple income statement analysis. An Income Statement is traditionally used to measure profitability of the business for the past accounting period. However, a "pro forma income statement" measures projected profitability of the business for the upcoming accounting period. A budget may be used when you want to project profitability for a particular project or a portion of a business.

Whether you are recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment.

Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability. These potential changes can be analyzed with a pro forma income statement or a Partial Budget. Partial budgeting allows you to assess the impact on profitability of a small or incremental change in the business before it is implemented.

A variety of Profitability Ratios (Decision Tool) can be used to assess the financial health of an organization. These ratios, created from the income statement, can be compared with industry benchmarks. Also, Income Statement Trends (Decision Tool) can be tracked over a period of years to identify emerging problems.

### **2.3 Capital Growth**

It refers to an increase in the value of invested capital. Investment in fixed-interest securities or bonds provides income but limited capital growth (which may be improved in index-linked gilt-edged securities). To Investopedia, to have a chance of making substantial capital growth it is necessary to invest in equities (see ordinary share), the value of which should increase more rapidly than inflation. Investing in equities is thus said to be a hedge against inflation.

Portfolios with the goal of capital growth consist mainly of equities. The exact proportion of equities to the total portfolio will vary according to the individual investor's investment horizon, financial constraints, investment goals and risk tolerance.

In general, a capital growth portfolio will contain approximately 65-70% equities, 20-25% fixed-income securities and the remainder in cash or money market securities. While seeking high returns, this mixture still somewhat protects the investor against a severe loss in portfolio value if the higher-risk equity portion of the portfolio takes a plunge.

Note that an aggressive portfolio strategy also aims to maximize capital growth, but of the total portfolio value, these strategies are of considerably higher risk; sometimes consisting entirely of equities! (A Dictionary of Business and Management. 2006).

## **2.4 Customer Satisfaction**

This is a measure of how services supplied by an organization meet or surpass customer expectation. It is seen as a key performance indicator within an organization and is part of the four perspectives of a Balanced Scorecard. SERVQUAL or RATER is a service-quality framework that has been incorporated into customer-satisfaction surveys (e.g., the revised Norwegian Customer Satisfaction Barometer) to indicate the gap between customer expectations and experience.

J.D. Power and Associates provides another measure of customer satisfaction, known for its top-box approach and automotive industry rankings. J.D. Power and Associates' marketing research consists primarily of consumer surveys and is publicly known for the value of its product awards.

Other research and consulting firms have customer satisfaction solutions as well. These include A.T. Kearney's Customer Satisfaction Audit process, which incorporates the Stages of Excellence framework and which helps define a company's status against eight critically identified dimensions.

## **2.5 Employment**

This is a contract between two parties, one being the employer and the other being the employee. An employee may be defined as: "A person in the service of another under any contract of hire, express or implied, oral or written, where the employer has the power or right to control and direct the employee in the material details of how the work is to be performed." Black's Law Dictionary page 471 (5th ed. 1979).

In a commercial setting, the employer conceives of a productive activity, generally with the intention of generating a profit, and the employee contributes labor to the enterprise, usually in return for payment of wages. Employment also exists in the public, non-profit and household sectors. To the extent that employment or the economic equivalent is not universal, unemployment exists.

#### **Performance Indicators Used by Internal Auditors.**

In study the researcher was able to find out that the performance indicators used were those that are laid out in the Financial Accounting Regulations Standards [FARS] 1998 and Internal Audit manual 2000, they are as follows.

- i. To review the financial and accounting systems in operation in each department and establishment of the administration to ensure that they are adequate, effective and confirm with the provision of these regulations and internal audit manual.
- ii. To audit revenue collection to ensure that all monies due to the council are collected and banked or otherwise accounted for in terms of these regulations and internal audit
- iii. To audit procurement procedures and payments to ensure that all goods, services and works are properly ordered, received examined and paid in. terms of these regulations and audit manual. That value for money as an objective of procurement has been achieved.
- iv. To extend his/her services to division councils and to any other council in his area of jurisdiction and submit quarterly reports.
- v. To carry out prepayments audits and work in harmony with the audit generals representatives in all audits of local governments accounts.

- vi. The study also revealed that internal auditors of Kampala city council do not always refer to their performance indicators as spelled out in the internal audit manual and financial regulations.

### **3.1 Relationship between the Internal Audit and Financial Performance**

The act [1997] provides that internal audit staff shall provide quarterly audit reports indicating the performance of all the departments in the council and whether safe water has been provided, feeder roads have been constructed, schools have been built, salaries of staff have been paid and how far the council's assets, funds have been safeguarded from abuse and wastage. Using analytical variables of internal controls put in place pre-audit of payments vouchers. Physical inspections by audit staff before payment is made and procurement procedures.

Audit department has played a crucial role in regulating the operation of the council. However, due to limited number of audit staff; it has been evident that some operation went unchecked. This has led to poor performance of such sectors.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presented the methodology which was used in the study; it focused on research design, area of study, study population, sampling collection, Data collection and analysis.

#### **3.1 Research Design**

The study used a quantitative and qualitative research design for the purpose of making valid conclusions. Quantitative design which is classified into two broad categories, that is experimental and general survey design examines internal audit and financial performance under decentralization as an independent variable where as qualitative design involves the use of questions to obtain views from respondents

#### **3.2 Study Population**

The population study constituted of 40 members consisting of committee clerks, head of departments, secretaries and the entire workers within KCC both at district and division level, other workers within from various departments (accounts section)

#### **3.3 Sample Size and Methods of Sampling**

The research was based on a sample size of 30 respondents of Kampala City Council Head quarters. They comprised of both sexes i.e. males and females but of different marital and age groups. This was intended to get a variety of views and unbiased responses which were to make the study a reality. The respondents were randomly selected and categorized.

## **Sources of Data**

The data was collected from both primary and secondary sources

### **a) Primary Source**

- ❖ Kampala city Council official's responses
- ❖ Departmental responses

### **b) Secondary Source**

- ❖ KCC already existing reports in the departments
- ❖ KCC documents like final accounts and budgets
- ❖ Local Government Act
- ❖ Financial Regulations
- ❖ KCC documents (Financial accounts and budgets)

## **5 Data collection instruments**

### **Primary**

#### **a) Structured Questionnaires**

Self administered Questionnaires were used to collect data from Town council and department officials. The questions were free choice and a few open ended questions.

The questionnaires were designed to test respondents' attitudes and feelings on implementation of Internal Audit and performance secondary.

#### **b) Records of budget and Final Accounts were inspected and collected data from records, documents such as minutes, annual financial reports were obtained from the town council.**



## **Data Processing Analysis**

The findings were analyzed using graphs, tables, percentages and mathematical computations using correlations.

- ❖ The raw data gathered using the Questionnaires was transformed into numeric. By doing this, the raw data was changed to meaningful information as a result of describing the sample responses into absolute numbers.
- ❖ Coding; as a means of aiding this analysis, the data collected was categorized into codes- a phrase used to present a message for secrecy. (Hawkins: 1998) The use of graphs and the spearman's rank correlation coefficient.

## **.7 Methods of data presentation**

### **❖ Tables**

Tables are the most common method of presenting analyzed data. Tables offer a useful means of presenting large amounts of detailed information in a small place. Frequency distribution tables in this case were used.

Frequency distribution table measurements are grouped into two classes. Then the number of measurements for each class is reported. The totals for each class are called the frequency of the responses for that class. Frequency distribution tables present the frequencies or counts of the occurrence of each value (class or category) of a variable (Babbie, 1990).

## ❖ Graphs

The main purpose of graphs is to present data in away that is easy to understand and interpret, and interesting to look at. Common types of graphs include Bar charts, histograms, frequency polygons, scatter graphs and cumulative frequency polygons. For this research, bar graphs and pie chats were used to present the collected.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS, AND DISCUSSION OF FINDINGS**

#### **Introduction**

This chapter presents the findings of the research in reference to the research questions in chapter one, mainly based on the analysis of primary data. Presentation of the analyzed data takes both descriptive and inferential statistics form.

Based on the objectives, internal controls are incorporated within an accounting system to ensure that:

- All transaction are recorded at the correct amount, in the proper period so as to enable management prepare financial statement.
- Recorded assets are compared with existing assets periodically and corrective action taken incase of differences.
- Transaction are carried out in accordance with appropriate authority
- Access to assets and records is authorized.
- Documents are pre numbered to ensure that all are used and properly accounted for.

A key objective of internal auditor is to review the organization's system of internal control and to provide assurance that the corporate governance requirements are being met. Internal controls are crucial to the internal auditor. Therefore both the internal and external auditors have common interest. Internal audit need to ensure that the controls in place are adequate to guard against the risk identified and are operating effectively.

## 1.1 General findings

**Table 4.1 Respondents age category.**

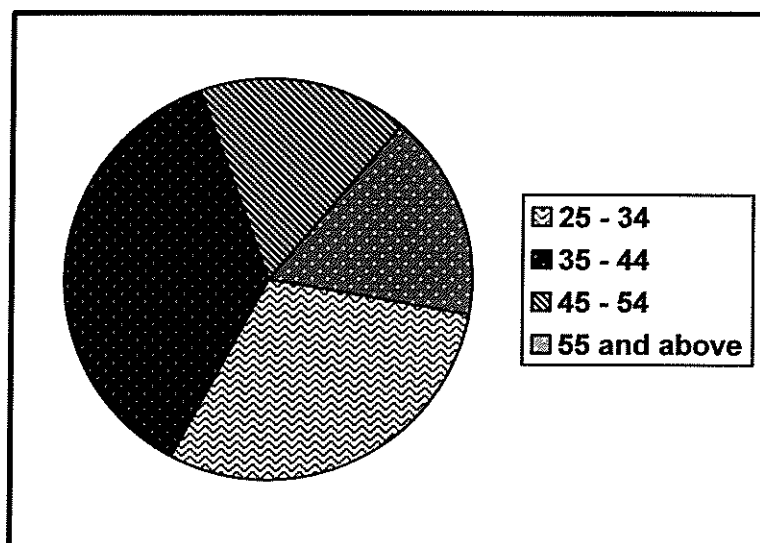
Age	Frequency	Percentage
25-34	9	30.0
35-44	11	36.6
45-54	5	16.7
55 and above	5	16.7
Total	30	100.0

**Source: Primary Data**

The study revealed that the majority were in a category of 35-44 years of age representing 36.6%, Followed by 25-34 years which is 30%, 45-54 and 55 and above represented by 16.7%

From the above, It indicates that majority of respondents were a bit young with enough experience to provide the necessary information needed.

**Figure 4.1: Age Category of Respondents**



**Source:** Primary Data

**Table 4.2 Respondents Education Levels.**

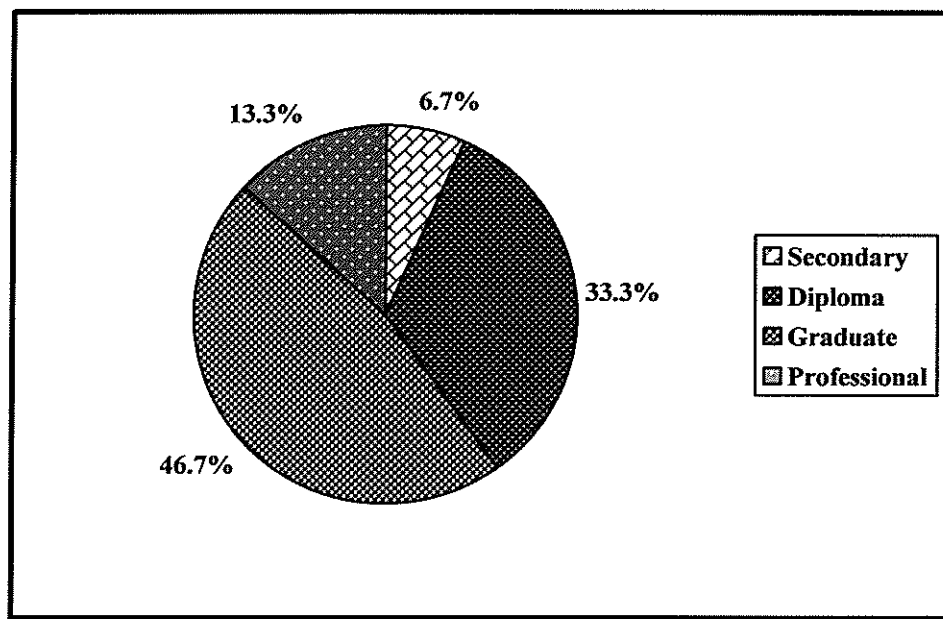
Levels	Frequency	Percentage
Secondary	2	6.7
Diploma	10	33.3
Graduate	14	46.7
Professional	4	13.3
Total	30	100.0

**Source:** Primary Data

The study revealed that out of 100%, 46.7% had graduate level of training, 13.3% were professionals, and 33.3% have diplomas. The 6.6% were not university graduates this means that they cannot interpret the activities done by the departments.

The above information implements that degree holders are at a higher rate more than other respondents in the council.

**Figure 4.2: Respondents' Education Levels**



**Source:** Primary Data

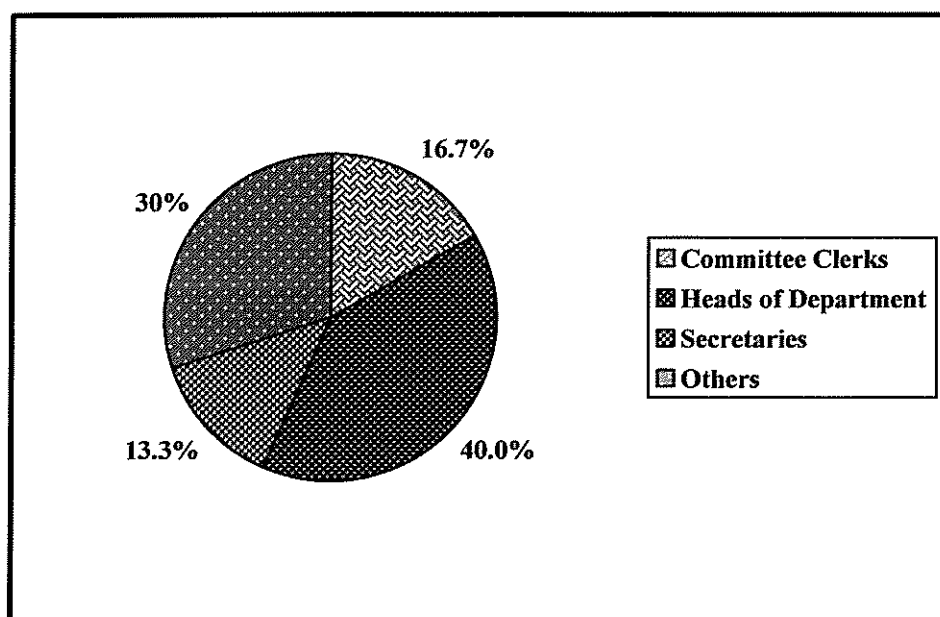
**Table 4.3 Respondents job Title or position.**

Levels	Frequency	Percentage
Committee clerks	5	16.7
Heads of Department	12	40.0
Secretaries	4	13.3
Others	9	30.0
Total	30	100.0

**Source:** Primary Data

The study revealed that majority of interviewed staff were heads of departments who represented 40%, Followed by others (employees) who were totaling to 30% and Committee clerks accounting to 16.7% plus secretaries who were 13.3%.

**Figure 4.3: Respondents Job Title or Position**

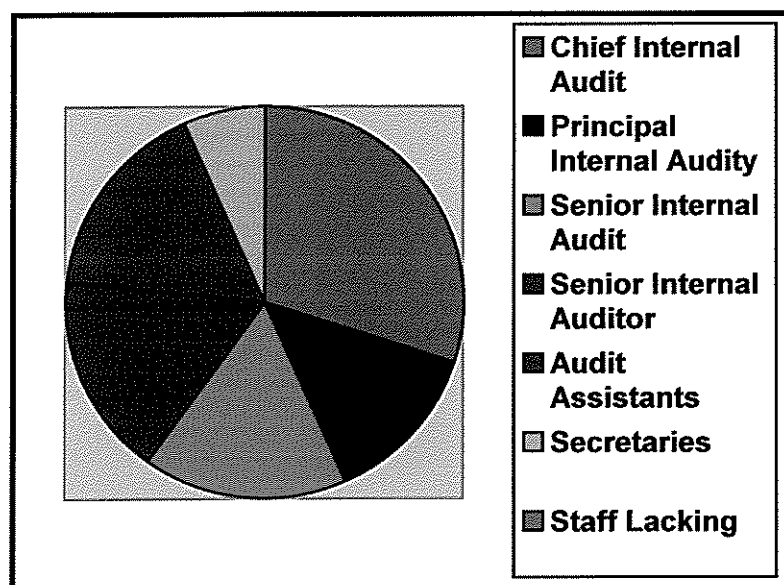


**Source:** Primary Data

## **2 Structure of Internal Audit**

In the study carried out, the researcher found out that, the Audit department to carry out its activities effectively, the structure should be headed by the Chief internal Audit followed by the Principal Internal Auditor; TEAM A and Senior Internal Auditor, TEAM B .

**Figure 4.4 Level of Staffing of Internal Audit**



**Source: Primary Data**

### **3 Staffing of Internal Audit Department**

From the study, researcher was able to establish that the internal audit department is not well staffed for effective performance of its duties.

**Table 4.5: Response of Staffing of Audit Department**

Staffing	Frequency	Percentage
Well staffed	12	40.0
Understaffed	16	53.3
Don't know	2	6.7
<b>TOTAL</b>	<b>30</b>	<b>100.0</b>

**Source: Primary Data**



**Table: 4:4: Level of Staffing of Internal Audit**

<b>Position</b>	<b>Staffing requirements of Internal Auditors</b>	<b>Percentage</b>
Chief Internal Audit	9	30.0
Principal Internal Audit	4	13.3
Senior Internal Audit TEAM A	5	16.7
Senior Internal Auditor TEAM B	5	16.7
Audit Assistants	5	16.7
Secretary	2	6.6
Staff lacking	-	-
TOTAL	30	100.0

**Source: Primary Data**

From the table above, it is evident that the staffing position is not as per the statutory requirement. Kampala City Council did not meet the regulations of the statutory law because of its low staff members who are not corresponding with the required staff.

40.0% were aware that the audit department was well staffed, 53.3% were aware that the audit department is understaffed while 6.7% were not aware of any staffing requirements. This indicated that 53.3% employees knew that the audit department was understaffed therefore there is need to improve the staff department.

#### **.4 Checks by internal audit staff to department in 2007/2008**

The internal audit department is required to make regular visits and report on the activities done in all departments, but the study found out that apart from engineering department at least other departments are visited though not as in the work plan.

**Table 4:6: The frequency of checks by internal audit staff to departments 2005/2006 and 2007/2008**

<b>Department</b>	<b>Frequency</b>	<b>Percentage</b>
Enforcement	4	13.3
Health	6	20.0
Education	5	16.7
Tax	4	13.3
Finance	9	30.0
Checks missed	2	6.7
<b>TOTAL</b>	<b>30</b>	<b>100.0</b>

**Source: Primary Data**

By law and the work plan, the number of checks to departments by internal audit staff in 2005/2006 and 2007/2008 would have been 30 times representing 100 % but the departments were not checked adequately more so engineering department which was not checked at all.

## 5 Findings on Management Reliance on Audit Reports.

**Table 4:7: Showing management reliance on audit report.**

Levels	Frequency	Percentage
Reliance	27	90.0
Relevant	3	10.0
<b>Total</b>	30	100.0

**Source: Primary Data**

The contribution of audit reports on financial operation 90.0% of respondents indicates that management relies on audit reports consideration them as relevant and reliable respectively.

While 100% confidence is attached to reports by management as relevant and useful.

Audit reports are written to high standard as far as clarity is concerned, representing by a rating of 100% of the total sample of respondents.

## 6 Financial Performance / Management

The government of Uganda in a report preliminary assessment of the operation of poverty action noted that the role of both financial and physical audit is very important in accounting for funds.

The systems of audit in place need to perform the task adequately, one possible approach to be assessed is the use of audit reports at council level before they submit their quarterly audit reports. S.19 of the act provides that as a rule. Every district, city town council, municipal must have internal audit department.

The department must prepare quarterly reports and submit to the council and PAC.

The internal audit department is to report any anomalies in those payments to the financial officers involved.

#### 1.7 Relationship between Frequency of Audit Checks and Performance of Kampala City Council for the Year 2007/2008

**Table 4:8: Performances**

Department	Monthly		Quarterly		Semi annually	
	Frequency	%	Frequency	%	Frequency	%
Health	12	40.0	8	26.7	10	33.3
Engineering	9	30.0	11	36.7	10	33.3
Tax	12	40.0	5	16.7	13	43.3
Finance	12	40.0	9	30.0	9	30.0
Education	6	20.0	14	46.7	10	33.3

**Source: Primary Data**

The table shows that the frequency of audit checks has a positive effect on the performance of Kampala city council contributed by factors that management put into consideration that jointly

contribute to a more realistic level of performance by the council such factors include be motivation and facilitation of staff..

#### 4.11 Relationship between Internal Audit and Effective Accountability of Funds by Kampala City Council for 2007/2008

**Table 4:9: Accountability**

Department	Monthly		Quarterly		Semi-annually		Frequency of checks
	Frequency	%	Frequency	%	Frequency	%	
Health	12	40.00	3	10.0	15	50.0	30
Engineering	8	26.7	10	33.3	12	40.0	30
Tax	2	6.7	6	20.0	22	73.3	30
Finance	9	30.0	10	33.3	11	36.7	30
Education	16	53.3	6	20.0	8	26.7	30
<b>frequency of accountability</b>	47		35		68		

**Source: Primary Data**

The table shows a strong positive relationship between the frequency of audit checks and the accountability of funds by the district. This therefore means that for a progressive trend in the accountability of funds. The town council should continue to support audit department effectively. It is also evident that audit department acts as a watchdog for management areas or department, which require immediate attention.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter of study focused on the findings in relation to what the objective of the study intended to achieve. First the researcher presents the summary followed by the conclusions based on the findings. Then lastly the recommendations to improve on the relationship between the activities and performance of the town council.

#### **5.1 Summary**

The study revealed that the points listed in the objectives are vital as far as of KCC's Internal Audit performance concerned. The Internal Audit has improved the performance of KCC for example the audit revenue collection to ensure that all monies due to the council are collected and banked or otherwise accounted for in terms of these regulations and internal audit, auditing procurement procedures and payments to ensure that all goods, services and works are properly ordered, received examined and paid in. terms of these regulations and audit manual. That value for money as an objective of procurement has been achieved and so on.

#### **5.2 Conclusion**

Based on the above objectives results of the study revealed that effective internal audit activities highly influence the level of department performance. It is evident that audit checks have a positive bearing on the level of performance and the accountability of funds by the town council. In other wards, the higher the frequency of audit checks the better the level of department

performance and accountability of funds both released from the central government and locally generated revenue.

It is also evident that apart from routine audit checks there are other factors which must come into place so as to realize effective accountability of funds and thus net impact on the performance of the town council. Such factors could include human resource aspect which has to be well motivated. A well organized managerial interpersonal skills. All these aspects have to be well coordinated so as to realize overall success of the town council.

The study further outlined that the performance of audit department is not in line with the statutory requirements as evidenced by the number of audit checks missed. This has most likely contributed to the poor performance by other departments especially those not visited mostly.

### **5.3 Recommendations**

In order to improve on the effectiveness of internal audit and consequently the performance of the council as a whole, the researcher made the following recommendations

- ❖ Need to increase the staffing position of Kampala city council internal audit department to be in line with the statutory requirement as provided by the internal audit manual. this will not only increase the effectiveness of the department but also will enable the council to comply with financial and accounting regulations and local Government Act[1997]
- ❖ Need for internal audit staff to regularly visit all departments and make observation and recommendations through regular reporting .this therefore calls for council to increase on the budget position of internal audit to enhance facilitation.
- ❖ Need to employ qualified staff relevant professional qualification to carry out effective work in all functional department especially audit section .the trend of current government guidelines

on accountability and the utilization of funds is ever becoming demanding in terms of skilled .qualify accountability and report preparation. This therefore requires a well qualified staff with relevant experience to take up such position.



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*20 Questions Directors should ask about Internal Audit* By Fraser and Lindsay,

## QUESTIONNAIRES

Dear Respondent,

I am a student pursuing a course leading to the ward of Bachelor of Business in accounting of Kampala International University.

This questionnaire has some questions which require filling in appropriate response. It's purposely for academic information which will facilitate me to write a research report as one of the pre-requisite of getting the degree. Any information that you will provide will be treated with maximum confidentiality as looking forward for your positive response.

### GENERAL

1. Gender: Male ☐
- Female ☐
2. Age:
- 25 – 34 ☐ 35 – 44 ☐ 45 -55 ☐ 55 and above ☐
3. Which qualification do you hold?
- Certificate ☐
- Diploma ☐
- Degree ☐
- Other (mention) .....
4. What is your job title?
- .....
- .....
5. How long have you been in this office?
- Less than1year ☐ 1-3years ☐
- 3-5years ☐ 5years an above ☐
6. Is there an internal audit department in Kampala City Council?
- Yes ☐ No ☐

7. Are you aware of the activities performed by internal audit performance?

Yes ☐ No ☐

8. How often does the internal audit come to your department?

- a. Monthly ☐
- b. Quarterly ☐
- c. Twice a year ☐
- d. Once a year ☐

**SECTION A:**

**Internal Audit Control System**

1. Are there any internal audit control systems set by Management?

a) Yes ☐ b) No ☐

2. Name them if Yes

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.....

.....

3. Do you follow the control procedures as required?

a) Yes ☐ b) No ☐

4. If not what are the reasons for the failure?

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.....

.....

5. List below the internal audit functions that are supposed to be done in Kampala City Council.

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.....

.....

6. The Internal audit office is well staffed and well facilitated.

- a) Strongly agree ☐
- b) Disagree ☐
- c) Agree ☐
- d) strongly disagree ☐

5. If no give reasons?

.....

.....

.....

6. Briefly describe the internal control procedures used in place.

.....

.....

.....

**SECTION B:**

**Financial performance over the years**

1. What are major sources of funds to the council?

- a. Locally generated ☐
- b. Donor funds ☐
- c. Central government ☐
- d. Others ☐

2. How often are the funds released from the ministry?

- a. Monthly ☐
- b. Quarterly ☐
- c. Any other opinion ☐

3. Are the funds put to their planned activities?

- a. Yes ☐
- b. No ☐
- c. other ☐

4. Do you think that internal audit procedures in place have contributed on financial performance of the Town Council?

a. Yes    ☐    b.    No

5. If yes, what are some of the contribution of internal audit procedures on the performance of the town council?

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.....  
.....  
.....

5. What is your suggestion about improving internal audit performance?

.....  
.....  
.....  
.....

7. What would you say about the degree of implementation of internal audit on financial performance?

.....  
.....  
.....

\*\*\*\*\* **END** \*\*\*\*\*

**THANKS FOR YOUR PRECIOUS TIME SPENT TO ANSWER THE QUESTIONNAIRE.**