

INTERNAL AUDIT AND RELIABILITY OF FINANCIAL ACCOUNTABILITY IN  
LOCAL GOVERNMENTS IN UGANDA: A CASE STUDY OF  
AMOLATAR DISTRICT LOCAL GOVERNMENT

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### DECLARATION

I hereby do declare that this research report entitled “Internal Audit and Reliability of Financial Accountability in Local Governments in Uganda” is my own original work, except where acknowledged and that it has never been submitted before to any university or institution of learning for the award of bachelor degree.


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### APPROVAL

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### **DEDICATION**

With great appreciation and thank, I dedicate this report to all my family members especially my dear mother Mrs. Sophia Otema, my father Mr. Otema Bruno, brother Ambrose, Bonny, Sam, and sister Doris and Gloria not forgetting my beloved friends who have always been an inspiration in my life at all times. May the Almighty Father in heaven bless and avail each one of you the happiness you deserve.

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## TABLE OF CONTENT

APPROVAL .....	ii
DEDICATION .....	iii
ACKNOWLEDGMENT .....	iv
TABLE OF CONTENT.....	v
LIST OF TABLES .....	viii
LIST OF FIGURES.....	ix
LIST OF ABBREVIATIONS.....	x
<i>ABSTRACT</i> .....	xi

<b>CHAPTER ONE</b> .....	1
1.0 Introduction .....	1
1.1 Background of the study .....	1
1.1.1 Historical background.....	1
1.1.2 Theoretical background.....	2
1.1.3 Conceptual background.....	3
1.1.4 Contextual background.....	4
1.2 Statement of the problem .....	4
1.3 Purpose of the study .....	5
1.4 Objectives of the study .....	5
1.5 Research Questions.....	5
1.7 Significance of the study.....	6
<b>CHAPTER TWO</b> .....	9
LITERATURE REVIEW .....	9
2.1 Introduction.....	9
2.2 Internal Audit .....	9
2.3 Accountability .....	14

<b>CHAPTER THREE.....</b>	<b>19</b>
METHODOLOGY .....	19
3.0 Introduction.....	19
3.1 Research design.....	19
3.2 Area of the study .....	19
3.3 The survey population .....	19
3.4 Sampling design .....	19
3.5 Sample size .....	20
3.6 Sources of Data .....	20
3.6.1 Primary Source.....	20
3.6.2 Secondary source.....	21
3.7 Data collection methods.....	21
3.8 Data collection procedure .....	21
3.9 Data analysis and presentation .....	21
3.10 Data analysis .....	22
3.11 Limitations encountered.....	22
 <b>CHAPTER FOUR.....</b>	 <b>23</b>
PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS.....	23
4.0 Introduction.....	23
4.2 Demographic characteristics of respondents.....	23
4.3.2 Independence of ADLG IA department.....	28
4.4.1 Value for money .....	32
4.4.2 Transparency .....	33
4.4.5 Relationship between Internal Audit and Financial Accountability in ADLG.....	33
 <b>CHAPTER FIVE.....</b>	 <b>35</b>
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....	35
5.0 Introduction.....	35
5.1 Summary .....	35
5.1.1 Level of internal audit in ADLG .....	35
5.1.3 Level of financial accountability in ADLG.....	36

5.1.3 Relationship between IA and Financial Accountability in ADLG .....	36
5.2 Conclusion .....	37
5.4 Areas for further study .....	37
REFERENCES.....	A
APPENDICES .....	D
QUESTIONNAIRE.....	D
KAMPALA INTERNATIONAL UNIVERSITY .....	D
COLLEGE OF ECONOMICS AND MANAGEMENT.....	D
TIME FRAME OF RESEARCH .....	I



## LIST OF TABLES

Table 3.1: Samples done on various departments.....	20
Table 4.1: ADLG IA staff possesses competent skills to work .....	26
Table 4.2: ADLG IA Provides quality and transparent report.....	26
Table 4.3: ADLG IA staff exhibits high degree of professionalism.....	27
Table 4.4: ADLG IA staff work under internal and external pressure.....	28
Table 4.5: Top management comprises of members of IA department .....	29
Table 4.6: IA staff always make audit plans to enable them do their work .....	29
Table 4.7: ADLG IA staff takes all required means to control audit risks.....	30
Table 4.8: Auditing in ADLG is in most cases done at the end of the year .....	31
Table 4.9: ADLG Internal Auditors are interested in audits .....	31
Table 4.10: ADLG regularly conduct value for money audits .....	32
Table 4.11: Funding arrangements for activities in ADLG is done openly .....	33
Table 4.12: Relationship between IA and financial accountability .....	34

## LIST OF FIGURES

Figure 4.1: showing sex of the respondents in ADLG.....	23
Figure 4.2: Age of the respondents in ADLG .....	24
Figure 4.3: Highest level of qualification attained in ADLG .....	24
Figure 4.4 Length of service in ADLG .....	25

## LIST OF ABBREVIATIONS

ADLG	-	Amolatar District Local Government
IA	-	Internal Audit
SAI	-	Supreme Audit Institution
AGO	-	Auditor General's Office
AGR	-	Auditor General's Report
UDN	-	Uganda Debt Network
LGA	-	Local Government Act
LDFAR	-	Local Government Finance and Accounting Regulations
DPAC	-	District Public Accounts Committee
LGFAA	-	Local Government Finance and Accounting Act
BA	-	Budget Act
PFA	-	Public Finance Act
ACCA	-	Association of Chartered Certified Accountants
CPA	-	Certified Public Accountants
ICPAU	-	Institute of Certified Public Accounting Principles
USA	-	United State of America
URA	-	Uganda Revenue Authority

## ABSTRACT

*The study was carried out on internal audit and reliability of financial accountability in local governments in Uganda looking at Amolatar District Local Government as the case study. The objectives of the research were to investigate the level of internal audit, examine the level of accountability of public finances and establish the relationship between internal audit and financial accountability in Amolatar District Local Government. The study adopted a cross sectional research design to collect data from respondents and targeted 15 respondents from accounts and finance department, 10 from internal audit, another 10 from procurement and stores department, 6 from budgeting and planning department and 4 departmental heads also known as key informants. Findings revealed that the IA department of ADLG is still weak since audit staffs lack adequate competent skills and resources to conduct audits. Findings also showed that accountability for public finances in Amolatar District Local Government is characterized by untimely reporting, lack of concern for value for money while incurring expenditures and poor quality documentation. Pearson's correlation results revealed a significant positive strong relationship between IA and financial accountability in Amolatar District Local Government. However the predictor of accountability in Amolatar District Local Government was found to be competence of audit staff and availability of resources for conducting audits. Basing on the research findings, there is therefore need for ADLG management to improve on the competence of their internal auditors and also to establish accountability requirements with strict penalties for failure to account for public funds so as to attain an improved level of financial accountability.*

## **CHAPTER ONE**

### **BACKGROUND AND INTRODUCTION**

#### **1.0 Introduction**

This chapter presents the background of the study, statement of the research problems, purpose of the study, main and specific objectives of the study, research questions, scope of the study and its significance and operational terms and definition.

#### **1.1 Background of the study**

##### **1.1.1 Historical background**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operations (Global Institute of Internal auditors, 2002, Andrew, 1995). It covers the systematic review, appraising and reporting on adequacy of systems of managerial, financial, operational, and budgetary controls and their reliability in practice.

Internal auditing can also be defined as an independent activity established by an organization's management to examine and evaluate its risks management processes and internal control system so as to enable them make appropriate recommendations for the organization's objective. Internal audit plays an important role in an organization's risk management and control framework by providing independent and objective assurance to management and the audit committee in this respect with a view to adding value and enhancing the organization's operation. It also facilitates management to accomplish their objectives through a systematic and disciplined approach to the evaluation and strengthening of the effectiveness of risk management, control, and governance processing.

The proper mechanism that can help to safeguard public resource is financial accountability which held those entrusted with public resources responsible in mobilizing, spending and even financial decisions. According to Keller (2008), financial accountability is seen in four aspects: transparency, Accounting records and reporting, budgeting framework and auditing. Auditing is very important and plays vital role in strengthening financial accountability in the public sector. Zinyama (2013), revealed that poor appointment procedures for controller and auditor general (CAG) in Zimbabwe. These poor procedures of appointment can one way or the other

harm the CAG independence and thus affect his constitutional obligation of controlling and auditing the public revenue and expenditure. Thus, poor appointment procedures can contribute the failure of financial accountability in public sector financial management. Odia (2014), pointed out that supreme audit instruction (SAI) is very important in achieving public accountability in Nigeria, however, he stresses on the strengthening of the legislature over site and institutional capacity building. Likewise in accessing the public sector audit as an effective tool of enforcing accountability, insufficient independence of SAI limited accounting environment and lack of capacity inhibits institution in fulfilling audit responsibilities. Also community based organizations and NGOs are in front line to ensure proper use of public funds, fighting against corruption and extravagancy. Sikika (2011), unveils that public sector audit is only imperative for the organization but also for the general public because it assures effective and efficient use of public funds.

### **1.1.2 Theoretical background**

The people who created the theory of agency were Steven Ross and Barry Mitnick. Ross is responsible for the origin of Economic theory of agency and Mitnick is responsible for the institutional theory of Agency, though the basic concepts are underlying, the approaches are similar. Ross introduced the study of agency in terms of problems of compensation contracting: agency was seen in the essence as incentive problem. Mitnick introduced the now common insight that institutions form around agency and evolve to deal with Agency, in response to essential imperfection of agency relationships. Therefore to fully understand agency, we need both streams to see the incentives as well as the institutional structure.

Steven R and Mitnick 1973, the theory of agency states that, "as a result of information asymmetries and self-interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interest of agents with principals and to reduce the scope of information asymmetries and opportunistic behaviors. The scope of the work of the IA function is to determine whether the framework of the risk management, control and governance processes as designed and represented by the management is adequate and effective. Opportunities for reinforcing management control, best practice and the organization's corporate image may be identified during audits and will be communicated to the appropriate level of management. Accountability on the other side refers to the act of holding individuals or

organization responsible for performance measured as objectively as possible. It is a spectrum of approaches, mechanisms and practices used by the government to ensure that their activities and output meet the intended goals and objectives (Paul 1991). According to Omunuk 1999, financial organization means an organization's capacity to show evidence of good financial management by submitting accountability of all moneys received and spent by production of documented evidence such as books of accounts, financial report and results in form of tangible items.

### **1.1.3 Conceptual background**

In this study the independent variable was financial accountability and the dependent variable was internal audit which are important aspects of internal audit that go hand in hand

Financial accountability should be emphasized in organizations, private or public and is attained only if all the funds spend are supported by authentic records giving a clear indication that the flow of funds are in consistence with organizational objectives. The responsible officer should maintain sufficient records of materials and equipments acquired and all records of accounts must be audited (Ainable Catherine, Mann, 2002) Green (2003) refers to financial accountability as an organization's capacity to demonstrate, answer, or explain its actions pertaining to the use of funds. He emphasized that financial accountability affects the performance and success of organizations. In government institutions, the key consideration to accountability of the public finances are discharge of all commitments, the achievement of value of money, and the demonstration of high level of accountability among other variables. In Uganda, financial accountability in local government institutions has continued to be poor although government closely monitors the services auditors provide and has put much effort in conducting regular trainings to enable auditors gain comprehensive modern audit techniques. There is also divergence of funds and unregistered expenditure is rampant (auditor general report, 2008/2009). Government effort in training auditors and setting control standards has not so far helped in achieving reliable financial accountability and has compelled the government to launch anti-corruption networks and collusions such as Uganda Debt Network (UDN), in some district Amolatar She noted that the campaign is part of the wider strategy to involve the people in decision making processes and to empower them to demand accountability and transparency from public officials at all levels.

#### **1.1.4 Contextual background.**

On the issue of accounts and audit, every local authority must take arrangements for proper administration of its financial affairs and must ensure that one of its offices has responsibility for the administration of those affairs. This should be without prejudice to the general power of the local authority to anything, which is calculated to facilitate it, or is conducive or incidental to the discharge of its functions. One of the problems of government is that the power vested in it by the people is often subject to abuse /detriment of welfare of the economy. It is therefore necessary that there should be mechanisms such as internal controls to ensure that public resources are guarded. In Uganda, the LGFAR (1998) governs financial accountability in local government institutions. This requires every local government institution to maintain books of accounts such as vote books, cash books, ledgers, abstracts and assets register among others which should all be carefully passed under audit. For this, section 90 of the LGA (1997) establishes an IA department for every district, city, municipal or town council. It's against this background that the researcher was instigated to assess the relationship between internal audit and financial accountability in local government institutions.

#### **1.2 Statement of the problem**

The magnitude of reported malpractices in financial accountability in local government institutions of Uganda is on the increase. There are rampant illegal payments worth millions of shillings in most local government institutions. This anomaly in the accountability of public finances continues in ADLG and has resulted in unreliable financial accountability presented by untimely financial report (Management report, 2010/2011). "Financial reports are not always presented for examination in time since those responsible for preparing and presenting them exhibits less consciousness about reporting time, said Rwahamwa Benon (Chief Administration Officer ADLG)". This has resulted in service losses of public funds and poor delivery of services to the natives. This problem could have probably been caused by poor corporate governance involving ineffective leadership styles which excludes the people from decision making, high audit costs, poor planning and absence of effective internal controls. If this situation continues, ADLG shall fail to have proper strategic goal setting despite the existence of the IA function which is supposed to ensure that every local council, in the district keeps proper books of accounts and other records in relation thereto, balances its accounts for that year, produces



statements of financial accounts within the stipulated period and report on the system and operations of the administration whether free from fraud and other malpractices. The continued trend of financial malpractices and unreliability of financial reports in ADLG for over the last three financial years although management have endeavored to provide on the job trainings to IA staff and conduct periodic review is an indication that internal auditors are not only ineffective but also not innovative.

### **1.3 Purpose of the study**

The purpose of the study was to establish the relationship between internal audit and financial accountability in Amolatar district local government.

### **1.4 Objectives of the study**

- i. To investigate the level of internal of internal audit in Amolatar district local government.
- ii. To examine the level of financial accountability in Amolatar district local government.
- iii. To establish the relationship between the internal audit and financial accountability in Amolatar district Local government.

### **1.5 Research Questions.**

- i. What is the level of internal audit in Amolatar district Local government?
- ii. What is the level of financial accountability in Amolatar district Local government?
- iii. What is the relationship between internal audit and financial accountability in Amolatar district Local government?

### **1.6 Scope of the study**

#### **1.6.1 Conceptual scope**

The scope of this study was focused on establishing the relationship between internal audit and financial accountability in ADLG. It emphasized on assessing internal audit procedures, effectiveness of internal audit controls and how it enabled ADLG to provide reliable financial accountability.

#### **1.6.2 Geographical scope**

The study was conducted in ADLG which is a higher local government located in northern Uganda about 230KMs away from Kampala.

### **1.6.3 Time scope**

The study was conducted in a period of three (3) months which enabled me travel to ADLG to collect data from achieves, text book, and newspapers and from respondents. It covered relevant audit, accounts and finance information ranging between 2010 up to date with the overall aim of establishing the relationship between internal audit and financial accountability in ADLG.

### **1.7 Significance of the study**

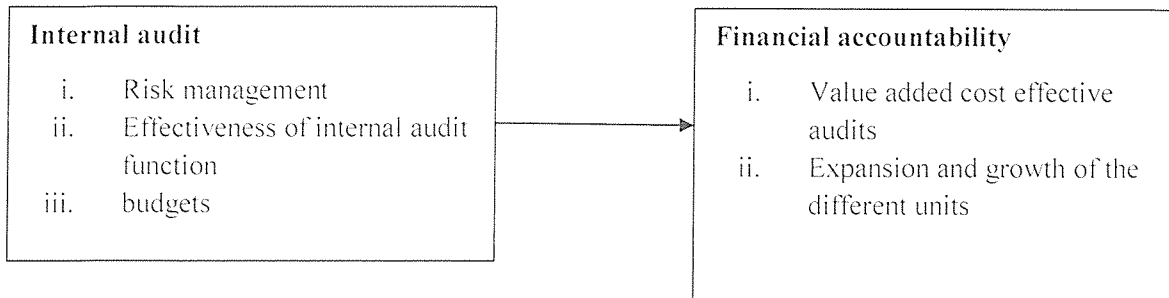
- i. The study was to provide policy makers such as URA, ICPAU with an insight into the status of IA in Uganda especially in LG institutions and provide them with bases for formulating policies and providing facilities for improvements to match the recommended standards.
- ii. The study was intended to enable management of ADLG, stakeholders and the public at large to acquire more knowledge regarding internal audit processes in relations to financial accountability in government institution.
- iii. The study was to help future researchers and academicians to get an insight pertaining to internal audit processes and its relevance in accounting for government finances.
- iv. The study was to enable me meet one of the requirements for attaining a Bachelor of Business Administration degree of Kampala International University.

### **1.8 Conceptual framework**

The conceptual framework below shows internal audit as an independent variable with indicators like risk management, effectiveness of internal audit function and budgeting leading to financial accountability in local governments in Uganda as the dependent variable indicated by value added cost effective audits and expansion.

## Dependent variable

## Independent variable



Management of risk being attained is appropriately desirable for financial accountability in ADLG, thus focusing on performing value added cost effective audits.

Effectiveness of internal audit function makes it an added advantage for performance maintenance.

Budgeting involves a plan of how capital will be used which eases internal audits as expenditures are planned for and spent accordingly.

### 1.9 Operational definition of terms

#### Internal audit

This is an independent, objective assurance and consulting activity designed to add value and improve on organizations operations.

#### Financial accountability

This is an organizations capacity to demonstrate, answer, or explain its actions pertaining the use of funds

#### Local government

This is a set of divisions with elected members to carryon responsibility for guidance and overall vision of government in a country.

#### Value added cost effective audits

This is the extra value attained from audits.

**Budgeting**

This is the process of creating a plan to spend your money.

**Risk management**

This is the process of identifying, assessing and controlling threats to an organizations capital and earnings.

**Effectiveness of internal audit function**

These are audits that have a positive impact on the control environment of an organization.

**Expansion**

This is the progressive development and enlargement of an organization.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter gives what other scholars and researchers have written on the relationship between internal audit and financial accountability in government institutions. It gives a review of existing literature on the impact of internal audit and reliability of financial accountability in government institutions while emphasizing on both the theoretical and practical aspects of the subject.

#### **2.2 Internal Audit**

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Global Institute of internal auditors, 2002, Andrew , 1995).describes it as service to an organization that provides management with reassurance that its internal control systems are adequate for the needs of the business and are operating satisfactorily. IA involves activities related to financial audit and internal controls, risk management, operational and system audit, special projects and other works. 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 way. It assists management by reviewing, assessing and helping to improve the internal control system.

##### **2.2.1 Internal control**

The individual components of an internal control system are known as internal controls. Internal control is the whole system of controls, financial and otherwise established by management to help carry on businesses of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safe guard the assets and secure as far as possible the completeness and accuracy of the records. Controls are any action taken by management to increase the likelihood that established goals and objectives are achieved. Adequate control is present when management has planned and organized operations in a manner that provides assurance that goals and objectives are achieved effectively and efficiently (Trenerry , 2009).

- i. The business is carried out in an orderly and efficient manner.
- ii. All business transactions take place according to set procedures.
- iii. The assets are safe guarded properly, the acquisitions, usage and disposal of assets must be duly authorized and in accordance with company's objectives.
- iv. Records are complete and accurate. These should be maintained in such a way that the possibilities of errors and fraud are minimized.
- v. The records provide adequate and reliable information for the preparation of financial statements.

The internal control system consists of five components including the control environment, risk assessment, control activities, information and communication, and monitoring. The control environment is the attitudes, abilities, awareness, and actions of the board and management regarding the significance of control within the organization, also called the "tone at the top". It provides the discipline and structure for the over role system of internal controls (USA policy guidelines; internal Audit office, Dunn ,2002).Risk assessment is the identification and analysis of relevant risks associated with the achievement of objectives. When assessing risk, both internal and external factors must be considered. External risk factors are outside the organization, usually beyond management control. Examples include economic changes, technological development, and natural catastrophes. Internal risk factors are within the organization and fully within the scope of management control. Examples include new personnel, low morale, and new or upgraded information systems. Risk assessment takes in to consideration what can go wrong and the likelihood of occurrence (Dun, sinah . 1970).Control activities are the policies and procedures, which help ensure the management directives are accomplished. Control activities can be categorized by authorization, segregation of duties, record keeping, safeguarding and reconciliations (Dun, sinah. 1970). Information and communication systems provide management with reports detailing facts about operational, financial, and compliance matters. Information must be relevant and communicated to the right personnel and timely for it to be useful. Information must flow in all directions within the organization. The information and communication system helps to ensure that employees are aware of what is expected of them in accomplishing the organization's goals and objectives (USA policy guidelines; internal Audit Office, Dunn , 2002).The systems and techniques for implementing internal controls are aimed at improvising the accountability for action, the

accuracy and reliability of records, the safeguarding of assets and the overall efficiency of operations. A key role in achieving these goals is played today by company's audit committee and department reporting regularly to the chief executive (USA policy guidelines, Internal Audit Office, Dunn, 2002).

### **2.2.3 The role of Internal Audit in managing Government Finances**

Internal audit work with accounting officers and other managers to help improve internal controls within the government organization's and so reduce the risk the government organization faces in achieving its objectives to an acceptable level. Internal auditors undertake review of individual systems and processes and as a result, recommendations are made to the relevant accounting officer on how internal controls could be improved. The scope of IA should be to cover the systematic review, appraisal and reporting of the adequacy of managerial, financial, operating, and budgetary control and their reliability in practice including:-

- i. The relevance of established policies, plans and procedures and the extent of compliance to them.
- ii. The appropriateness of organizational, personnel and supervision arrangements.
- iii. The extent to which assets are accounted for and safeguarded from losses of all kinds, arising from waste, extravagance, inefficient administration, fraud or other causes.
- iv. The appropriateness, reliability and integrity of financial and other management information and the means used to identify, classify, report and act upon that information.
- v. The integrity of computer systems including systems under development.
- vi. The follow up actions taken to remedy previously identified weaknesses. Nowadays, there is a growing need for government departments to have internal auditors. These auditors are expected to conduct performance audits in order to maintain effective, efficient, quality and innovative productive local government institutions (LGA, 1997).

### **2.2.4 Internal Audit in Local Government Institution**

In Uganda, local government IA departments are charged with the responsibility of reviewing, appraising and reporting on:

- i. The effectiveness and adequacy of internal controls.
- ii. The reliabilities of financial and other management information.

- iii. The effectiveness of the accounting procedures.
- iv. The extent to which the council's assets are safeguarded from losses arising from waste, extravagance and mal-administration, poor value for money and other causes.
- v. The optimal use of council resources
- vi. Compliance with the LGA (1997) and the LGFAR (1998)

These guidelines are the basis upon which audit reports in Uganda are to be made. In most states of USA, the internal audit report is made up of at least:-

- i. Total expenditures for each federal assistance program as identified in the catalogue of federal domestic assistance. Federal programs or grants that have not been assigned a catalogue number are identified under the caption, other federal assistance.
- ii. Identification of the organizations significant internal accounting controls and assurance of management with laws and regulations .Also identification evaluated, and unevaluated controls as well as the material weaknesses identified as a result of the evaluation.
- iii. A statement of positive assurance with respect to those items tested for compliance including compliance with laws and regulation pertaining to financial reports and claims of advances and reimbursements.
- iv. All fraud, abuse or illegal acts, including all questioned costs found as a result of these acts, that auditors become aware of, should normally be carried out in separate written report submitted.
- v. In addition to the audit report, the recipient shall provide comments on the findings and recommendations of corrective plan of action taken and comments on the status. If a correction is not necessary, a statement describing the reason it is not accompany the audit report.

To ensure transparency, the reports are made available for inspection within 30 days after the completion of audit work.

### **2.2.5 Factors that interfere with internal Audit in Government**

Dittenhofer (2001) asserted that there are significant operational difficulties in auditing government departments. These difficulties include:-



- i. Much emphasis is put on reliability, accountability and legality rather than maximum effectiveness and flexibility.
- ii. Performance measures of efficiency, effectiveness and conformance to budgets which are subjective and difficult to measure.
- iii. Interference of the internal audit by the government officials for the purposes of personal benefits.
- iv. All government works are open to the public, interest groups and media making auditors respond to conflicting priorities and values.

These problems affect auditing of government institutions since they deprive auditing of their independence.

#### **2.2.6 Independence of internal Audit**

Internal audit should be an independent function within any public sector organization (Glynn . & Murphy . 1996). Independence is one of the central claims upon which the legitimacy of auditing profession is predicted. The independence of an auditor is important to maintain credibility and legitimacy (Gendron, Cooper &Townley, 2000, Morin . 2004). Independence of auditors enables them to criticize the administration and executive when necessary, it is the citizen's best defense against the misuse of money (Gendron, Cooper &Townley, 2000, Morin . 2004).

Audit staff must be free from personal impairment relating to financial interests, biases or prejudices, previous positions of authority or previous operations now being audited.

They should also be free from organizational impairments such as external influence or limitations of audit scope, interference on audit procedures, time, restrictions of available resources and authority to override audit judgment. Independence is the essence of auditing. Internal and external auditors must be independent of both the personnel and operational activities of the organization. An auditor is not independent if he/she cannot exercise objective and partial judgment. Also an auditor's independence and employment is impaired if he has financial relationship with his audit client. However, their study laid emphasis on the external audit function whose only relationship is contractual while on the contrary the internal audit function has both financial and employment relationship within the organization. There is need

for an independent auditing function for an organization. This is because auditors are employees of the organization and are governed according to the rules and procedures of the organization. For example in Uganda, internal auditors who work with local government institutions are recruited by the district service commission that are appointees of the district council (The republic of Uganda, 2000).

### **2.2.7 Competence of Audit Staff**

Competent audit staff are those that collectively possess the knowledge and skills necessary for the performance of audit operations. The staff should have a complete knowledge of government operations, accounting procedures. Where specialized skills are not present, such skills should be obtained through outsourcing. The audit staff should be required to participate in continuous education activities. The staff should also be computer literate (Dittenhofer, 2001).

### **2.2.8 Internal Audit Methodology**

This extends from traditional examination of statements of accounts and vouchers to new audit technology and evaluation methods. The methodology includes sampling audit, feasibility study, economic evaluation of investment projects and computer assisted audit. To maximize audit coverage with limited internal audit resources, "a stop and go" audit approach should be used (SURA, 2000). This approach focuses on continuous risk assessment phase, testing phase and the phases for communicating results (SURA, 2000). By continuously evaluating risk, it is easy to determine at any phase of the audit whether any work is needed to conclude on the control environment. Thus the use of the "stop and go" approach helps in focusing on performing value added costs effective audits.

## **2.3 Accountability**

Accountability is the key notion in public administration and a very positive democratic value providing countervailing power of governments (Gendron, Cooper, & Townley, 2001). In its broad sense, it is a process through which a person or group of people can be held to account for their conduct. Literature depicts accountability as a statutory obligation, a legitimate requirement, an emergent obligation, central to the functions of financial reporting, embodying the relationship between principal and agent, at the core of accountable management, and the key

to responsible governance (Degeling, Anderson, & Guthrie, 1996). There is financial accountability, managerial accountability, and professional accountability (Gray & Jenkins, 1993). Financial accountability is the major emphasis of this study and is related to economic and legal rationalities, emphasizes the agent's accountability for probity, the adequacy of internal controls and for economy and refers to the ability to account for allocation, use, and control of public monies and assets and properties from the start of a given period to the end. This should be in accordance with legally mandated and or professionally acceptable rules, principles and practice of each phase of the monitoring process through the final audit (Glynn, and Murphy, 1996). Proper management of public funds requires financial controls and an independent audit. Sekamura (1970) controls that financial controls consists of the whole system of controls, financial and otherwise established by the management to secure as far as possible, the property of transactions and the accuracy and reliability of a department's records and the security of its assets. This definition presupposes that IA is purely in house, as no mention is made about value for money audits as a form of financial control.

The impact of auditor general controls and identified the importance of financial controls, but its restricted to post audit financial controls and does not cover the impacts of pre-payment financial controls by the IA function evaluation and advisory services to the institution. Financial controls are intended to control financial operations of the organization to allow achievements to be compared with the organizations desired objectives and to enable new goals and objectives to be formulated. The management function of control consist of the measurement, reporting and subsequent correction of performance in an attempt to ensure that the objectives and plans are achieved. He further contents that effective control requires that corrective action be taken so that actual outcome conforms to planned activities. Whenever there seem to be deviations, the internal financial controls should identify the problems and the reporting function of IA should be used to correct it.

### **2.3.2 Value of money**

The key activities where value of money gains may be achieved are sourcing, tendering, order and acknowledgement, receipt documentation and internal delivery or installation. Invoice receipt matching and bill payment. The benefits for value for money are realized through a reduction in operating costs through the ability to reduce staff time (internal or external) on that

particular work. The initiatives that may generate benefits include consolidation of delivery. Invoice and payments, improved information systems reduction in mistakes and mismatches, reliability and speed improvements, and challenging initial requirements in terms of volume, and quality (Morin ,2004).

### **2.3.3 Timely reporting and quality documentation**

All accountabilities should culminate into a report: the report should be available to the public and on a timely basis (Dittenhofer, 2001) as to report content, the standard states that the report should show both items for expenditure with tangible evidence to ascertain expenditure. The effective financial reporting depends the supply of information.

### **2.3.4 The legal framework pertaining to audit and accountability**

For a proper and effective use of public finances especially in the context of expansion of activities of the state into social and economic sectors, there should be a supreme audit institution (SAI) whose independence is guaranteed by law. In Uganda the legal framework of internal auditors. These includes the constitution of the republic of Uganda (1995), LGA (1997, BA (2000), PFA (1964) the LGFAR (1998), and the IA function should operate. In Uganda, the LGA (1997) legalizes the existence of the IA department in all local government institution and section 9. (1) of the act stresses that every district, city, municipal or town council shall provide for an independent IA department. The law identifies the element independence but cannot explain its attributes in absolute terms. The LGFAR (1998) section 176 (2) also authorizes the function of IA. The LGFAR (1998) section 176 (2) stipulates that all internal audits should be carried out in accordance with the requirements of the act and the IA manual (2000) shall by law be considered as a requirement for statutory audits. However, the law remains silent on the independent functioning of IA in Uganda's local authorities. The IA is mandated to check on the effectiveness of financial controls and any doubtful expenditure that may lead the council to loosing financial through frond, forgery and theft (LGA (1997) section 91. & LGFAR (1998) section 170-176).Other institution like the office of the auditor general, and that of the inspector general of government, the public account committee, DPAC as well as the police and other authorized party, may carry out post audits. However it further appears that post audits may lack the preventive element as evident in the IA function.

### **2.3.5 The scope of accountability in government**

Methods of ensuring accountability naturally differ between micro and macro levels. However, government accountability was intended to ensure close relationships between stated goals, actions, and services rendered to the public as well as efficient and effective use of public resources. The inconsistency of accountability in government implies that management in government headed offices should be held accountable by the people to guarantee honest accountability of official activities. Uganda government has already established and strengthens the critical agencies for accountabilities such as the public account committee (PAC), the auditor general's offices (AGO), inspector general of government (IGG) as well as the directorate of ethics and integrity (DEI). The aim of such structures is to ensure timely and accurate accountability for funds in order to enable achievement of intended goals.

### **2.3.6 Financial accountability and transparency.**

Accountability and transparency strengthen the legitimacy of government public official and their policies and decision in the eye of the people. It contributes to giving individual and groups the sense that they as citizen are truly in charge of their government. Financial accountability reinforces the trust and confident of both the taxpayer and external aid donors, thereby creating a climate for better revenue collection and their overall resources for development processes. Achieving accountability in government organization need a fit between the process information system design, technology, personal motivation of stakeholders, management strategies and values, organizational structures, politics, culture, and corruption free organization.

### **2.3.7 Internal audit and financial accountability**

Auditing is a crucial component of most modernist conceptions of financial accountability since it legitimates the information on which reliable financial accountability rests ( Morin , 2004).

Audit is something superimpose on accountability relationships normally as a result of the concern of the accountee that the accountant may have personal interest in the acceptability of the statement of accounts, even to the extent of being prepared to be creative in the preparation of these statement (Glynn , & Murphy , 1996). It is important to note that the audit process is not about the rendering of accounts but rather about ensuring the reliability of statement of accounts; and it is not about the evaluation of performance of account, but about ensuring that the

accountant reports on such performance appropriately and in accordance with agreed criteria (Glynn & Murphy , 1996).Broadly speaking there are three general types of audits: probity audits, value for money audits and compliance audits within which other types of audits such as private audits , statutory audits, external and internal audits exists. Internal audit which is the independent variable for this study has several approaches, including departmental and unit audits, financial accountability and performance audit, field audit, joint audits and entrusted audits. Financial accountability audits are done according to government policies, laws and regulations. Here, IA departments conduct supervision and verification of fulfillment of financial accountability of outgoing staff, audit responsibility for operations, and audit of economic contracts. There is scanty information as regards the relationship between IA and the control of public finance. In his report, it's a good practice for organizations to establish IA function to undertake monitoring of key controls and procedures, regular monitoring forms the integral part of an organization's system of internal control and helps to ensure its effectiveness. However since management are ultimately responsible for establishing the system of internal controls, it is difficult for them to decide what type of IA service they require and the personnel to deliver, hence they have not given adequate attention to the IA function.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the methods and procedures that the researcher used to collect and analyze data. It includes the research design, survey population, area of the study, sampling size, sampling procedure, source of data analysis techniques.

#### **3.1 Research design**

The study adopted a cross sectional research design with the overall aim of coming up with a well analyzed and interpreted data. It involved the use of both quantitative and qualitative techniques characterizing and collecting data. Major descriptions of data were being made depending on the opinions and attributes of the respondents

#### **3.2 Area of the study**

The study focused on internal audit and reliability of financial accountability in Amolatar district local government in northern Uganda and the administration offices found in Amolatar Town Council.

#### **3.3 The survey population**

The study constituted of 60 ADLG employees involving departmental heads, members of accounts and financial department, internal audit department, procurement and stores department, budgeting and planning section and other executives who are either directly or indirectly connected with handling and use of public resources.

#### **3.4 Sampling design**

The researcher used random sampling, stratified sampling and purposive sampling to assess the impact of internal audit and reliability of financial accountability in Amolatar district local government. The sample included 15 staff from accounts and finance department, 10 from

internal audit department, another 10 from procurement and stores, 6 from budgeting and planning department and 4 departmental heads as shown in the table below.

**Table 3.1: Samples done on various departments**

Strata	Numbers
Accounts and finance department staff	15
Internal audit department staff	10
Procurement and stores department	10
Budgeting and planning staff	6
Head of departments	4
Total	45

Source: Primary data, 2017

### 3.5 Sample size

The study considered a sample of 45 respondents of which 15 were ADLG staff of accounts and finance department, 10 from internal audit department, another 10 from procurement and stores department, 6 from budgeting and planning department, and 4 key informants. The choice of this sample size was based on Roscoe's rule on sampling (1975)

### 3.6 Sources of Data

The study made use of both primary and secondary sources of data to assess the impact of internal audit on reliability of financial accountability in Amolatar District Local Government.

#### 3.6.1 Primary Source

Primary data was the original data collected by the researcher from the field of the study. The major source of primary data was the respondents in the various departments of ADLG. Questionnaires were used to collect these data.



### **3.6.2 Secondary source**

Secondary data was collected from written literature on internal audit and accountability in government institutions and also from audit reports, journals, textbooks, newspapers, financial statements, internet and other unpublished thesis from libraries. Secondary data helped the researcher to make comprehensive analysis of what different researchers have written about the variables in question that the internal audit and financial accountability. It also supplemented the primary data used during study.

### **3.7 Data collection methods.**

These were the tools that the researcher used to gather reliable study information. Mainly she used questionnaires and interviews to help collect the data .The researcher chose questionnaire method of data collection since the target respondents were literate and they could read and respond to the questionnaires with ease.

#### **3.7.1 Questionnaire method**

The study used questionnaires as the basic tool for data collection from the respondents. The questionnaires included both open and closed ended questions. Open ended questions were used to enable the respondents give their opinion about the variables. The questions were relatively short and simple to enable the respondents answer in the shortest time possible.

### **3.8 Data collection procedure**

The researcher obtained an introductory letter from the college research office to enable collect data and then contact ADLG administrative authorities seeking permission to allow her access the district information sources. After being granted permission, the researcher then made contact with the respondents to administer questionnaires and follow up the questionnaires and later collect those fully answered.

### **3.9 Data analysis and presentation**

The researcher arranged data into respective groups and tables using frequencies and percentages. The data was presented using tables since they were easy to interpret and thus made interpretation of findings easy. This helped the researcher to avoid misinterpretation of findings.

### **3.10 Data analysis**

The data collected was processed into meaningful form using statistical package for social scientists (SPSS) computer software. This software was used to ease data analysis process and involve the researcher going through the questionnaires to ensure that all of them have been answered correctly. Data analysis was done using Pearson's correlation coefficient.

### **3.11 Limitations encountered**

While conducting the study, the researcher encountered various limitations as analyzed including;

- i. Financial constraint. This was the greatest challenge and caused delay in the project process since the researcher did not have enough funds to finance the proposal design, typesetting, and printing and to carter for her travels between the project case study and the university. The researcher overcame this by limiting the expenditures to items that are materials for the study purpose and by borrowing funds from friends and family.
- ii. Limited time. The duration of time the researcher had to pursue the project was not sufficient enough since the period between August and October was consumed by university examinations. The researcher solved this by doing preliminary pages and distributing questionnaires concurrently as early as it is approved.
- iii. Delayed responses. Some respondents especially the district top officials did not respond to the questions on time as anticipated by the researcher since they claimed to be very busy. This was addressed by following up the distributed questionnaires to ensure that they were answered correctly and cross checked those answered for possible errors.
- iv. Non response. Other respondents were not willing to give answers to the questionnaires distributed to them on political grounds that they could be under investigation. The researcher solved this by clearly identifying herself using the university identity card and introductory letter. The researcher also assured them that any information given to her was strictly for academic use.

## CHAPTER FOUR

### PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS

#### 4.0 Introduction

This chapter involves presentation and interpretation of the findings based on the objectives of the study.

#### 4.2 Demographic characteristics of respondents

Findings on the demographic characteristics of respondents were captured and results are shown below.

**Figure 4.1: showing sex of the respondents in ADLG**



**Source: Primary data, 2017**

From the figure 4.1, 62% of the respondents were male and 38% were female. This implies that there was no gender biasness in sex of the respondents involved in the study.

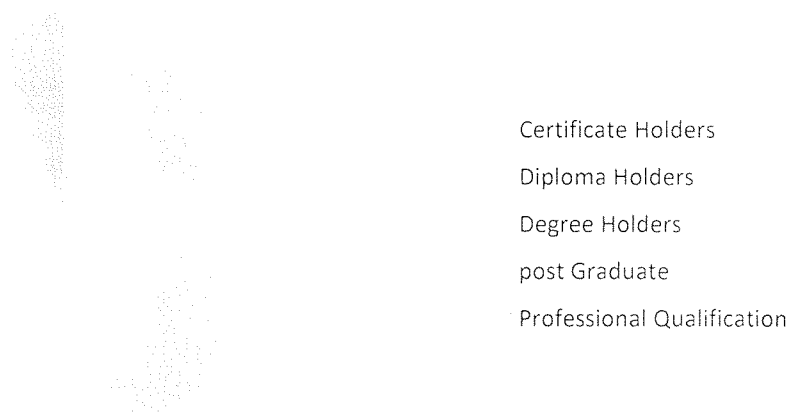
Figure 4.2: Age of the respondents in ADLG



Source: Primary data, 2017

From the figure 4.2, 12.5% of the respondents were between 20-30 years of age, 37.5% were between 31-40 years of age, 31.5% were between 41-50 years and 18.5% were above 50 years of age. This indicates that the respondents were mature enough to answer questions in the questionnaire.

Figure 4.3: Highest level of qualification attained in ADLG



Source: Primary Data, 2017

From the figure 4.3, 9.7% of the respondents were certificate holders, 50% were diploma holders, 25% were degree holders, 9.3% had post graduate qualification holders and 6.0% had educational levels and may not have the skills to do their work efficiently.

**Figure 4.4 Length of service in ADLG**



**Source: Primary Data, 2017**

From the figure 4.4, 6.2% of respondents had less than a year of service in Amolatar district local government, 15.6% had 1-5 years, 25% had 6-10 years and 53.2% have been serving the district for over 10 years. This implies that respondents had experience with the study.

### **4.3 Internal audit**

Internal audit findings in ADLG were critically captured and the results are analyzed below:

#### **4.3.1 Competence of IA staff**

**Table 4.1: ADLG IA staff posses' competent skills to work**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly Agree	9	12.5	12.5	12.5
Agree	6	9.4	9.4	21.9
Not sure	11	12.5	12.5	34.4
Disagree	13	34.4	34.4	68.8
Strongly Disagree	6	31.2	31.2	100.0
Total	45	100.0	100.0	

Source: Primary Data, 2017

From the table 4.1, 12.5% of the respondents strongly agreed that the IA staff posse's competent skills to work. 9.4% agreed. 12.5% were not sure if the staff do possess the skills. and 34.4% disagreed and lastly 31.2% strongly disagreed. This implies that the IA department does not have enough staff with competent skills to work and thus to the contrary with Dittenhofer (2001) who asserts that IA staff should have a complete knowledge of government operations, accounting and auditing procedure and if such specialized skills are not present, they should be obtained through out sourcing. He also further required that audit staff should be made to participate in continuous educative activities and be proficient in communication and in the behavioral aspects of the audit process. However, the table above reveals that this may be lacking in ADLG

**Table 4.2: ADLG IA Provides quality and transparent report**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	9	12.5	12.5	12.5
Agree	6	9.4	9.4	21.9
Not sure	11	12.5	12.5	34.4
Disagree	13	34.4	34.4	68.8
Strongly disagree	6	31.2	31.2	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.2. 12.5% of the respondents strongly agreed that IA provides quality and transparent report. 9.4% agreed. 12.5% were not sure. 34.4% disagreed and 31.2% strongly disagreed. This implies that responsible officers do not provide quality and transparent report. According to Bird (1997). quality and transparent report should always show both items for expenditure with tangible evidence and as certain expenditure of fund

**Table 4.3: ADLG IA staff exhibits high degree of professionalism**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	9	9.4	9.4	9.4
Agree	13	9.4	9.4	18.8
Not sure	6	12.5	12.5	31.2
Disagree	17	68.8	68.8	100.0
Total	45	100.0	100.0	

**Source: Primary data, 2017**

From the table 4.3. 9.4% of the respondents strongly agreed that the IA staff exhibits a high degree of professionalism. another 9.4% agreed. 12.5% were not sure and 68.8% disagreed. This implies that although IA staff may be having the skills required for their jobs but they do not carry out their duties professionally. Thus. it contradicts with the International Federation of Accounting (IFAC) Code of Ethics for Professional Accounting and the ethical pronouncements of the author's professional body i.e. ACCA's rule of professional conduct which requires that a professional auditor should be able to comply with applicable ethical principles and should be able to plan and perform the audit with an attitude professional skepticism that recognizes that financial statements being audited may be misstated. For example. the auditor should not simply accept an explanation about a matter given by management. The auditor should seek further evidence about the matter that confirms of contradicting management explanation.

#### 4.3.2 Independence of ADLG IA department

Table 4.4: ADLG IA staff work under internal and external pressure

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	11	31.2	31.2	31.2
Agree	6	21.9	21.9	53.1
Not sure	9	28.1	28.1	81.2
Disagree	19	18.8	18.8	100.0
Total	32	100.0	100.0	

Source: Primary data, 2017

From the table 4.4, 31.2% of the respondents strongly agreed that ADLG IA staff work under internal and external pressure, 21.9% agreed, 28.1% were not sure, 18.8% disagreed. This implies that ADLG IA staff work under internal and external pressures. Thus, the finding agree with Dittenhofer (2001) who asserts that auditing in government institutions is always affected by interference by government officials for purposes of personal benefits. Auditors are however required to be free from organizational impairments such as external influence or limitations of audit scope, interference of audit procedures, time, restriction of available resources and authority to override audit judgment and Chun (1997) who argues that since independence is the essence of auditing, internal and external auditors must be independent of both the personnel and operational activities of the organization. They should not conduct audits under internal and external pressure.



**Table 4.5: Top management comprises of members of IA department**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	13	6.2	6.2	6.2
Agree	9	12.5	12.5	18.8
Not sure	6	3.1	3.1	21.9
Disagree	11	37.5	37.5	59.4
Strongly disagree	6	40.6	40.6	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.5, 6.2% of the respondents strongly agreed that top management comprises members of IA department, 12.5% agreed, 3.2% were not sure, 37.5% disagreed and 40.6% strongly disagreed. This implies that the top management team of ADLG do comprise of the members of IA department. Therefore Glynn and Murphy (1996) Finding argued that IA should be an independent function within any public sector organization. It also agrees with Sikka and Willmoth (1995) whose argument was that independence is one of the central claims upon which the legitimacy of auditing profession is predicted. Independence of audit staff is to maintain credibility, legitimacy and enable them to criticize the administration and executive when necessary and it is the citizen's best defense against the misuse of funds (Gendron, Cooper, and Townly, 2000).

#### 4.3.3 Audit methodology

**Table 4.6: IA staff always make audit plans to enable them do their work**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	19	59.4	59.4	59.4
Agree	6	21.9	21.9	81.2
Not sure	9	3.1	3.1	84.4
Disagree	11	15.6	15.6	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.6, 59.4% of the respondents strongly agreed that IA staff of ADLG always make audit plans to enable them do their work. 21.9% agreed. 3.1% were not sure and 15.6% disagreed. This gives an implication that ADLG IA staff always make audit plans to enable them conduct audits. Findings thus agree with SURA (2000) who recommends adopting “a stop and go” audit approach which includes audit preliminary risk assessment phase, audit planning phase, testing phase and the phase for communicating results. He further argues that audit planning helps to maximize audit coverage with limited resources.

**Table 4.7: ADLG IA staff takes all required means to control audit risks**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	9	6.2	6.2	6.2
Agree	11	15.6	15.6	21.9
Not sure	6	31.2	31.2	53.1
Disagree	6	18.8	18.8	71.9
Strongly disagree	13	28.1	28.1	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.7, 6.2% of the respondents strongly agreed that ADLG IA staff takes all required means to control audit risks. 15.6% agreed. 31.2% were not sure. 18.8% disagreed and 28.1% strongly disagreed. This implies that ADLG IA staff does not take all the required means to control audit risks. Finding thus contradicts with SURA(2000) who asserts that audit methodology should adopt “a stop and go approach” that focuses on continues risk assessment and control throughout all audit phases which are:- preliminary risk assessment phase, planning phase, testing phase and the test for communicating results. As per him, continuously evaluating and controlling audit risk makes it easy to determine whether any phase of the audit work is needed to conclude on the control environment. Control of audit risk also helps in focusing on performing value added costs effective audits.

#### 4.3.4 Intervals of audits

**Table 4.8: Auditing in ADLG is in most cases done at the end of the year**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	9	12.5	12.5	12.5
Agree	6	6.2	6.2	18.8
Disagree	19	59.4	59.4	78.1
Strongly disagree	11	21.9	21.9	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.8, 12.5% of the respondents strongly agreed that auditing in ADLG is in most cases done at the end of the year, 6.2% agreed, 59.4% disagreed and 21.9% strongly disagreed. This implies that auditing in ADLG is not done on requests. According to the local government IA manual and by the structure of Uganda Government, internal auditors are supposed to produce quarterly reports without requests and special reports are only requested for in a situation where there is a perceived problem.

**Table 4.9: ADLG Internal Auditors are interested in audits**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strong Agree	25	78.1	78.1	78.1
Agree	11	18.8	18.8	96.9
Disagree	9	3.1	3.1	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.9, 78.1% of the respondents strongly agreed that internal auditors of ADLG are interested in audits, 18.8% agreed and 3.1% disagreed. This implies that the auditors of ADLG are interested in audits. This is in line with the constitution of the republic of Uganda public service requirement that those employed in public offices are suppose to have interest in doing their work provided there is enough materials to carry out the exercise, receiving and responding to government appointment. The internal audit and assurance standard board (IAASB) also require that auditors should conduct audit with interest so as to develop reliable opinions.

#### 4.4.1 Value for money

**Table 4.10: ADLG regularly conduct value for money audits**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly Agree	16	50.0	50.0	50.0
Agree	11	21.9	21.9	71.9
Not sure	1	3.1	3.1	75.0
Disagree	7	12.5	12.5	87.5
Strongly disagree	10	12.5	12.5	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.10, 50.0% of the respondents strongly agreed that value for money audit are regularly conducted in ADLG, 21.9% agreed, 3.1% were not sure, 12.5% disagree and another 12.5% strongly disagreed. This implies that value for money audits is regularly conducted in ADLG. This is in line with the LGFAR (1997) requirement for accountability in addition that all field activities are monitored and supervised as well as accounting whereas tender bids are reviewed in concern of value for money.

Quality of products on which expenditures were incurred. When this is so, there always is no correlation between output measures and the financial statements (Ryan and Walsh, 2004).

#### 4.4.2 Transparency

**Table 4.11: Funding arrangements for activities in ADLG is done openly**

	Frequency	Percent	Valid percent	Cumulative percent
Valid strongly agree	6	6.2	6.2	6.2
Agree	6	6.2	6.2	12.5
Not sure	9	3.2	3.1	15.6
Disagree	13	50.0	50.0	65.6
Strongly disagree	11	34.4	34.4	100.0
Total	45	100.0	100.0	

Source: Primary data, 2017

From the table 4.11, 6.2% of the respondents strongly agreed that funding of arrangements for activities in ADLG were done openly, another 6.2% agreed, 3.2% were not sure, 50.0% disagreed and 34.4% strongly disagreed. This implies that findings arrangement for activities In ADLG is not done openly. However, Wahab (2003) assert that funding arrangement for activates has to be done on linked and should follow a progression of steps, beginning with observations, analysis and finally communication of findings openly to all parties concerned and at the same time all contracts and agreements should be signed openly and financial commitments disclosed to shareholders.

#### 4.4.5 Relationship between Internal Audit and Financial Accountability in ADLG

Finding on the relationship between internal audit and financial accountability were analyzed using Pearson correlation coefficient and is evidenced in the table below.

**Table 4.12: Relationship between IA and financial accountability**

Correlations		Internal Audit	Financial accountability
Internal audit	Pearson Correlation	1	.986**
	Sig. (2-tailed)		.000
	N	32	32
Financial accountability	Pearson Correlation	.986**	1
	Sig. (2-tailed)	.000	
	N	32	32

\*\*Correlation is significant at the 0.01 level (2-tailed).

From the table 4.12, there is a strong positive relationship between IA and financial accountability at Pearson correlation  $r=0.986$ . Implying that internal audit affects financial accountability by 98.6% by other factors. This shows that internal audit has a significant impact on financial accountability in ADLG. This implies that audit planning, controlling risks, competence of audit staff, sampling and formulation of audit opinions greatly influences the accountability process. Internal auditing is therefore a management function. Internal auditors are supposed to advice management on effective controls, so if it is done well, then there is likely to be effective accountability. This is in relation with Cutt (1998) who assert that achieving accountability in government organizations needs a fit between the process of information system design, technology, personal motivation of stakeholders, management strategies and values, organizational structures, politics, culture and corruption free organization all of which centered around effective controls.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter consists of four sections: summary of study findings, conclusions, recommendations, and areas for further study. The conclusion is written in line with the purpose of the study, which establishes the relationship between internal audit and financial accountability in ADLG.

#### **5.1 Summary**

##### **5.1.1 Level of internal audit in ADLG**

The level of IA in ADLG was examined by considering key audit variables like competence of audit staff and their independence, audit methodology, availability of resources and interval of audits. From the findings it can be concluded that ADLG IA staff may not be having the necessary competence of their jobs shown by the 34.4% and 31.2% of the respondents which are more than half of the total respondents, and with 50% just diploma qualifications and below. To be a competent auditor, one needs to be a professionally registered accountant with the Institute of Certified Public Accountants of Uganda (ICPAU), a qualification most of the audit staff of ADLG lack.

Results also showed that internal auditors might be working under pressure from their bosses who are the ones who recruited them. That is, it is hard for internal auditors to be independent in their operations since their auditors are their bosses who recruited them for the job and have the right to terminate them at their own will.

Although results showed that internal auditors plan their activities ahead of time and also that they do carry out substantive test when forming audit opinions, the same results also revealed that auditors do not take all the necessary measures to control risk in the auditing process. This implies that risks are high in most cases that auditor's opinions are wrong.

Although results revealed that ADLG auditors are interested in audit, auditing is not done on requests, it is still revealed that auditors lack adequate facilities to do their jobs and that they are not well motivated. These may perhaps be one of the reasons for failure to report within the deadlines scheduled for reporting.

### **5.1.3 Level of financial accountability in ADLG**

These were examined by considering value for money and timely reporting. From the study findings, it can be concluded that all staff of ADLG are not conscious of financial reporting deadline. Although ADLG has stipulated financial reporting deadline, not all staff mind following them. As long as they report, their report is not an issue to mind much. Thus, there is a financial reporting challenge in ADLG.

As pertaining to the level of transparency, not all stakeholders of ADLG are satisfied with the level of transparency exhibited by the district officials. Although there are available accountability records, some of these records like contract are not sign openly. This could be because in most cases, the contract themselves are not executed to the satisfaction of all stakeholders concerned.

There are also problems with quality of documentation. Although details of policy guidelines are always consulted before the accountability process begins, accountability is at times not done following the budget. Cases of supplementary budgets are common hence interfering with the work of auditors.

Finally, although ADLG regularly conduct value for money audits, on the contrary, most expenditure are always incurred without the concern of value for money. These imply that ADLG staffs know the relevance of value for money but do not give it priority while incurring their expenditures. The results therefore give justification of low accountability levels in ADLG.

### **5.1.3 Relationship between IA and Financial Accountability in ADLG.**

Pearson correlation ( $r=0.986$ ) results showed that IA has a significant impact on financial accountability in ADLG. These imply that audit planning, controlling risks, sampling, competence of audit staff, availability of resources and formulation of opinions by auditors greatly influences the accountability process.



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## **5.2 Conclusion**

In conclusion therefore, the study summary highlighted the following as hindrances to efficient work, the level of IA in ADLG which is influenced by adequate facilities, pressure from external influence, and incompetence of IA staff, uncontrollable risks and inadequate access to fund to conduct audits.

## **5.3 Recommendations**

Basing on the above conclusions, the following recommendations are being made:

- i. There is need for ADLG management to establish financial accountability requirements with strict penalties for failure to account for public funds. These penalties must be implemented.
- ii. There is need to incorporate concerns of value for money right from planning to implementation.
- iii. Planning and implementation of programs should involve all stakeholders and take on bottom-up planning approach.
- iv. Training of staff on the job should be done frequently in order to update the audit and accounting staff with the standard required skills.
- v. There is need for management to support the IA function by implementing the recommendations given by auditors and also by facilitating them adequately to carry out their work effectively and reliably.

## **5.4 Areas for further study**

From this study, the following areas have been suggested by me for further study:

- i. The content of audit methodology in local government institutions.
- ii. The external factors that have influence on auditing in local government institutions.

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## APPENDICES

### QUESTIONNAIRE

#### KAMPALA INTERNATIONAL UNIVERSITY

#### COLLEGE OF ECONOMICS AND MANAGEMENT

Dear respondent, I am Akello Monica a third year BBA student of the above mentioned institution currently carrying out a study entitled “Internal Audit and reliability of Financial Accountability in Local Governments in Uganda” and Amolatar District Local Government has been selected as the case study.

This questionnaire is designed with the view to collect valuable data that will help me undertake this study in which you have been scientifically selected to participate. so please spare sometime to answer the questions therein.

The accuracy of the final report will greatly depend on the honesty of your particular responses and any information given by you is purely for academic purposes and shall be treated with utmost confidentiality.

#### Section A. GENERAL INFORMATION

1. Job title .....

2. Sex .....

Male	Female

3. Age Bracket

20-30 Years	31-40 Years	41-50 Years	Over 50 Years

4. Highest level of Qualification or Education level attained.

Certificate	Diploma	Degree	Post graduate	Professional qualification

Others please specify .....

5. Length of service in Amolatar District Local Government.

Less than 1 year	1-5 Years	6-10 Years	Over 10 Years

#### Section B: INTERNAL AUDIT.

To what extend do you agree with the following statements pertaining to internal audit in ADLG? (Tick the box with the description that best present your answer).

Where: SA-Strongly Agree

A-Agree

NS-Not sure

D-Disagree

SD-Strongly Disagree

A	Competence of staff					
	Statement	SA	A	NS	D	SD
1	The IA staff possess competent skills to work					
2	IA works according to public finance laws and regulation					
3	IA provides quality and transparent report					
4	IA staff exhibits high degree of professionalism					
B	Independence of internal audit department					

1	IA operates according to orders of top politicians					
2	IA staff work under internal and external pressure					
3	Top management comprises members of IA departments					
4	IA staff produces reports in line with management expectation					
C	Audit methodology					
1	IA staff always make audit plans to enable them do their work					
2	IA staff takes all required means to control audit risk					
3	IA carry out substantive test to form their opinion					
4	Reliance in internal controls is highly minimal in audit work					
D	Intervals of audits					
1	Auditing in ADLG is in most cases done on request					
2	ADLG fully complies with statutory audits					
3	Value for money audits are done only at year end					
4	Internal auditors are interested in audits					
E	Availability of resources					
1	Performance o IA is affected by lack of facilities					
2	IA has access to adequate funds to be done					
3	IA staff are fully motivated					
4	IA department is well staffed with highly competent staff					
5	ADLG have enough resources for training and development of staff					

## Section C: ACCOUNTABILITY

A	Value for money					
	Statement	SA	A	NS	D	SD
1	ADLG regularly conduct value for money audits					
2	All tender bids at ADLG are reviewed in concern of value for money					
3	ADLG monitors and supervises accounting to ensure value of money					
4	All field activities are monitored and supervised to ensure value for money					
5	Tenders are awarded in line with set regulations to ensure value for money in procurement					
6	Most expenditure is done with no concern on value for money					
B	Transparency					
1	Funding arrangements for any done openly at ADLG					
2	All contracts and agreements are openly signed					
3	All financial commitments are discharged openly too all stakeholders					
4	There are available clear mechanisms for monitoring finances at ADLG					
5	All stakeholders are always satisfied with the district expenditure					
C	Timely reporting					
1	An agreed frame work on which accountability is made					



	exists.					
2	Accounts department regularly reviews financial performance of ADLG					
3	All staff are conscious of reporting deadline					
4	At ADLG, there are established penalties for late reporting					
5	At ADLG, as long as accountability is done, reporting time is not an issue					
D	Quality documentation					
1	At ADLG, before the process of accountability begins, details of policy guidelines are always consulted					
2	At ADLG, accountability is often done following the budget					
3	Standard format for accountability reporting exists at ADLG					
4	Only verified accountability documents are accepted at ADLG					
5	Only accountability that match with the district work plan is accepted					

THANKS FOR YOUR RESPONSE.

## TIME FRAME OF RESEARCH

Activity	Duration
Developing a research proposal i Conceptualization of the problem ii Getting research proposal acceptance iii Acquiring the required information about the project	1 month
i Studying internal audit and reliability of financial accountability in ADLG Identifying the current audits done and its limitations	2 weeks
i Analyzing the internal audit methods and tools used. ii Analyzing the survey population and sampling design and, size to be used	2 weeks
Presentation and interpretation of the findings i Studying the demographic characteristics of respondents ii Analyzing the relationship between internal audit and financial accountability in ADLG	1 month
Writing research report Making recommendations i Compiling reports from each step above ii Editing and proof reading the entire report	2 weeks

### BUDGET FOR THE RESEARCH

PARTICULARS	AMOUNT(shs)
i Travelling to the university	40.000
ii Accommodation(Rent)	300.000
iii Printing the proposal	12.000
iv Travelling between the project case study and the university	60.000
v Printing questionnaires and distribution	70.000
vi Printing the research report	80.000
TOTAL	=562.000

**COLLEGE OF ECONOMICS AND MANAGEMENT  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**Sept, 13<sup>th</sup> 2017**

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR AKELLO MONICA, REG NO.  
BBA/41210/143/DU**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

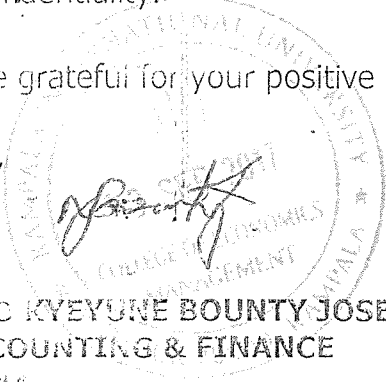
**Topic: - INTERNAL AUDIT AND RELIABILITY OF FINANCIAL  
ACCOUNTABILITY IN LOCAL GOVERNMENTS IN  
UGANDA.**

**Case Study:- AMOLATAR DISTRICT LOCAL GOVERNMENT.**

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

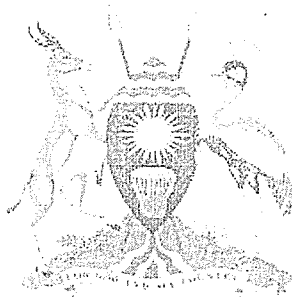
  
**Dr. KIRABO KYEYUNE BOUNTY JOSEPH**  
**HOD – ACCOUNTING & FINANCE**  
**0772323344.**

GEN LINE +256- 778596074

FAX.....

YOUR REF.....

OUR REF: HRM/14/155/02



AMOLATAR TOWN COUNCIL  
OFFICE OF THE TOWN CLERK  
P.O BOX, 3, AMOLATAR

Date: 20<sup>th</sup> October 2017

## TO WHOM IT MAY CONCERN

**RE: RECOMMENDATION LETTER FOR AKELLO MONICA, REG  
NO.BBA/41210/143/DU**

Reference is made to the above captioned, this is to recommend the above mentioned student who is a bonafide student of Kampala International University pursuing a Bachelor Degree in Business Administration conducted and carried put her research study with the Topic, "Internal Audit and Reliability of Financial Accountability in Local Governments in Uganda, Case Study Amolatar District Local Government" at Amolatar Town council from September, 15<sup>th</sup> 2017 to October, 15<sup>th</sup> 2017.

In light to the above, I therefore take this opportunity to thank Akello Monica for the time she spent with us, dedication and tireless contribution to Amolatar Town Council Local Government in service delivery.

Without hesitation, I would like to recommend her for any career opportunities and positions of responsibility to any reputable employer/ organization and wish her a more happy return in her future endeavor.

Any support rendered to her will highly be appreciated.

Yours Faithfully,

Adongo Zainabu

Human Resource Officer

CC: File

