

**INTERNAL AUDIT FUNCTION AND FINANCIAL PERFORMANCE OF DISTRICT  
IN LOCAL GOVERNMENTS IN UGANDA: A CASE STUDY OF BUSIA  
DISTRICT LOCAL GOVERNMENT**

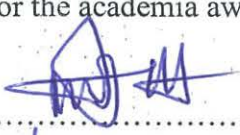
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**RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS  
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UNIVERSITY**

**JULY, 2018**

### DECLARATION

I, declare that this work is entirely mine and solely a result of my own effort. It has never been submitted in any institution for the academia award.

Signed by ..... 

Date ..... 2/ July / 2018

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### **APPROVAL**

This is to certify that this research report has been under my supervisor and is now ready for submission to College of Economics and Management department of Accounting and Finance.

Signature .....

Date.....

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**SUPERVISOR**

## **DEDICATION**

'In the name of Almighty God most gracious most merciful and sustainer of the world' I dedicate my report to my beloved parent Mrs Mwise Harriet Nalongo, and my twin sister Babirye Ruth for their encouragement, advice and financial support provided to me during the course of study.



## **ACKNOWLEDGEMENT**

I extend a vote of thanks to a number of people who unreservedly, contributed towards the accomplishment of this research work and my studies at large. I also would like to acknowledge the assistance and role played by the following personalities as they have been engines behind my success. I cannot say exactly how grateful I am to my supervisor. His guidance in this study is beyond measure. Thank you for also for providing me with professional advice, encouragement and your time that has spurred me to success.

I cannot forget the efforts of the staff of Kampala international university especially lecturers at faculty of business and management science for their input and effort that made me acquire the invaluable knowledge. Your contribution can never be quantified but will always be appreciated whenever I look through this book.

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## ABSTRACT

The overall aim of study was to examine the role of internal audit function on financial performance of district in local government in Uganda a case study of Busia district local government. The study was guided by the three objectives; to find out the role of internal audit on financial performance, to examine the role of internal on non-financial performance of local government and to assess the role of internal Audit on managerial performance of public enterprises in Uganda at Busia district local government. Data was collected using questionnaire and interview guide and purposive sampling was used. Both qualitative and quantitative were used to analysis data; sample size of 45 respondents was used.

The study identified the role of internal audit on financial performance of local government in Uganda as; reduces risk of losing funds thus increase on profit, demonstrates accountability in use of public money, and improves organization performance and others. As regards to the role of internal audit on non-financial performance these included, helps managers in public sector to meet their responsibilities and better strategies to improve management. Examined the role of internal audit on managerial performance. The findings on this objective are as follows. Improvement in the process of stakeholder engagement, conformance with reporting requirement and helps management of the organization in its present and future growth respectively

The study came up with recommendations such as; There is need for allowing further training for the staff in the accounts sections and close supervision of the audit department on the activities of accounts and finance through regular audits and checkup, There is need for improvement in the procurement process and emphasis and there is need to emphasize the budgetary control measures to enable proper financial reporting of local government in Uganda at Busia District Local government.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter presented the study about internal audit function and financial performance in a case study of Busia District Local Government, the Background to the study, Problem statement; Purpose, Specific objectives, Research questions, Study scope, Significance of the study and Conceptual frame work.

#### **1.1 Background to the study**

##### **1.1.1 Historical perspective**

Internal auditing began as one person clerical procedure that consisted primarily of performing independent verification of bills before payment (Boynton and Kell, 1996). This was, therefore, an embryo internal audit. In the early 1900s, the emphasis on auditing shifted from the detection of fraud to the needs of the various users of financial statement (Guy et al, 1996). In other words, internal audit is the product of modern social and economic development. The significant changes pushed forward by the European Industrial Revolution in the eighteenth century greatly promoted the establishment of many large share-holding companies and monopoly trust groups. With the rapid development of productive technology, expansion of operational scope, and large-sized organizations with many managerial levels, heads of companies could not directly carry out supervision so they needed some full-time representatives to do it for them (Aisiopoulos, 1980).

After the 1940s, internal audit entered its golden developing period, in which the theory of internal audit began systematically taking shape and internal audit organizations also came to therefore. The American Institute of internal Auditors, the predecessor of the Institute of internal Auditors (IIA) was set up in 1941 (Dittenhofer, 2001). From the first authoritative definition of internal control by the American Institute of Public Accountants in 1949 to the definitions which still exist in professional pronouncement (APB, 1995), there seems to have been no substantial change of meaning, yet a sea change in the internal control of companies was underway during the 1980s and 1990s. From all the definitions, it is clear that internal auditing is the centre of integrated activities within an organization, and is best suited for a new role as an agent of change. This can be developed on the hand in terms of demand for audit committees and the growing importance of management efficiency and performance



audits (Cooper,1996), on the other hand because of the growth of information technology and changes in audit methods (Spira and paape,2003).

### **1.1.2Theoretical perspective**

This study was guided by “The Principal Agency theory” as put across by Jensen and Meckling (1976) and later expanded on by Sarens and Abdol mohammadi (2010). According to the theory, a company consists of a nexus of contracts between the owners of economic resources and managers who are charged with using and controlling those resources (Jensen and Meckling, 1976). Principal Agency theory posits that agents have more information than principals and that this Information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents. The theory also assumes that principals and agents act rationally and use contracting to maximize their wealth which may lead to moral hazard problem indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals.

According to the Annual Report of the Auditor(2016), Internal control is a set of systems to ensure that financial and other records are reliable, complete and ensure adherence to the entity management policies, the orderly and efficient conduct of the entity and the proper recording and safeguarding of assets and resources. A process effected by the entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achieving of the objectives in the categories of reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

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

Internal control as one of the many mechanisms used in business to address the principal agency problem and it has been proven that internal control reduces agency cost. However, these studies may not be applicable in Government entities since it was done on private entities. But for the purpose of this study principal agency theory has been chosen. Private

sector has put in place a reward system for the best-performing departments to ensure that the technocrats who are agents in this study are motivated to maximize the value of the entity.

### **1.1.3 Conceptual perspective**

The scope of internal auditing within an organization is broad and may involve topics such as an organization's governance, risk management and management controls over: efficiency/effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and compliance with laws and regulations (Glass .2005).

Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss. 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 (Aldridge and Colbert, 1994).

Financial performance is considered in terms of measures like profitability (using absolute and relative measures), liquidity (using liquidity ratio like current ratios, acid test ratios, the case with which the entity settles its financial obligations) and accountability (in terms of financial accountability) (ACCA-Managerial Finance paper 8, 1998).

According to Financial Analysis Conceptual Framework financial performance is the process of measuring the result of a firm's policies and operations in monetary terms. In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools for measuring financial performance is ratios or index. Ratios can be classified into four broad groups on the basis of items used: liquidity ratio, capital structure/leverage ratio, profitability ratio and activity ratio, but these are in private settings (Reid, 2002).

### **1.1.4 Contextual perspective**

Internal audit is a long-standing function and an effective tool of management in many Organizations. Internal auditing is an independent, objective assurance and consulting



activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity. (Okezie, 2004).

Internal control system weakness and poor financial performance in Uganda can be seen from the way the government was forced to close banks like International Commercial Bank (ICB), 10 qualifying the opinion was evaluation of the Public Accounts Committee (PAC).

Busia District Local Government is one of newly introduced district in 2009 by president of Uganda separating it from former Budundigyo district is found in south west part of Uganda.

## **1.2 Statement of the Problem**

In the past it used to be that internal auditing in the public sector served as a simple administrative procedure comprised mainly of checking accuracy of transactions, pre-payment verification and control, counting assets and reporting on past events to various types of management. But in recent times, a combination of forces has led to a quiet revolution in the profession (Okezie 2004).

Governments are now moving toward higher levels of transparency and hence Public enterprise must demonstrate accountability in the use of public money and efficiency in the delivery of services. Internal audits provide a number of important services to company management. These include detecting and preventing fraud, testing internal control, and monitoring compliance with company policy and government regulation, and these services or functions of Internal Audit are intended to spearhead growth and efficiency of the Public enterprise. Unfortunately, Busia district local government has undergone financial mismanagement for the last one year due massive corruption involved in delivering services to the people, despite the fact that this Public enterprise procedure has been subjected to Internal Audit. It had therefore not been able to meet its commitments with most of its suppliers, clients and lack of internal audit by Chief financial officer at district. (Financial

Report, 2015). This study is therefore aimed at establishing the role of internal audit towards financial performance of Busia district local government.

### **1.3 General Objective**

The general objective of the study was to examine the effect of internal Audit function on financial performance in public enterprises in Uganda a case study of Busia District Local Government.

### **1.4 Specific objectives**

- (i) To find out the role of internal audit on financial performance of public enterprise in Uganda.
- (ii) To examine the role of internal Audit on non-financial performance of public enterprises in Uganda.
- (iii) To assess the role of internal Audit on managerial performance of public enterprises in Uganda.

### **1.5 Research Questions**

- i. What is the role of internal Audit on financial performance of public enterprises in Uganda?
- ii. Is there the role of internal and non-financial performance of public enterprises in Uganda?
- iii. How does internal Audit affect managerial performance of public enterprises Uganda?

### **1.6 Scope**

#### **1.6.1 Geographical scope**

This study was carried out at Busia District Local Government, Uganda. And therefore the researcher collected the required data for research.

#### **1.6.2 Theoretical scope**

The study employed Knowledge based theory by Grant (2012) which states that the economic change of material-based production to information-based production created a revaluation of the workers.

#### **1.6.3 Content scope**

The study focused on internal audit function as an independent variable and financial performance as a dependent variable. The independent variable focused on internal controls, policies and procedures and inventory management while the dependent variable covers profitability, liquidity and others.



#### **1.6.4 Time scope**

The study was done for a period from October 2017 to December, 2017. The researcher utilized the time period to acquire relevant and valid information necessary to complete this study.

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

The idea of this research has its genesis from our own interest about the impact of dependent internal audit for the purpose verification of the results shown by the profit and loss account and the state of affairs as shown by the balance sheet.

Globally, it is hoped that this research will contribute in providing updated data on Fraud refers to intentional misrepresentation of financial information with the intention to deceive. And know that the Frauds can take place in the form of manipulation of accounts, misappropriation of cash and misappropriation of goods. It is of great importance for the auditor to detect any frauds, and prevent their recurrence. Errors refer to unintentional mistake in the financial information arising on account of ignorance of accounting principles.

This was especially useful in Africa in general, Sub-Saharan Africa in particular where Mismanagement in some companies is still a chronic handicap of countries' development. This will benefit the Ugandan society in general, private and public companies.

This research will also continue studies from previous researches done from this specific issue. Therefore the significance of this research lays in the hope that findings from this research project will contribute to the broad of knowledge on the impact of dependent internal audit on the business growth in different companies

Findings from this Research Project will especially be useful for the following stakeholders: Policy makers, planners, managers and implementers will benefit from the outcome of this research project whereby it will help them find better ways of internal audit and their impact on company's performance.

#### **1.8 Definition of key terms**

**Financial performance** is the measurement of the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's returns and value-added. This 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.

**Internal control** is to keep the organization focused to the desired goal, bring value, and improve operations

**Performance** comprises of the actual output or results of an organization as measured against its intended outputs or objectives.

**Control** is defined as a performance with a definite influence on the management of an enterprise, as rights based on laws and contracts that involve proprietary rights to the whole property or its part, or any other rights that enable to exert a significant influence on the management and performance of an enterprise, or state supervision.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews the theoretical and academic literature regarding internal audit presented as a summary of the existing past studies in the theoretical perspective the definition of the concepts, major theories, and critical review of the literature.

#### **2.1 Theoretical Review**

The study was guided by the Knowledge-based theory propounded by Grant (2002). The theory states that knowledge is an important resource which SMEs owner-mangers can use to boost their performance. Knowledge-based capabilities are considered to be the most strategically important ones to create and sustain competitive advantage (Denisi et al., 2003). Superior talent is recognized to be the main creator of sustained competitive advantage in high performance firms (Hiltrop, 1999). The capacity to learn faster than competitors could turn out to be the only sustained competitive advantage (Geus, 1988).

This dynamic capability builds up over time a historical or path dependency (Collis, 1991; Winter, 1987), creating causal ambiguity (creating barriers to limitability and making it very difficult for other firms to recreate the unique historical evolution each organization develops), and it established a basis for competitive advantage (Lei et al., 1996).

Grant's theory of knowledge-based theory of the firm considers knowledge as the most strategically significant resource of a firm. Its proponents argue that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance. This knowledge was embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (Wernerfelt 1984, Barney 1991, Conner 1991).

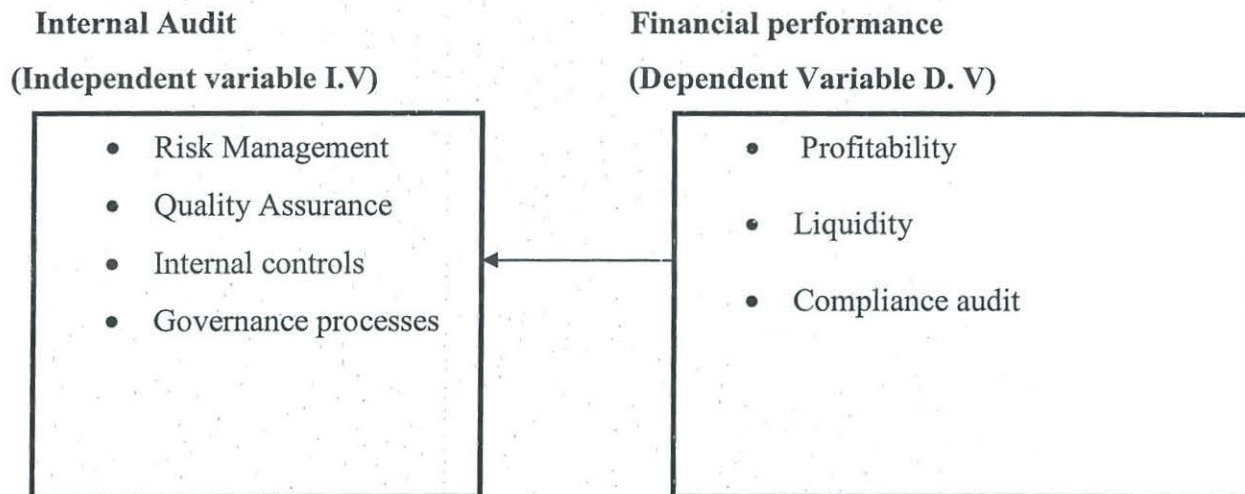
Although the resource-based view of the firm recognizes the important role of knowledge in firms that achieve a competitive advantage, proponents of the knowledge-based view argue that the resource-based perspective does not go far enough. Specifically, the RBV treats

knowledge as a generic resource, rather than having special characteristics. It therefore does not distinguish between different types of knowledge-based capabilities. Information technologies can play an important role in the knowledge-based view of the firm in that information systems can be used to synthesize, enhance, and expedite large-scale intra- and inter-firm knowledge management (Alavi and Leidner 2001). Whether or not the Knowledge-based theory of the firm actually constitutes a theory has been the subject of considerable debate. See for example, Foss (1996) and Phelan & Lewin (2000). According to one notable proponent of the Knowledge-Based View of the firm (KBV),

Although Alchian and Demsetz (1972) observed that efficient production with heterogeneous resources is a result not of having better resources but in knowing more accurately the relative productive performances of those resources, the emergence of the knowledge-based view (KBV) came much later.

## 2.2 Conceptual frame work Model

**Figure 1: Conceptual Frame Work model between internal audit and financial performance**



**Source: Adapted from: Amin 2005**

The independent variable is internal audit' activities such as risk management, Quality assurance, internal control and governance processes. Financial performance is the dependent variable viewed in way of financial performance this includes profitability, liquidity, compliance audit while intervening variable is seen in aspect of social belief, political factors, and education level.



### **2.2.1 The role of internal Audit on financial performance**

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart & Kent 2006).The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. Unegbu & Obi (2007) defined internal audit as part of the internal control system put in place by management of an Organization to ensure adherence to stipulated work procedure and as aid to management.

According to Unegbu & Obi (2007) Internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in other to ensure smooth administration, control cost minimization, and ensure capacity utilization and maximum benefit derivation. In the view of Adeniji (2004) Internal audit is part of the internal control system put in place by management of an organization. The Institute of Internal Auditors (IIA, 1999) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations, It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal audit is a long-standing function and an effective tool of management in many organizations. It has been a recognized component of organizations in both the public and private sectors and in most industries for many years. Internal auditing is often seen as an overall monitoring activity with responsibility to management for assessing the effectiveness of control procedures which are the responsibility of other functional managers. The internal audit function is not limited to the operation of any particular function within an organization. Rather, it is all-embracing and accordingly is structured in the organization as a separate entity responsible only to a high level of management Okezie (2004)

Financial performance is considered in terms of measures like profitability (using absolute and relative measures), liquidity (using ratios current ratio, acid test, the ability of the entity to settle its financial obligations) and accountability (in terms of financial accountability).

This definition signifies that internal audit has undergone a paradigm shift from an emphasis. On accountability about the past to improving future outcomes to help auditors operate more effectively and efficiently (Nagy & Cenker, 2002; Stern, 1994; Goodwin, 2004). Internal audit is effectively control if it meets the intended outcome it is supposed to bring about.

Auditor independence and objectivity are the cornerstones of the profession. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance. Prior research on auditor independence and objectivity has been undertaken predominantly in the context of external audit. However, in more recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit function. The motivation for research growth in the area is related to the evolving and expanding role of internal audit as a key corporate governance mechanism as well as an internal consultancy service. In this regard, internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers. Not surprisingly, this dual role has generated significant debate as it has the potential to place the internal auditor in a situation of conflict. Furthermore, as employees of the organization, the ability of internal auditors to exercise true objectivity has also been questioned (Paape, 2007)

Aldridge and Colbert, 1994), it is clear that internal auditing is being implemented in businesses as a tool that provides a unique service to businesses (Rittenberg and Schwieger, 1994). In this way, we can achieve a systematic approach towards the most effective operation of the organization, as a unity (Schleifer and Greenwalt, 1996). In other words, enterprises that implement internal audit early have achieved a competitive advantage, and internal audit services are increasingly requested rather than imposed, although there remain pockets of resistance (Zhuang, 1997).

More recently, the Hellenic Institute of internal Auditors (H.I.I.A, 2004) defines internal audit as an independent, objective, adequately designed and organized procedure, which through the technical and the scientific approaches, assess how adequately the system of internal audit functions. From the above definitions, it is clear that the internal audit is considered to be the security belt of the business for avoiding either the involuntary or the intentional release of information concerning any form of useful first hand stock as well as the avoidance of loss of income from misuse or from any errors in operation (Papastathis, 2003).



In Germany internal auditing exist to add credibility to the implied assertion by an organization's management that its financial statements fairly represent the organization's position and performance to the firm's stakeholders (interested parties). The principal stakeholders of a company are typically its shareholders, but other parties such as tax authorities, banks, regulators, suppliers, customers and employees may also have an interest in ensuring that the financial statements are accurate (Glass, 2005). The audit is designed to reduce the possibility that a material misstatement is not detected by audit procedures. In Uganda this has been due to the establishment of programs such as Service and Revenue Enhancement programs (SEREP), Area performance contract (APCs), Support service contract (SSC), Stretch out programmes and funding of vital departments such as the internal audit function. This has generated revenue for the period of 2005-2016 at an average rate of UGX.3.5 Billion representing an increase of 40% within ten years. However, the internal Audit function remains significantly weak in preventing wastage of organizational resources (Kampala Stretch out Programme, 2009).

According to investigation attached to the public sector organizations of which Busia district local government is inclusive, which was set up by president Museveni in October (2009) to scrutinize operations in the public sector performance all country wide, confirmed a total of 289 ghost workers. Despite the internal Auditing that has been taking place over the numbers of years periodically since the beginning for improvement in financial performance of the organization in relation to the funds collected, there has been mismanagement of funds at Busia District Local government.

Sawyer (1995) states, internal auditor's job is not done until defects are corrected and Remain corrected. Van Gansberghe (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services. Based on the results of a consultative forum that focused on improving public sector internal audit, Van Gansberghe (2005) identified perceptions and ownership; organization and governance framework; legislation; improved professionalism; conceptual framework; and also resources as factors influencing internal audit effectiveness.

Effective internal audit undertakes an independent evaluation of financial and operating information and of systems and procedures, to provide useful recommendations for



improvements as necessary. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in Particular and the organization at large (Dittenhofer, 2001). Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditor, and there by internal audit contributes to effectiveness of the auditee and the organization as a whole. Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Prior literature relating to internal audit effectiveness has either focused on the internal audit's ability to plan, execute and objectively communicate useful findings (Xiangdong, 1997; Spraakman, 1997; Dittenhofer, 2001); or taken a broader view and included factors that Transcend the boundary of a single organization (Van Gansberghe, 2005).

This study attempts to introduce a different perspective for evaluation of internal audit effectiveness by identifying factors within an organization that impact on audit effectiveness. Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness.

Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer, 1995). Internal audit has to evaluate its performance and continually improve its service (Ziegenfus, 2000).

Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated. Audit findings and recommendations would not serve much purpose unless management is committed to implement them. Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995). Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation



of auditors. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve.

There is general awareness all over the world for the need to pay greater attention to the improvement of public sector management. The reason is obvious, government constitutes the largest single business entity and her pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities. As a result of these Government huge involvements in economic activities, initiatives are being taken all over the world towards improvement of the standards of accounting and auditing departments in government (Angus and Mohammed, 2011).

Public sector managers operate in a complex and challenging environment. This, in part, reflects the evolving demands and expectations of the community, government and the Parliament. Internal audit is an important element of the range of resources and mechanisms available to public sector managers to assist them to meet their responsibilities within this environment. (Anao, 2012). Internal audit provides an independent and objective review and advisory service to provide assurance to the Chief Executive and/or Board that the entity's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective, economical and ethical manner; and assist management in improving the entity's business performance.

According to Izedonmi (2000), Auditing involves an independent examination of the financial statements of an enterprise prepared by the management of that enterprise by an appointed person called auditor in order to express a professional opinion whether or not those financial statements show a true and fair view position of the enterprise as at the end of the financial period in accordance with the auditor terms of engagement as well as other relevant statutory and professional regulations.

As owners of organization are separated from the management, this has necessitated the need for auditing. It used to be that internal auditing in the public sector served as a simple administrative procedure comprised mainly of checking accuracy of transactions, pre-payment verification and control, counting assets and reporting on past events to various types of management. But in recent times, a combination of forces has led to a quiet revolution in the profession. Governments moving toward higher levels of transparency must demonstrate accountability in the use of public money and efficiency in the delivery of

services. Larger and more complex operations demand greater competency and professionalism from internal auditors to minimize and manage risk.

Internal audit is one of a number of internal assurance and business review activities that should operate in a coordinated and complementary manner to the benefit of the organization. These other activities include management monitoring, evaluations, quality assurance and control self-assessment arrangements that are all designed to provide confidence and assurance to Chief Executives and/or Boards that management is meeting its responsibilities and the entity is achieving its objectives, Anaó (2012). Auditing is an expensive proposition, however auditing help in reduction of information risk which is the risk that information upon which a business is based is accurate. Establishing a professional working relationship between internal audit and the external auditor should deliver benefits to both parties. It is important that internal audit seek input from the external auditor in developing the internal audit strategy and internal audit work plan. Internal and external audit consult with each other during the planning phase of individual audits that address the key financial and business systems underpinning the entity's financial statements. In order for the external auditor to use specific work of the internal auditor, the external auditor is required to evaluate the work of internal audit to determine its adequacy for external audit purposes.

Internal audit (IA) ensures effectiveness and the extent to which an internal audit staff meets its obligation, is arguably a result of the interplay among some factors: internal audit quality, Research Journal of Finance and Accounting management support; and organization setting. Therefore, internal audit should be viewed as a dynamic process that is continuously shaped by the interactions among the factors mentioned above.



### **2.2.2 Internal Audit and non-financial performance**

Whittington & Pany 2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal audit and efficiency with which the various units of the organization are performing their assigned functions. An internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safe guarding assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management.

Gupta (2001) on the other hand asserts that "Internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization". The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. According to Gupta "the scope of internal audit is determined by management". This may however, impact the internal auditor's objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work. Although at a seminar organized by the institute of Certified public Accountants of Uganda(ICPAU),Sebbowa,2009 in his presentation "The role of internal Audit function in organizations", states that independence is established by organizational and reporting structure" and that objectivity is achieved by an appropriate mindset.

According to Bhatia (2003), Internal Auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It's also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of managements control system (Subramaniam, 2006). Its objective was to provide management with re-assurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Reid & Ashelby, 2002). It is a component of the internal control system set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested. For example, it's common these day's for internal

audit to undertake the extensive and continuous task of setting management goals and monitoring its performance (Woolf, 1996).

Emasu (2010) notes that "effectiveness of internal audit function partly depends on: legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff". It is however a bitter reality that internal audit departments are rarely adequately facilitated. Regarding the size and facilitation of the internal audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management? This finding suggests that increased management ownership may influence the board of directors to support larger Internal Audit Functions to allow them to closely monitor managers' performance. It is also plausible that management with higher share ownership is motivated to invest in larger Internal Audit Function for better monitoring of earnings and for signaling to the board of directors that, despite their high stake in earnings, they are convinced that appropriate use of resources has to be assessed on regular basis.

Using a US sample, Wallace & Kreutzfeldt (1991) found that companies with internal audit departments are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more conservative in their accounting policies, more competent in their management and accounting personnel, and subject to better management controls. Care et al. (2000) found that agency variables do not explain the voluntary use of internal audit by Australian family firms. More recently, a study by Goodwin-Stewart & Kent (2006), using a sample of Australian listed companies, shows that the existence of an Internal Audit Function is positively associated with firm size and commitment.

Earnest and young (1995), the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed. Example of the due professional care by the internal auditor are the existence of an adequate audit manual, general internal audit plans, procedures for controlling individual assignments and satisfactory arrangements for reporting and following up.



### **2.2.3 Internal Audit on managerial performance**

Aditya Birla Group Corporate Management Audit according to the study, Corporate Management Audit is committed towards systems perfection across the group in India and overseas. It has been actively involved in the evolution, implementation and review of internal controls, cost reduction methods.

Group policies, effective MIS, assessment and mitigation of business risks and promoting effective corporate governance. The audit function regularly shares information and best practices among the units and helps the group to keep pace with the fast changing business scenario, resulting in continuous growth of the group as well as value addition to stakeholders.

Aftab Ahmad Khan, Management audit an effective tool for ensuring all round efficiency' this paper explains that management audit as a concept in management literature evolved over a period of seven decades. It was T.G. Rose, an industrial consultant from the United Kingdom who had first introduced the concept of management audit in a paper he presented in 1932 before the Institute of Industrial Management (now merged with the British Institute of Management). The management audit concept, however, received greater attention in the United States of America.

Jackson Martindell, an investment consultant and founder President of the American Institute of Management (incorporated in 1948) developed a logical system of the concept of management and employed it for evaluating 52 publicly owned companies from 1948 to 1960. These studies were published under the title, Investment Value of Management Excellence. Few business terms have had as many meanings in so short a period of time as management audit. For this reason the modern management audit is often confused with its better known (and understood) historical antecedent –financial audit. Both of course, involve the gathering of information that can aid decision making a process as old as history. But as the requirement of an increasingly complex society transformed the King's Court of simple times into today's executive court of economic forecasters, lawyers, accountants and management consultants, so too have the demands of contemporary business environment created a need for analysis broader in scope and purpose than the financial audit.

G.S. Batra, Management audit as a service to public enterprise management: a study of management audit and the memorandum of understanding (MOU) system in India' the result

reviews that there is a constant demand from public enterprise managers for increased autonomy in order to ensure better efficiency and effectiveness in public enterprises. The system of MOU and Management Audit by articulating the missions, objectives and expected results along with the methods of performance evaluation goes a long way towards improving the performance of public enterprises. Hence by adopting these strategies public sector management in India is shaping up to face turbulent times. Government of Saskatchewan News Release (2007).

Results of Independent Forest Management Audit Released, this article refers to the results of the second independent sustainable forest management audit conducted under Saskatchewan's updated legislation were released today, highlighting requirements for monitoring and reporting of forest practices in the province.

Gurdeep Singh Batra, Narinder Kaur, Emerging Dimensions of Audit Accountability: A Case Study of Public Enterprise Management and Efficiency Audit in India' this paper finds that audit control over public enterprises varies from case to case, and the CAG should interpret this power according to the need of situation, and there should be external efficiency audit for public enterprises. Jacob Sunil, Management Audit Presentation Transcript 'this paper explore that management audit is an independent review and investigation which is concerned with the identification of those functional and operational areas where management has failed to achieve the required external standards of performance and with evaluation of decision making with the aim of monitoring and improving the efficiency and effectiveness of the organization.

K.S. Chaudhary, Relevance of management audit in modern industrialization' this study explores that management audit helps management of the organization in its present and future growth and prosperity through pragmatic and constructive appraisal of all activities of the organization.

The five standards in the audit are represented by key words: control, direction, equity, feedback, and productivity. Each standard covers a component of the audit process that determines the effectiveness and efficiency of the instructional program. This book is a powerful and practical resource for central office administrators, curriculum directors, and



principals to examine the curriculum using the principles espoused in the curriculum management audit process.

Dale L. Flesher, (2004) A Management Audit of Small Business Long Term Financial Affairs 'the result suggested that the owner or manager of a small business can conduct the audit on sort of a do it yourself basis. Although every department could possibly benefit from such an audit, it is the long term financial management of the organization that might profit the most from a value for money audit. (Dale L. Flesher, 2005) An Operational Audit of Working Capital Management 'this article explores that intended to end the oversight. An operational audit can lead to better management of working capital in the same way that it can lead to better management of a production area or by a treasurer who merely wants to perform a self audit of his or her own department's efficiency and effectiveness.

### **2.3 Empirical Review**

There is general awareness all over the world for the need to pay greater attention to the improvement of public sector management. The reason is obvious, government constitutes the largest single business entity and her pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities. As a result of these Government huge involvements in economic activities, initiatives are being taken all over the world towards improvement of the standards of accounting and auditing departments in government (Angus and Mohammed, 2011).

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#### **2.4 Research Gap**

G.S. Batra, Management audit as a service to public enterprise management: a study of management audit and the memorandum of understanding (MOU) system in India' the result reviews that there is a constant demand from public enterprise managers for increased autonomy in order to ensure better efficiency and effectiveness in public enterprises. The system of MOU and Management Audit by articulating the missions, objectives and expected results along with the methods of performance evaluation goes a long way towards improving the performance of public enterprises. Hence by adopting these strategies public sector management in India is shaping up to face turbulent times. Government of Saskatchewan News Release (2007).

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explore that management audit is an independent review and investigation which is concerned with the identification of those functional and operational areas where management has failed to achieve the required external standards of performance and with evaluation of decision making with the aim of monitoring and improving the efficiency and effectiveness of the organization.



## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

This chapter presented the different methods that were adopted in collecting and interpreting data related to the study by discussing choices related to: Research Design, study population, sampling strategies data collection methods, instruments, data quality control, data analysis and procedure.

#### 3.1 Research Design

The study employed a descriptive correlation and cross sectional survey design. The study adopted a survey research design because data is collected from respondents at a particular time. This survey research design according to Amin (2005) it was helpful to the researcher to attain systematic data from a sample. Correlation is necessary to explain relationship between variables. Purposive sampling was used to ensure that the respondents have equal chances of being selected to participate in this study. Quantitative and qualitative approaches were used because it helped to ensure that data collected is quantitatively analyzed and descriptively interpreted.

#### 3.2 Study population

The study population comprised of 50 participants purposively selected from the management and employees of Busia district head quarters in Uganda.

#### 3.3 Sample size

The sample size of the study was determined according to Slovene's formula of sample determination. Under this, a target population of 50 but it is zeroed down to a sample size of 45 respondents respectively as stated by Slovene's (1978). The Slovenes formula is used to determine the minimum sample size.

$$n = \frac{N}{1 + N(0.05)^2} = \frac{50}{1 + 50(0.05)^2} = 45 \text{ Respondents.}$$

$$n = 45$$

With            n=number of sample  
                 N=total population  
                 e=level of significance 0.05

Using the formula above, the following sample will be got as in indicated in the Appendix V

**Table 1: Table for determining simple size from a given population**

Respondents	Population size	Sample size	Technique
Staff members	40	37	Simple random
Auditors	10	08	Purposive Sampling
<b>Total</b>	<b>50</b>	<b>45</b>	

### **3.4 Sampling Techniques and Procedures**

The participants in the study were selected using purposive sampling method and simple random. Purposive sampling was best because it involved selecting participants that posse the required characteristics and qualities as defined by the researcher (Gay, 2006).

### **3.5 Data Collection Sources**

The researcher used both primary and secondary data sources.

#### **3.5.1 Primary Data**

Primary data is source of data generated from respondents using questionnaires and interview guide to get opinions, views and suggestions of the respondents at Busia.

#### **3.5.2 Secondary Data**

Secondary data sources are kind of information that the research study used which is already published in regard to the study topic. It included all written, audio and visual information that is readily available on the study. This included information from text books, internet, newspapers, reports, brochures and news prints are used in the study.

### **3.6 Data Collection Methods**

The researcher used questionnaires, interviews as the major data collection methods used to get first hand information.

### **3.7 Research Collection Instruments**

#### **3.7.1 Questionnaire**

This is the main data collection tool. It consisted of questions that are set in relation to the research objectives so as to get the real answers to the set research questions. These were administered on the Management and staff of Busia District Local Government. The questionnaires were used because they are easy and convenient to use in collection of data from busy respondents like those at district.



### **3.7.2 Interviews**

For the purposes of obtaining deep-rooted and concise data, the researcher used interviews. These were conducted in a period of 30 minutes per selected respondent. The researcher based on an interview guide.

### **3.8 Ethical consideration**

The researcher was given introduction letter from Department of Accounting and Finance Kampala international University and which she presented to the management of Busia district local government. To approval by the authorities at the sector, the researcher was given acceptance letter then start administering the research tools in their organization. The researcher fast conducted interviews with the staff in the Administration, Finance and other department. She also distributed questionnaires to respondents. After 2 days she then collected, filled questionnaires.

### **3.9 Validity and Reliability**

#### **3.9.1 Validity**

Validity is the ability of the research instrument to measure what it aims or is supposed to measure. According to Amin (2005), the research instrument must be appropriate for the study objectives to be achieved. The researcher consulted and discussed validity of instrument with colleagues and supervisor to limit errors as much as possible.

Out of the total number of items of the questionnaire, the questions that were considered are very relevant and quite relevant are rated. The content validity indexes for the questionnaire indicate 0.7 to confirm them valid since it is 0.74790 it meant that the instrument was valid.

#### **3.9.2 Reliability**

Reliability of an instrument is the dependability or the trustworthiness of an instrument. According to Amin (2005), it is the degree to which the instrument consistently measures what it is supposed to measure. This method is picked on a single pre-test group and shows the degree to which the items in the questionnaire are inter-correlated. That is, a respondent who would have completed the questionnaire were again politely asked to complete another fresh questionnaire (retest) after two weeks to prove the answers earlier filled for consistence or how close they relate (Amin (2005)). Internal consistence of the items in the questionnaire was established using Cornbach's formulae to computer the alpha co-efficiency of reliability. To get the reliability, the data were entered in the computer and analyzed using the statistical

package for social scientists (SPSS), which are useful for providing a Cronbach Co-efficient Alpha test for testing reliability.

### **3.10 Data Analysis**

Data collected was edited and coded. It was summarized and analyzed so as to make sense of the data to ensure completeness and consistence.

Quantitative data was analyzed inform of percentages and frequencies. Qualitative data was analyzed through sketchy and generalized summary of the findings from observation and conclusion in the process of data collection.



## CHAPTER FOUR

### PRESENTATION, DATA ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

In this Chapter the presentation, data analysis, tables and figures were presented and interpretation made in accordance with the research objectives of the study. The chapter was divided into sub-chapter namely: Demographic characteristics of respondents and findings on objectives of the study.

#### 4.1 Demographic characteristics of respondents

The respondents demographic characteristics include; Age, Gender, Level of education, Level of experience.

##### 4.1.1 Age of the respondents

The distribution of the respondents by age was presented in the study as shown in table 4.1

**Table 4.1: showing distribution of age of the respondents**

Age	Frequency	Percentage (%)
20-25 years	04	09
25-30 years	06	13
30-35 years	23	51
35-40 years	09	20
above 40 years	3	07
<b>Total</b>	<b>45</b>	<b>100%</b>

**Source: Primary data, 2018**

From Table 4.1, the respondents were required to indicate their ages and the study revealed that the largest numbers of respondents were in the age group of 30-35years (23)51%, these were followed by those in the range of 35-40years (9)20% who were closely followed by those in the range of 25-30 years (6)13%, those who were in the range of 20-25 years were(4) 09% and the smallest number was those who were in the range of 40 years had (3)07% of

respondents. This age trend in the organization is an indication that the majority of the respondents working in the organization.

#### **4.1.2 Gender of the Respondents**

The study captured gender of the respondents in order to establish the most dominant working group of the employees with Busia district Local Government in the Uganda. The respondents were asked to state their sex and the distributions shown in table 4.2

**Table 4. 2: Gender of the Respondents**

Sex	Frequency	Percentage (%)
Female	17	38
Male	28	62
Total	45	100

**Source: Primary data, 2018**

According to the results for gender of the respondents on table 4.2. The total numbers of the respondents were 45 that the researcher targeted. The majority of the respondents were male with the percentage of (28)62%, while the female were (17) 38%. This therefore implies that the most dominant working group of employees with Busia district local government was males. The imbalance in the organization attributed to various factors existed in employment of Uganda.

#### **4.1.3 Level of Education of the respondents**

The researcher asked the respondents to state their level of education to find out whether the respondents could be able to interpret the questionnaires given to them by the researcher. The findings indicated some of the respondents in the targeted group have relevant knowledge to read, interpret and answer the questionnaires given to them by the research as presented in table 4.3



**Table 4.3: Showing level of education of the respondents**

Level of Education	Frequency	Percentage (%)
Certificate	02	04
Diploma	13	29
Degree	30	67
<b>Total</b>	<b>45</b>	<b>100</b>

**Source: Primary data, 2018**

The study highlighted that the majority of the respondents were found to have attained degree level of education, with (30)67%, Diploma level of education were (13)29% and Certificate level of education were only (2)4% of the respondents. This implied that the highest percentage was picked from higher level of education because they were equipped with the information concerning internal audit function on financial performance of district in local government in Uganda a case study of Busia district local government and they were able to interpreted and responded accurately on the questionnaire given to them by the researcher.

#### **4.1.4 Level of Experience**

The researcher asked the respondents the period they had spent on their jobs to find out their experience and knowledge about effect of internal audit function on financial performance and the findings resulted to a high level of experience on the jobs by the respondents as captured in table 4.4

**Table 4.4: Showing Time spent on the current job by the respondents**

Period	Frequency	Percentage (%)
Less than 2years	03	7
2-3 years	07	16
3-4 years	25	56
4 years and above	10	22
<b>Total</b>	<b>45</b>	<b>100</b>

**Source: Primary data, 2018**

The findings on table 4.4 indicated that out of the 45 respondents who answered the questionnaires, majority had spent 3-4 years on their current job (25)56%, they were followed by those who had spent 4 years and above on their current job (10)22%, those who had spent 2-3 years were (7)16% and the least number of respondents who had spent less than 2 years and above on their job were only (3)7%. Thus implies that they have relevant experience and know about effect of internal audit function on financial performance of district especially Busia.

#### **4.2 The roles of internal audit on financial performance of district in Uganda at Busia.**

The first objective of the study was to find out the roles of internal audit on financial performance of district in Uganda at Busia District local government. The findings on this objective were collected based on the required aspects of the study as presented below.



**Table 4.5: Showing the response on the roles of internal audit on financial performance.**

Roles of internal audit	Strongly Agree (%)	Agree (%)	Not Sure (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Demonstrates accountability in use of public money	50	20	15	5	10	100
Improves organization performance	52	13	10	10	5	100
Gains competitive advantage	40	15	7.5	20	7.5	100
Better service delivered to citizens	37	18	15	10	20	100
Reduces risk of losing funds thus increase profits.	75	10	5	5	5	100

**Source: primary Data (2018)**

Results in Table (4.5) present findings on the responses about the role of internal audit on financial performance of Busia district local government, 50% of the respondents who strongly agreed, 20% agreed 15% were not sure, 5% disagreed and 10% strongly disagreed with Demonstrates accountability in use of public money.

Improves organization performance had 52% of the respondents who strongly agreed, 13% agreed, 10% were not sure 10% disagreed and 5% strongly disagreed.

Gains competitive advantage had 40% of the respondents who strongly agreed, 15% agreed, 7.5% disagreed 20% were not sure and 7.5% strongly disagreed

35% of the respondents who strongly agreed 12.5% agreed, 15% were no sure 10% disagreed and 25% strongly disagreed with Better service delivered to citizens.

Reduces risk of losing funds thus increase profit had 75% of the respondents who strongly agreed, 10% agreed, 5% were not sure, 5%disagreed and 5% strongly disagreed.

From the findings on the roles of internal audit on financial performance were; reduces risks of losing funds thus increase profits was most identified by respondents indicated by 85%

who agreed with it followed by demonstrates accountability in use of public money had 70% respondents who supported it, improves organization performance with 65%, then gains competitive advantages and better service delivered to citizens both had 55% respondents who identified it. This implies internal audit has role on financial performance.

#### 4.3 Role of internal audit and non-financial performance at Busia district local government.

The second objective of study was to examine the role of internal audit on non-financial performance of Busia district local government.

**Table 4.6: Showing response on the roles of internal audit on non-financial performance**

<b>Roles of internal audit on non-financial performance</b>	<b>Strongly Agree (%)</b>	<b>Agree (%)</b>	<b>Not Sure (%)</b>	<b>Disagree (%)</b>	<b>Strongly Disagree (%)</b>	<b>Total (%)</b>
Ensures effectiveness and extent to which staff of internal Audit meets its obligation.	40	30	5	25	5	100
Good public image about company	50	25	5	12.5	7.5	100
Helps managers in public sector to meet their responsibilities within environment	35	45	5	10	5	100
Better strategies to improve management.	50	30	5	5	10	100
Helps cut costs in operation	35	30	12.5	2.5	25	100

**Source: Primary Data (2018)**

Results in table (4.6) present the response of respondents on results of role of internal audit on non-financial performance in district case study of Busia. Ensures effectiveness and extent to which staff of internal Audit meets its obligation involved 40% of the respondents who strongly agreed, 30% agreed, 5% the respondents were not sure and strongly disagreed, and 25% respondents disagreed.



50% of the respondents strongly agreed with Good public image about company, 25% agreed, 5% were not sure, 7.5% of the respondents strongly disagreed and 2.5% disagreed.

Helps managers in public sector to meet their responsibilities within environment 'had 35% of the respondents who strongly agreed, 45% agreed, 10% of the respondents disagreed, 5% of the respondents were not sure and 5% strongly disagreed.

50% of the respondents strongly agreed with Better strategies to improve management, 30% agreed, 5% disagreed and 5% of the respondents were not sure not sure and 10% of respondents

Helps cut costs in operation by 35% respondents who strongly agreed, 30% agreed, 12.5% were not sure, 2.5 respondents disagreed and 25% strongly disagreed.

To sum up role of internal audit on non- financial performance; better strategies to improve management and managers in district to meet their responsibilities both of them had 80%, followed by good public image had 75%, then ensures effectiveness and extent to which staff of internal audit meets its obligation with 70% lastly helps cut costs in operation.

#### 4.4 Role of internal audit on managerial performance at Busia district.

The third objective of the study was to assess the role of internal audit on managerial performance of district in Uganda at Busia.

**Table 4.7: showing the response on role of internal audit on managerial performance.**

Role of internal audit on managerial performance	Strongly Agree (%)	Agree (%)	Not Sure (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Improvement in the process of stakeholder engagement	55	25	7.5	0	12.5	100
Performance with reporting requirement	50	27	7.5	2.5	12.5	100
Help in implementing quality assurance	40	30	10	15	25	100
Identifies those operational and functional areas where management has failed to achieve results.	37	35	12.5	10	0	100
Assesses management of the organization in its present and future growth.	50	27	13	10	0	100
Provide advisory services to provide assurance to the CEO about operation.	25	45	5	10	15	100

**Source: Primary Data, 2018**

The findings on the role of internal audit on managerial performance of district in Uganda case of Busia. Improvement in the process of stakeholder engagement had 55% of the



respondents who strongly agreed, 25% agreed, 7.5% were not sure, and none disagreed while 12.5% strongly disagreed.

50 % of the respondents strongly agreed with Conformance with reporting requirement, 27.5% agreed 7.5% were not sure, 12.5% strongly disagreed and 2.5% of the respondents disagreed.

Help in implementing quality assurance had 40% of the respondents who strongly disagreed, 32.5% agreed 10% were not sure, 15% of the respondents disagreed and 2.5% of the respondents strongly disagreed.

Identifies those functional and operational areas where management has failed to achieve results had 37.5% of the respondents who strongly agreed, 35% agreed, 12.5% were not sure, 15% of the respondents disagreed and none strongly disagreed.

50% of the respondents strongly agreed, 27.5% Agreed, 12.5% were not sure, 10% disagreed and none of the respondents strongly disagreed with help management of the organization in its present and future growth.

Provide advisory services to provide assurance to the CEO about operation had 25% of the respondents who strongly agreed, 45% agreed 5% were not sure, 10% disagreed and 15% strongly disagree.

In conclusion the researcher found out that internal audit has roles on managerial performance of district especially Busia following were identified improvement in the process of stakeholder engagement had 80% of respondents who agreed with it, followed by conformance with reporting requirement had 77% respondents who identified it, then helps in implementing quality assurance, provide advisory services to provide assurance to the CEO about operation, 62% of respondents agreed with help in identifying functional and operational area where management has failed to achieve results intended.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter dealt with the conclusion and presents recommendations of the study. Conclusions are made on the effects of internal audit function on financial performance in district a case of Busia district local government.

#### **5.1 Conclusion**

The study assessed the role of internal audit on financial performance of district a case of Busia. It answered three study objectives that included: find out the role of internal audit on financial performance, examine the role of internal audit on non-financial performance of district and assess the role of internal audit on managerial performance of district a case of Busia District Local Government.

The study was to identify the role of internal audit on financial performance of district in Uganda, 85% reduces risk of losing funds thus increase on profit, 70% demonstrates accountability in use of public money, 65% improves organization performance agreed that share followed by, 55% agreed with better service delivered to citizens and gains competitive advantage both had 55% of respondents.

As regards to the role of internal audit on non-financial performance of district in Uganda a case of Busia District Local Government, helps managers in public sector to meet their responsibilities and better strategies to improve management both had 80% of respondents followed by, good public image about company with 75%, ensures effectiveness and extent to which staff of internal audit meets its obligation with 70% and help cut costs in operation with 65% of respondents respectively.

The study was to examine the role of internal audit on managerial performance of district in Uganda a case of Busia District Local Government. The findings on this objective are as follows. Improvement in the process of stakeholder engagement with 80% followed by conformance with reporting requirement and helps management of the organization in its present and future growth both had 77%, identifies those functional and operational areas where management has failed to achieve the required results agreed had 72% and helps in implementing quality assurance with 70% respondent respectively.



## **5.2 Policy Recommendations**

The financial and accounting and reporting procedures need to be enhanced this can be made possible by allowing further training for the staff in the accounts sections and close supervision of the audit department on the activities of accounts and finance through regular audits and checkup.

There is need to recruit more human resource personnel in field of internal audit to help improve the performance of entity.

There is need to emphasize on the budget and planning for department to control measures, enable proper financial reporting of district at Busia district local government.

There is need for more resources to be mobilized and improvement in the performance of district in Uganda and emphasis should be made on procurement procedures already in place this requires the active involvement of both the internal Auditors and the procurement manager to ensure all plan are implemented.

There is also need to change on management of institution to help in bring new ideas at work place that is based on information technology and innovations in public enterprises.

## **5.3 Areas for Further Research**

Effects of inflation on small medium business growth

Impact of taxation and organization performance

Mobile banking on financial performance

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## APPENDIX I

### QUESTIONNAIRES

Dear respondent,

I am **Mwiseneza Joshua** a student at Kampala International University. As a requirement to complete a course leading to the award of a Bachelor's Degree in Business Administration, am carrying out a study on the internal audit function on financial performance in Uganda local government a case study of Busia District Local Government. Am pleased to select you as one of my respondents any information you provide will be kept confidential and for academic purposes only hence your assistance will be deeply appreciated.

Please place an (✓) in the box that most accurately reflects your view.

#### SECTION A: DEMOGRAPHIC PROFILE

##### 1. Gender

\_\_\_\_\_ Male  
\_\_\_\_\_ Female

##### 2. Age

\_\_\_\_\_ 20-25  
\_\_\_\_\_ 26-35  
\_\_\_\_\_ 36-45  
\_\_\_\_\_ 46-55  
\_\_\_\_\_ Above 55

##### 3. Level of Education

\_\_\_\_\_ Primary School  
\_\_\_\_\_ Secondary School  
\_\_\_\_\_ Diploma  
\_\_\_\_\_ Bachelor

##### 4. Number of Years in the Company

\_\_\_\_\_ 1-2 years  
\_\_\_\_\_ 3-4 years  
\_\_\_\_\_ 5years and above

### SECTION B:

Direction: please respond to the options and kindly be guided with the scoring system below. Please write your rating in the space provided.

Rating	Score response	Description	Legend
1	strongly agree	you agree with no doubt	SA
2	Agree	you agree with some doubt	A
3	Not sure	you doubt	NS
4	Disagree	you disagree with some doubt	A
5	Strongly disagree	you disagree with no doubt at	SD

Under the following sections, please tick according to your level of agreement.

SA	Strongly Agree
A	Agree
NS	Not sure
D	Disagree
SD	Strongly Disagree

Please evaluate the statement by ticking in the box with the number that best suits you.

**1. What are the roles of internal Audit on financial performance of Local government in Uganda?**

N	Scale	1	2	3	4	5
1	Demonstrates accountability in use of public money					
2	Improves organization performance					
3	Gains competitive advantage					
4	Help cut costs in operations					
5	Better service delivered to citizens					
6	Reduces risk of losing funds thus profit increases					

**2. Role of internal Audit and non-financial performance in Uganda case study of Busia DLG.**

Roles of internal audit on non-financial performance	1	2	3	4	5
Ensures effectiveness and extent to which staff of internal Audit meets its obligation					
Good public image about company					
Helps managers in public sector to meet their responsibilities within environment					
Better strategies to improve management					
Any other please specify here below					



**Role of internal Audit on managerial performance of public enterprises in Uganda case of Busia DLG?**

N	Scale	1	2	3	4	5
1	Improvement in the process of stakeholder engagement					
2	Conformance with reporting requirement					
3	Helps in implementing quality assurance					
4	Identifies those functional and operational areas where management has failed to achieve the required results					
5	Helps management of the organization in its present and future growth.					
6	Provide advisory services to provide assurance to the C.E.O about operation					

## **Appendix II: Interview Guide**

### **Questions**

1. What are the roles of internal Audit on financial performance in Uganda Local Government a case study of Busia District Local Government?
2. Is there relationship between internal Audit and non-financial performance in Uganda a case study of Busia DLG?
3. How does internal Audit affect managerial performance of public enterprises in Uganda at Busia DLG?

**APPENDIX B: PROPOSED BUDGET**

<b>ITEM</b>	<b>AMMOUNT</b>
Stationery	50,000
Transport to the study area	100,000
Binding	40,000
Printing 3 books	45,000
Printing	15,000
Library Research/fees	10,000
Internet Research	20,000
Consultation fees	150,000
Meals and refreshments	20,000
Miscellaneous expenses	50,000
<b>Total</b>	<b>500,000</b>



# TIME FRAME FOR RESEARCH

Month	September	October					November-December			January 2018		
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