

**INTERNAL AUDITING AND PERFORMANCE OF LOCAL GOVERNMENTS IN  
UGANDA, A CASE STUDY OF KALIRO DISTRICT LOCAL GOVERNMENT**

**BY**

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

I Sekatiko Jude declare that this research report submitted to the College of Economics and Management for the award of a Bachelor's degree in Business Administration Finance and Accounting of Kampala International University is my original work and has not been presented to any other University or any other institute of higher learning for any award of diploma or degree.

Signature 


Date 30th / AUG / 2019

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### **APPROVAL**

I confirm that the report on the topic entitled “Internal Auditing and Performance of Local Governments, a case study of Kaliro District Local Government was supervised under my guidance and was submitted for approval with my authorization.

Signature ..... 

Date 30<sup>th</sup> / 08 / 2019

**Dr. ERIC MABONGA**

**(Supervisor)**

## DEDICATION

I dedicate this report to Guardian Mr. Byantalo Mikulosi, Ant Madam Nabagereka Dementiliya, mum Mrs. Nyakyanzi Leontina Amoti and my uncle Mr. Kiiza Swaibu who played an important role in upbringing me in harmony with great cornerstones of loving education, hardworking, and tolerance. I also dedicate this report my brother and sisters to mention but a few, Najjuma Annet, Ssenkanja Benard, Kahele Alex, among others.

I would also like to appreciate my fellow friends like, Kusemelerwa Judith, Omodingi Francis, Apothia Mercy, Tukashaba Bruce, Biitali Miriam, Nantaba Cate, Mukose Daniel, Emochu Yusuf, kantono Miria, Kahala Alaisha, Kabiita Denis, Sinyako Angella, Ndiikimu Joan and others for the support towards my academic excellence.

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*May God bless you all!*

## LIST OF ABBREVIATIONS/ ACRONYMS

IIA	- Institute of Internal Auditors
LGA	- Local Government Act
GAAP	- Generally Accepted Accounting Principles
GAAS	- Generally Accepted Auditing Standards
MOFPED	- Ministry of Finance, Planning and Economic Development
ISA	- International Standards on Auditing
YLP	- Youth Livelihood Program
DIA	- District Internal Auditor
CFO	- Chief Finance Officer
CAO	- Chief Administrative Officer
KDLG	- Kaliro District Local Government
SPSS	-Statistical Package of Social sciences

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## ABSTRACT

The purpose of this study was to establish the effectiveness of internal audit system in the performance of local governments in Uganda. The following were the objectives of the Study to establish how internal auditing helps Kaliro Local Government can improve on the control environment for better financial performance; to establish any information and communication system that helps to improve the performance of Kaliro Local Government and to identify the risks faced by internal audit unit in enhancing financial performance of Kaliro local governments. The study used both descriptive and quantitative research designs. Descriptive method was used to describe the characteristics of the research variables. Quantitative method was used to collect data from a given number of respondents. Data was presented and analyzed using tables, percentages, frequencies and by the help of SPSS. On primary data collection, the researcher prepared questionnaires and interviews for the respondents. An open and close ended questionnaire was constructed and which was self-administered for respondents to fill. Open and closed ended questionnaire was used. Editing of collected data was done to make the data ready and simpler for the presentation. The filled questionnaires were edited to collect errors that are done by the study respondents. Data were edited in order to check for accuracy, completeness, consistence, uniformity and reliability of data. The researcher concluded that that control environment plays an important role of identifying the structure of the company with the involvement of board of directors and audit committee. Moreover, risk assessment is a fundamental element of organizational governance and should be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value. Information and communication was assessed by respondents as satisfactory; this implies that the local leaders can have the autonomy of determining how the money received from the central government can be planned, budgeted and put into proper use. Additionally, financial liquidity was handled well by the financially department in the local government and finally employee's autonomy to work played an important role to the district's development. The researcher recommended that recruit more qualified and trained staff in the finance section. Since time immemorial accountants' expertise has always been an important component of managing a company efficiently. An efficient accountants' service plan necessitates that a business enterprise maintains appropriate accounting data files and documentation. This is undoubtedly an aid to effortless accounts preparation and processing.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0. Introduction**

This chapter contained the study of the Background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, and its significance.

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

This section comprised of four perspective namely historical, theoretical, conceptual and contextual perspectives.

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

Internal auditing began as one person clerical procedure that consisted of an independent verification of bills before payment (Boynton, 1996). The internal audit objectives are categorized into; primary and secondary objectives. The primary objective of internal auditing is to determine whether the financial statements of an organization show a true and fair view while the secondary objective is to detect and prevent errors and fraud.

The underlying issue of this research was based on internal auditing which is a core aspect of auditing, how to make internal audit system of local governments effective. Chukwu, L. (2011) defines integral auditing as “an independent appraisal of activities within the organization for the service of accounting, financial and other business practice as a protective and constructive aim of management.

Thstofdlaflly, internal audit has been viewed as a monitoring function, the “organizational policeman and watchdog” (Morgan, 1979), tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate objectives. Under the market economy system, with its keen competition, the modern internal audit system has emerged and been developed to suit the enterprises’ needs of struggling for existence (Yan Jin’e, 1997). It is very important to give the definition of the internal audit in order to understand its great importance in the modern business environment. Indicative of its great importance is the large amount of definitions that are given by many researchers. According to Cook and Winkle (1976), the Internal Control System and consecutively internal audit resembles the human nervous system which is spread throughout the business

carrying orders and reactions to and from the management. Furthermore, Carmichael and Willingham (1987), and Grigorakou (1989) argue that internal auditing is the audit that performed by employees of organizations functioning in a staff capacity and reporting to a high level officer in the organization.(Source Paape, 2007).

#### **1.1.2. Theoretical perspective**

This theory was advanced by Michael B. Adams (1994). In his theory he argues it explains and predicts the appointment and performances and internal auditors explains the roles and responsibilities assigned to internal auditors by the organisation and how local government can be affected by organisation change. Agency theory is part of the positivist group of theories which derives from financial economics literature .it postulates that the firm consists of nexus of contracts between the owners of economic resources(natives) and managers(local government officials) who are charged of using and controlling those resources[9,p.308]. furthermore, agency theory is based on the premises that government officials have more information than natives and that this information asymmetry adversely affects the natives ability to monitor effectively whether their interests are being properly served by local government officials. It also assumes that natives and local officials act rationally and that they will use the contracting process to maximize their wealth (Source Journal of accounting, finance and auditing studies).

#### **1.1.3. Conceptual perspective.**

Azuibike (2005), outlines the features of internal auditing as; independence, objectivity, appraisal function, management service, Documentation, audit evidence. Local government refers to a unit of government below the central government established by law to exercise political authority through a representative council within defined areas (Okolie, 2003).

Performance of local government. Is a measure of the results achieved, Performance efficiency is the ration between effort expected and results achieved. The difference between current performance and the theoretical performance units is the performance improvement zone. Performance assumes on actor of some kind but also actor could be an individual person or a group of people, Organisations like local governments which includes the construction of schools, provision of Health services ,construction of roads (Dardortf, 2008).

#### **1.1.4. Contextual perspective**

Local governments play the following roles; Providing social services to citizens, implementation of government plans and policies, registering births, deaths, and marriages, maintenance of public infrastructure, collection of local revenue, link between central government and citizens among others. For the local government to fulfil the above roles there is a need for efficient and economic utilization of financial resources. In consideration of these enormous resources at the disposal of local government there is a need for internal audit to minimize misallocation, misappropriation, fraud and errors.

Local Governments owe both physical and book accountability to the public which is best done through internal auditing. Local governments are entrusted with funds through sources like; grants, central government funding, NGO's, local revenues this calls for an internal audit to ensure public funds are not misused (Source planning unit Kaliro district local government).

#### **1.2. Statement of the Problem**

Internal audit is a cornerstone of good public governance as it provides unbiased objective assessment of whether public resources are responsibly managed (Okonye, 2010). Uganda Local Government, Accounting and Audit Act 2003 provides that every local government entity shall keep its books of accounts and records well and balance its accounts and financial records at the end of each financial year and shall be subjected to an internal audit.

Despite the structure of the finance department that was put in place by Kaliro Local Government to verify, evaluate and examine book keeping records in accordance with the Local Government Finance and Accounting Regulation 1998, and the audit manual 2000, preventing and detecting fraud, misappropriation of such funds is used inefficiently and ineffectively. Since 2006, several employees in the accounts department have interdicted due to misappropriation of funds meant for Local Government development projects and salaries for other employees as reported by the Public Accounts Committee (PAC) report 2008 and the auditor general report for the year ending 30th June 2016. The researcher therefore sought whether internal auditing, have an effect on the performance of Local Government.

### **1.3. Purpose of the Study**

The purpose of this study was to establish the effectiveness of internal audit system in the performance of local governments in Uganda.

### **1.4. Objectives of the Study**

- i. To establish how internal auditing helps Kaliro Local Government can improve on the control environment for better financial performance.
- ii. To establish any information and communication system that helps to improve the performance of Kaliro Local Government.
- iii. To identify the risks faced by internal audit unit in enhancing financial performance of Kaliro local governments.

### **1.5. Research Questions**

- i. What is the relationship between internal auditing and performance of Kaliro Local governments?
- ii. What controls have been put in place to improve the performance of local governments?
- iii. How effective is the internal auditing in kaliro district?

### **1.6. Hypothesis**

$H_{01}$ : there is no significant relationship between internal audit and performance of kaliro district local government.

### **1.7. Scope of the Study**

#### **1.7.1. Geographical scope**

The study was conducted at Kaliro district local government headquarters in the management, planning, Community development, Finance, and Auditing departments.

#### **1.7.2. Time Scope**

The study considered the information between (2011-2017).

#### **1.7.3. Content scope**

The study covered the nature of internal audit and performance of Kaliro local government, the relationship between internal audit and performance of Kaliro local government, the challenges faced by the internal audit and performance of Kaliro local government and the

solutions to the challenges faced by internal audit and performance of Kaliro local government.

### **1.8. Significance of the study.**

Apart from other researcher obtaining more skills in the field and furthering the study. Other significance of the study included;

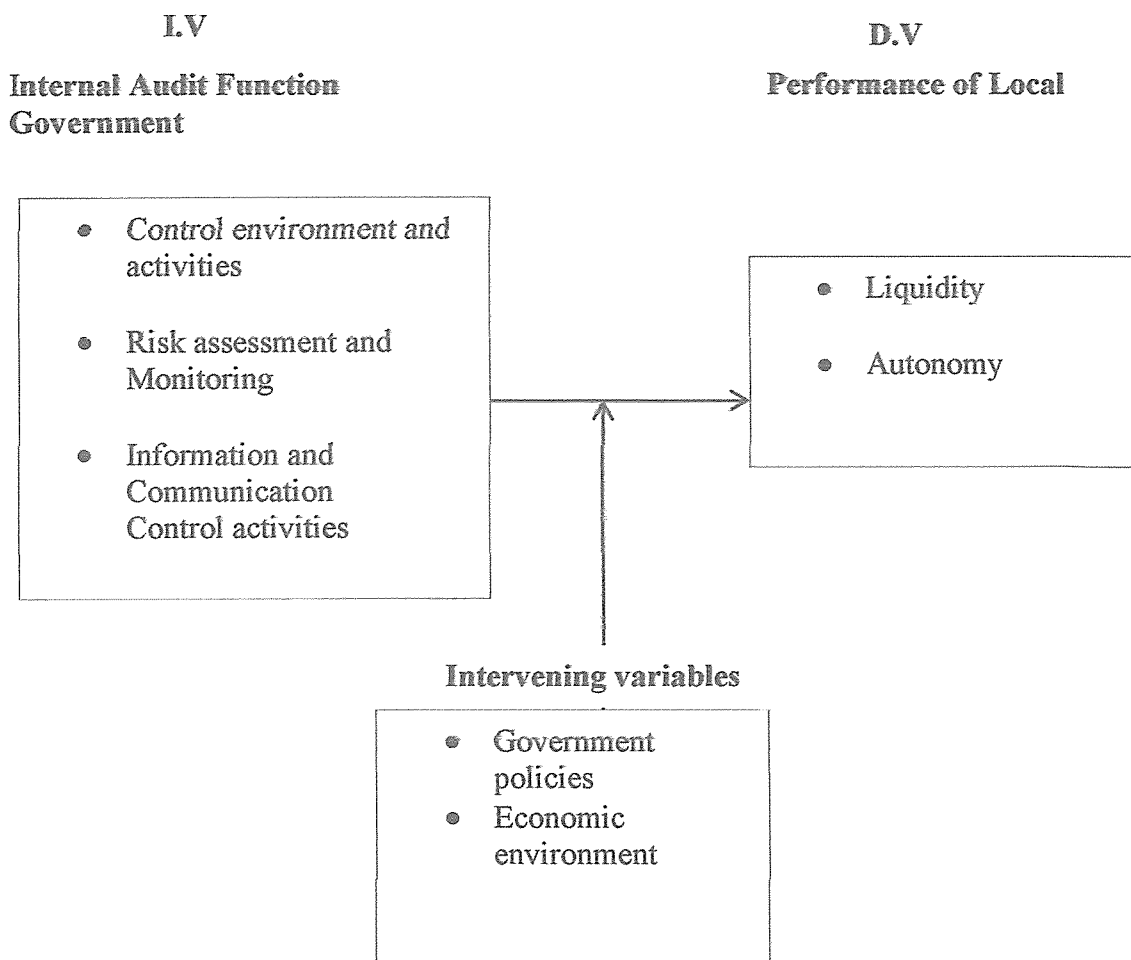
- The research findings are likely to empower the audit staff to evaluate some policies governing financial management.
- The findings will be an addition to the existing body of knowledge especially in the field of internal audit function and accountability of public funds.
- The study is to help other researchers who are researching in similar area of internal audit and financial performance of public funds.
- Also the findings of the study will be relevant to the local government in formulating appropriate internal audit function and accountability attitude polices that will help in enhancing better performance.
- The study will help different relevant stakeholders like citizens in recognizing the role played by internal auditing towards performance of local governments.

### **1.9 Conceptual Framework**

The conceptual framework of this study presented the relationship between internal auditing and the performance of local government. This conceptual frame work was developed form the existing concepts on internal audit as reflected in the new definition of internal auditing by the institute of internal Auditors, (1999).the main independent variable is internal audit while the dependent variable is performance of local governments. Internal audit is studied in three dimensions; control environment, risk assessment, and information and communication. The dependent variable is analyzed in terms of Liquidity and Autonomy; Moderating variables of independence.

### 1.9.1 An Illustration of Conceptual Frame Work

Figure 1: Illustration of Conceptual Frame Work



Source: Adopted and modified from Hallowell, R. (1996)

## **1.10. Definitions of the key terms.**

### **Internal Auditing**

Internal Auditing is “a systematic examination of the books and records of a business or organization in order to ascertain and report upon facts regarding the financial operation and the results thereof” (Montgomery, 2013)

### **Performance of Local Governments**

Performance may be treated as an end result of an activity or a process.

### **Information**

According to Hubbard, (2003) information refers to employees getting the information they need to do their jobs.

### **Communication**

Communication relates to the free flow of information up down, across, inside and outside the organization.

### **Liquidity.**

Is a measure of the ability to meet short term debt to obligations without having to close down.

### **Autonomy.**

This is the measure of the degree of autonomy of the local authorities have vis-a-vis the central government.

### **Control environment**

This identifies the integrity and ethics of management, competence of employees, operating style of management, structure and Audit committee and evaluation of the environment.

### **Risk Assessment**

Risk assessment 'as' stated by Lannoye (1999) is the entity's identification and analysis of relevant risks (both internal and external) to the achievement of its objectives, forming a basis for determining how the risk should be managed.

### **Independence**

This is the mandatory freedom given to the internal auditors to select areas of audit he/she wishes to investigate and to report there on to all levels of management in the organization.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter consisted the reviews of the study; the theoretical review, the conceptual theoretical review of the study and the relationship between internal audit and performance of local government.

#### 2.1 Theoretical Review

**In the context of IA research, the use of neoclassical economic theories like the Agency Theory (Adams, 1994) as well as the transaction cost theory (Spraakman, 1997) are not sufficient because they posit a developed a market economy environment characterized as having considerable transaction volume according to the economic development level throughout countries (Reed, 2002). Therefore, this confines the capacity of the theories to explain IA in extensive settings.**

More specifically, the agency theory cannot be transferred directly to state-owned firms as the principal may be ambiguous in a sense that the public may not have a single united interest. It is thus challenging to ascertain the existence of any interest discrepancy that may exist between managers and the public at large. In this context, Mandel (1977) criticized the earlier version of agency theory proposed by Alchian and Demsetz (1972) based on the Marxist economics. Similarly, Watts and Zimmerman (1990) study indicated that neoclassical economics posts that the organizational phenomenon is directed by the pursuit of individuals of self-interest maximization. In other words, neoclassical economic theories do not provide sufficient potential to explain the development of IA in different settings (Mihret et ci., 2010).

Criticism of the above theories also stems from the institutional theories maintaining that individual behaviour whether as product consumer or producer, cannot be delineated from the social context wherein the behaviour occurs (Hula, 1984). Barley and Tolbert (1997) explained that the institutional theory acknowledges the significant value of cultural and social determinants as a significant impact upon the decision making (cited in Mihretetal. (2010).

## **2.2 The Conceptual review**

### **Internal Auditing**

Internal Auditing is “a systematic examination of the books and records of a business or organization in order to ascertain and report upon facts regarding the financial operation and the results thereof” (Montgomery, 2013). Auditing is “a systematic and scientific examination of the books and records of a business or organization so as to enable the auditor to satisfy himself that the financial statements are properly drawn up so as to exhibit a true and fair view of the financial state of the affairs of the business (Mautz, 2013).

According to Sabari (2003), auditing is classified into four categories that are statutory, private, management and internal auditing. IIA (2011), looked at internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.

Section 90 of the LGA 1997 provides for the establishment of internal audit unit in the local governments with a view of assisting the government to provide social services in an effective, efficient and an economic manner. The section indicates how internal auditing helps to examine, evaluate and report on the adequacy of internal control system to the proper and economic utilization of resources. This unit reports their findings directly to the district council. Section 91 of the same Act provides that the internal audit unit shall be responsible for verifying of accounting records and transactions carried out by any sector of the government.

LGA 1997 Section 90(1) provides that every district, Municipality, or town shall provide for an internal audit unit responsible for the preparation of quarterly reports and submit them to the council giving a copy to the Local Government Accounts Committee.

Nevertheless, local government internal audit units face various challenges that hinder their effectiveness and productivity such as; public protest and perception about their role in financial accountability, inadequate manpower to examine all books of accounts in the appropriate time period, insufficient working equipment and accessibility of accounting records, interference by politicians in contrary to the intended objectives, poor segregation of duties where one person receives cash and is responsible for making payments, unwillingness by the staff to reveal the true information required to carry out the auditing exercise, limited

levels of authority and empowerment, lacking and inflated budgets influenced by the district council, lack of independence in expressing their opinions. Consequently the above mentioned challenges should be well-thought-out in order to improve on the effectiveness and efficiency of internal auditors.

Internal auditing is necessary and should be adopted by all businesses, ministries, parastatals and local governments as it helps in ensuring financial control and management, it helps to examine all financial transactions carried out by an organization with the intention of detecting errors, omissions, misrepresentations and fraud in the financial statements of an organization. It is based on the examination of the policy and procedure in place so as to guarantee their conformity with the approved regulations set by the government.

### **2.3 Local Government Performance.**

Is a measure of the results achieved Performance efficiency is the ration between effort expected and results achieved. The difference between current performance and the theoretical performance units is the performance improvement zone. Performance assumes on actor of some kind but also actor could be an individual person or a group of people, Organisations like local governments which includes the construction of schools, provision of Health services ,construction of roads (Dardortf, 2008).

### **2.4.0 Related Literature**

#### **2.4.1 Control environment and performance of local government**

According to Willis and Lightle, (2000) control environment is the tone set by top management and the overall attitude, awareness and actions of the board of directors, management, and owners. And others concern the importance of internal control in the company's policy, procedures methods, and organizational structure. (COSO, 1992) makes it clear that the control environment is the most important component of internal control konrath (2003) identifies attributes of control environment as integrity and ethics of management, competence of employees of employees, operating style of management, structure and Audit committee and evaluation of the environment.

According to Hubbard (2003) managers and internal auditors need to understand the status of the factors at the base (control environment), not to change them, but to consider their impact on the other control components. Chioccola and Muhlstein, (2005) adds that the nature of

many of the soft control is such that they can only be assessed by the employees. Therefore to understand the control environment, auditors interview employees and use self –assessment workshops and questionnaires.

#### **2.4.2 Risk Assessment and performance of local government**

Risk assessment as stated by Lannoye (1999) is the entity's identification and analysis of relevant risks (both internal and external) to the achievement of its objectives, forming a basis for determining how the risk should be managed. This assertion is in consistence with observations of (Keane 2000). According to Chioccola and Muhlstein (2005) the need for organizations to move to a risk based audit approach has called for risk assessment decisions to help relate the cost/benefit analysis of the control to the known risk. By understanding the nature of the business, information system auditors can identify and categorize the types of risks that will better determine the risk model or approach used in conducting the review. Bortz (2005) asserts that risk assessment is a process of estimating a riskiness coefficient or score to be associated with each auditable unit within the organization. Thus risk assessment is typically undertaken to focus attention on significant audit areas, to allocate scarce audit resource to the most important audit areas, and to help with key audit prioritizing decision such as audit frequency, intensity and timing. (Warren, 2003) argues that changes in economic industry and regulatory environments change entities activities and managing such changes acquires a constant assessment of risk and the impact on internal controls. Thus mechanisms are needed to identify and react to changing conditions.

#### **2.4.3 Information and communication and performance of local government**

##### **Information and communication**

According to Hubbard, (2003) information refers to employees getting the information they need to do their jobs, while communication relates to the free flow of information up down, across, inside and outside the organization. Consistent with Hubbard, (Keane 2000) states that information and communication system support the identification, capture, and exchange of information in a form and time frame that enable management and other appropriate personnel to carry out their responsibilities. Warren (2003) argues that similar to the control environment auditors cannot evaluate information and communication without consulting the employees. Thus a self-assessment process is often used together audit evidence. According to Kannan, (2004), the responsibility of ensuring appropriate information system covering all activities and the senior SSS management in regard.

#### **2.4.4 Relationship between Internal Auditing and Performance of Local Governments**

Local governments access funds from a multiplicity of sources like local revenue, grants and central government through their general fund account with the intention of effectively and efficiently provide social services to the citizens. Therefore this can only be attained through proper bookkeeping with the help of internal auditing, (Public Finance and Audit Act 1983). This is all supported by the internal audit function. It is noted that internal audit is intended to overcome tendencies of corruption, fraud, misappropriations and abuse of office in most organizational growth.

Public Finance and Management Act 2015 section 48 (3), provides that the performance of his or her duties, an Internal auditor shall have unlimited access to information and property to be audited and shall be provided with all the required explanations.

Internal auditing departments are set up with the aim of having positive influence on the organizational growth. For an organization to run effectively and efficiently, internal controls have to be put in place and hence calling for strong internal control function within the organization (Reed, 2002). Sufficient, relevant and reliable information is a prerequisite for an effective and efficient organizational growth where its internal auditors review the reliability and integrity of financial and operational information and the means to identify, measure, classify and report such information (Flora, 2003).

Internal auditing is inclined towards physical accountability as the users especially the public easily see the value for money against the reading and interpretation of the budgets. Physical accountability of public funds has purposively evolved as these stakeholders are involved in the internal auditing process in a quest to establish performance in local government (Diamond, 2012). The work of internal auditors centralized in the internal auditor's office on the local government entity who in turn submit the report to the Auditor General's office for the final audit Ministry of Finance Planning and Economic Development (2003).

Muhurizi (2012), argues that the scope of internal audit is broad as it involves considerations like efficiency of operations, reliability of the financial reporting standards, detecting errors and detection of fraud, safeguarding assets and ensuring compliance with the existing regulations. Institute Internal Auditors (2004), latest definition of internal auditing claims the broad scope and value-adding focus of the function. The definition and other literature for

example, Davidson et al., (2005) also present both assurance and consulting activities as key components of the Internal Audit function.

The poor accountability of public funds has not only been a matter of debate in local government but rather nationally. Such national cases include; shillings 1.2 trillion offered by European Union for roads and rural development (New vision, 5th June, 2008), the Auditor General's comments over the previous performance of Kaliro district subject to the failure to present clear financial accountability of the central government fund as well as Local revenue which are all due to a weaknesses in the internal auditing system, Poor Accountability of YLP funds by youth leaders. It's upon this background that justifies the need to research on the relationship between internal audit and performance in local governments

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The chapter provided the frame work within which data was collected and analyzed. It entails research design, study variables, study population, area of study, sample size, data collection tools and instruments, data sources, data collection methods, data analysis and interpretation.

#### **3.1 Research Design**

The study used both descriptive and quantitative research designs. Descriptive method was used to describe the characteristics of the research variables. Quantitative method was used to collect data from a given number of respondents. To a lesser extent qualitative method was also used in order to get opinions from different respondents. The study also used cross-sectional in nature because the researcher gathered data once over a period of days in order to answer the research questions.

#### **3.2 Study population**

The study was carried out among staff and citizens of Kaliro local government who included, Management/ Administration, statutory bodies, finance, auditing, Planning, Production and Marketing, Education, Works, Health, Natural Resources, Community Development who were selected randomly by the researcher. As seen in the table, the study considers a total population of 50 employees however; the researcher was not considered the entire population as shown in the table below. A sample of 44 employees was selected as a representative of the whole population and for convenience purposes. Resource limitations for example wide areas to collect the data also necessitated the reduction of study units.

#### **3.3. Sample size**

Sample size refers to the number of items being selected from the universe to constitute a sample. The sample size of the population was made by of 44 respondents and these e selected basing on the formula for determining the sample size by Slovene's.

#### **3.4 Sampling Method**

During the process of data collection, Slovene's technique was adopted by using the formula Slovene's Formula:

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

Where;

n = sample size

N = total population

e = correlation coefficient (0.05)

**Table 1: Sample size**

Category	Population	Sample size	Sample Technique
Management	5	5	Purposive
Statutory bodies	7	6	Random
Finance	5	4	Purposive
Audit	5	5	Random
Planning	2	2	Purposive
Production and Marketing	6	6	Random
Education	5	4	Purposive
Works	4	4	Purposive
Health	4	3	Purposive
Natural Resources	3	2	Purposive
Community Development	4	3	Purposive
<b>Total</b>	<b>50</b>	<b>44</b>	

**Source: (Researcher)**

### 3.5. Sampling method.

There were many methods of collecting data for the research, which include primary and secondary data. The study used both primary and secondary data collection.

#### 3.5.1 Questionnaires and Interviews

On primary data collection, the researcher prepared questionnaires and interviews for the respondents. An open and close ended questionnaire was constructed and which was self-administered for respondents to fill. Open and closed ended questionnaire was used.

### **3.5.2. Documentation / Secondary Data.**

The secondary data were collected from books, journals, documentation and internet.

## **3.6. Data Analysis and Presentation**

Data was analyzed and presented as follows;

### **3.6.1 Data Editing**

Editing of collected data was done to make the data ready and simpler for the presentation. The filled questionnaires were edited to collect errors that are done by the study respondents. Data were edited, in order to check for accuracy, completeness, consistence, uniformity and reliability of data.

### **3.6.2 Data Presentation**

Presentation of data involved the use of tables that were generated from the responses to the questions relevant to the study variables.

### **3.6.3 Data Analysis**

Data was presented and analyzed using tables, percentages, frequencies and by the help of SPSS. This helped the researcher to find the relationship between the variables.

### **3.6.4 Interpretation of the Study Results**

Interpretation of the results was done as the researcher explained the strengths of the study variables basing on the frequencies and percentages charts and graphs, statistical conclusions are formed as a basis for interpreting the data collected from the field.

## **3.7 Validity and Reliability of the questionnaire**

### **3.7.1. Validity**

Validity refers to the degree to which results obtained from analysis of the data actually represents the phenomenon under study. The validity of the research instrument was determined by pre testing. Mugenda and Mugenda (2005) assert that pre testing ensures clarity and accuracy of results so that data collected gives meaningful, reliable results representing variable in the study. Pre-testing helps to estimate the time needed to take, to fill the questionnaires, pre-testing was done by administering to ten (10) respondents within the study population but outside the sample. Questionnaires were scrutinized by five colleagues at the University for their Peer Opinion on content and accuracy. Results from the field and

opinion of colleagues helped identify gaps and make modifications to the instruments where necessary. The supervisor also was notified accordingly.

$$\text{CVI} = \frac{\text{Number of items regarded relevant by judges}}{\text{Total number of items}}$$

### 3.7.2 Reliability

Reliability is the degree to which an assessment tool produces stable and consistent results. The reliability of the questionnaire was tested by using the Cronbach's alpha coefficient. Cronbach's Alpha coefficient was used to measure reliability of the instruments.

### 3.8 Ethical considerations

The researcher respected human dignity by not revealing the identity of the respondents in a study. Under here a letter of introduction from the dean faculty of business administration gave from the supervisor seeking permission to conduct the study being directed by the supervisor to do so. The letter was presented of the respondents in the study are for permission to conduct the study. Once the permission was granted, the researcher distributed the questionnaires to the respondents in addition to interviewing them and the next stage was to analyse the data collected form the study respondents.

### 3.9. Limitations of the study

The researcher faced the following obstacles to the study;

- The researcher faced the problem of inadequate funds as there was need to move from one place to another. However the researcher utilized the available resources economically. Unreliable and reluctant respondents to give the required information needed. It was also be difficult to conduct interviews with all interviewees proposed. however the researcher ensured that he follows up the respondents.
- Some of the respondents looked not to be interested because of nothing to motivate them and could hide some information from the researcher. This caused delay in getting the information required for the study. However the researcher ensured proper time management on his behalf. Unwillingness of respondents to release certain vital information for the study jeopardized the quality of the information obtained. However it was important to reveal that the researcher had to probe deeper for the respondents to release all the required information.

## **CHAPTER FOUR**

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

#### **4.0 Introduction**

The chapter involves presentation, analysis and interpretation of the study results. Data presented, analyzed and interpreted according to the research objectives. It is presented in the form of tables and figures basing on the responses got from the study respondents that were selected during the process of data collection.

The discussion of findings has been arranged in accordance with demographic characteristics of respondents' and objectives of the study as were formulated in chapter one of this report. These objectives include; to find out the nature of internal audit and performance of Kaliro local government, to find out the relationship between internal audit and performance of Kaliro local government, to identify the risks faced by the internal audit and performance of Kaliro local government and to identify solutions to the risks faced by internal audit and financial performance of Kaliro local government.

#### **4.1 Biographic data of the respondents**

The sources of data for the study were the information got from the questionnaires that were given to the respondents. The information was used to data received from the respondents with descriptive analysis and simple percentage analytical method. A total number of forty four questionnaires (44) were distributed to the respondents and forty (40) were maintained. Eleven (4) questionnaires were returned uncompleted and were not retrieved or considered. So, one forty formed the population of data analysis for this research dissertation.

##### **4.1.1 Gender composition of the respondents**

The gender of respondents was established. This aimed at knowing how males and females as community members actively participate in local governments. The study targeted both male and female which gave a variety of findings that were not biased making it gender sensitive.

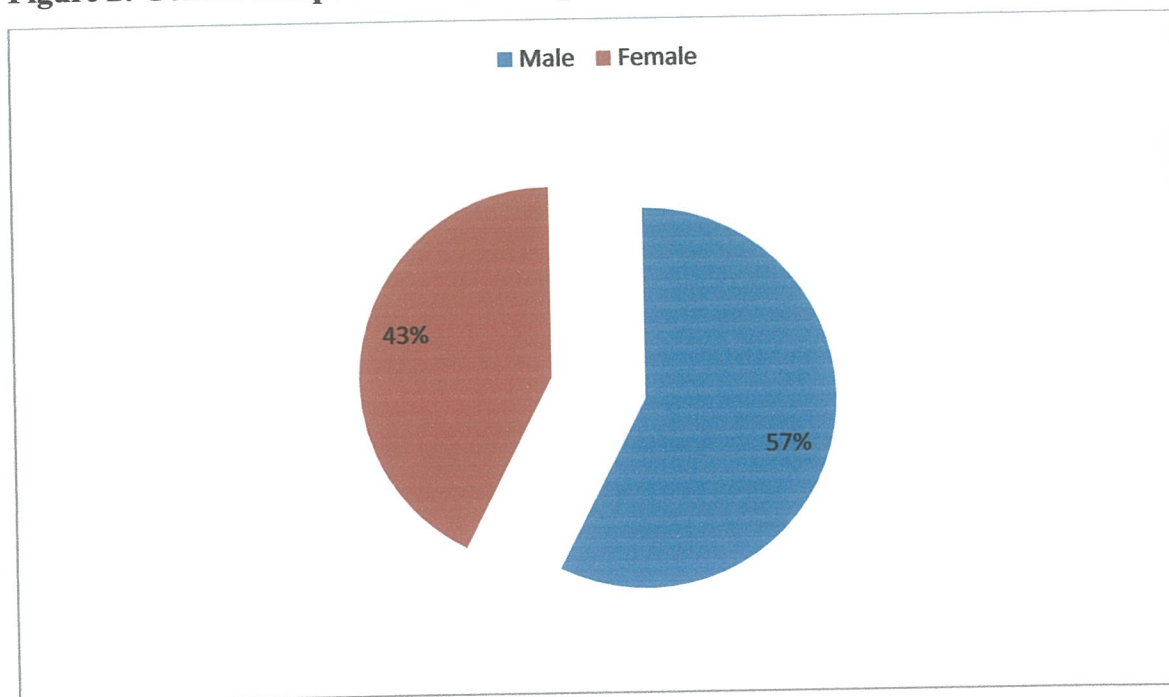
**Table 2: Gender composition of the respondents**

Gender	Frequency	Percentage
Male	23	58
Female	17	42
<b>Total</b>	<b>40</b>	<b>100</b>

*Source: Primary Data, 2019*

According to the study findings as in table 4.1, most of the respondents were male as compared to the female. The number of males who participated in the study was represented 58% as compared to 42% of the female respondents. Further findings by the study revealed that the difference in percentage arose as a matter of fact that most men were participating in the finance department at Kaliro Local Government and were selected during the study. The above finding clearly indicates that male participated in local government than female within the study area.

**Figure 2: Gender composition of the respondents**



#### **4.1.2 Age composition of respondents**

The age composition of the study respondents was also an important factor in the process of understanding internal audit and performance of local governments. This was so because different age groups were assumed to understand the study variables differently yet

considered vital to the study. According to the study findings the respondents views were as in table 4.2 below.

**Table 3: Age composition of the respondents**

Age range	Male	Female	Frequency	Percentage
25 – 30	7	5	12	30
30 – 35	9	7	14	35
36 – 45	4	3	8	20
46 and above	3	2	6	15
<b>Total</b>	<b>23</b>	<b>17</b>	<b>40</b>	<b>100</b>

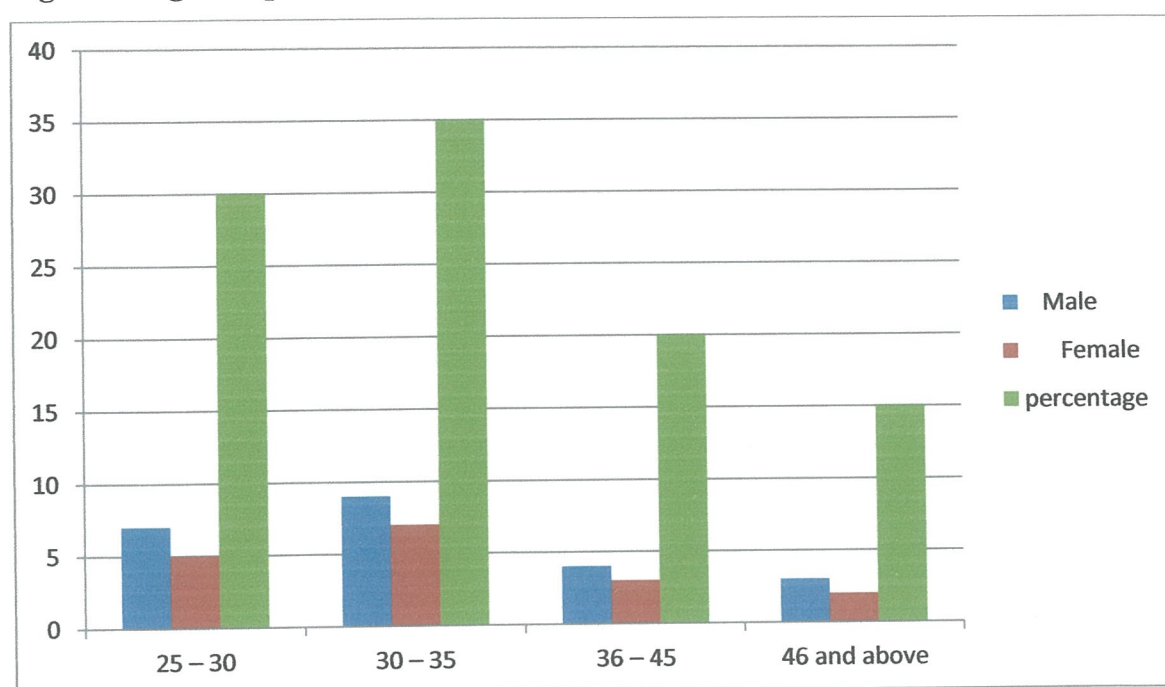
*Source: Primary Data, 2019*

The table 4.2 above shows that most of the respondents were between the ages of 30 – 35 accounting for 35%. This implied that were likely to understand better the relationship between internal audit and performance of local governments which they were in position to provide to the study information as majority reported to had stayed practicing in local government for along time.

The other category of the respondents were in the age range of 21 -30 as reported by 30% of the study respondents and these respondents' views were very important for the study as most of them were making accountability as part of enhancing internal audit the activities that were assigned on their disposal. More, 20% of the study respondents were in the category age of 36 – 45. These respondents' views were so great in the process of analyzing the study variable that helped to understand the problem.

Finally 15% of the respondent indicated to be 46 and above years as these were of the least in number. This could mean that, local government has age limit that could have attributed to the people in such group to be less than any other age group of the respondents studied during data collection.

**Figure 3: Age composition of the respondents**



#### 4.1.3 Marital status of the respondents

The marital status of the respondents was also covered and analyzed to assess their views in relation to the study variables of internal audit and performance of local governments as shown below.

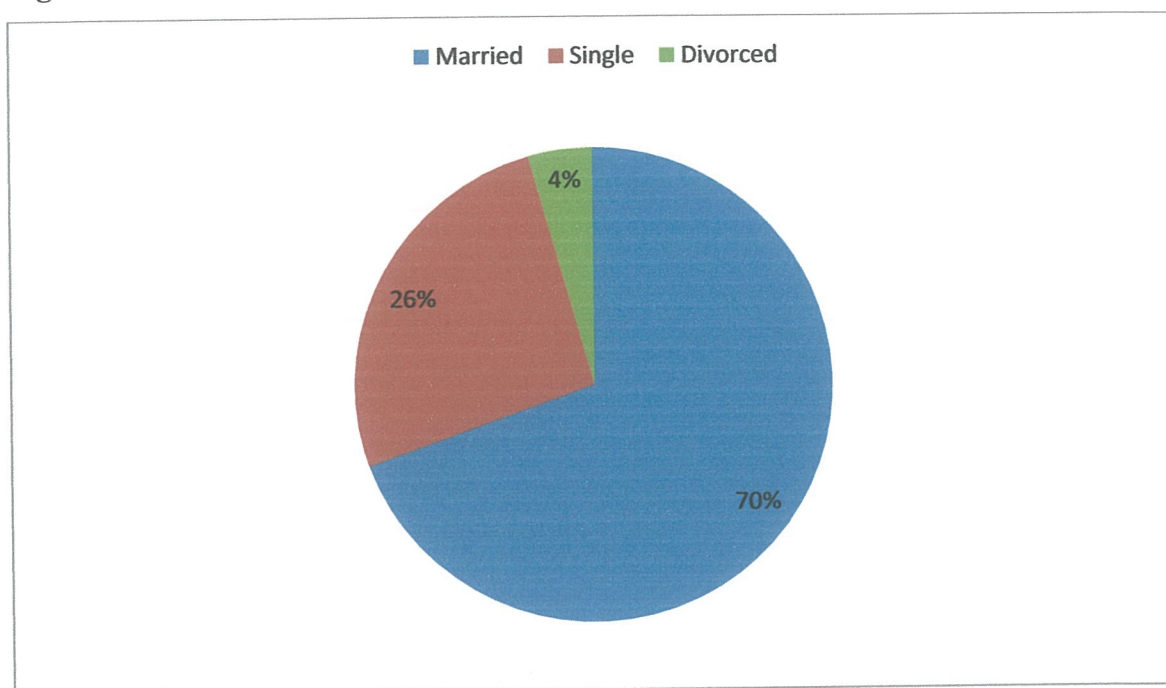
**Table 4: Marital status of the respondents**

Marital status	Male	Female	Frequency	Percentage
Married	16	12	27	68
Single	6	5	12	29
Divorced	1		1	03
<b>Total</b>	<b>23</b>	<b>17</b>	<b>40</b>	<b>100</b>

*Source: Primary Data, 2019*

As seen in the table 4.3 above, majority of the study respondents constituting 68% were married and these were followed by respondents who were single as revealed by 29% of the respondents then 03% of the respondents who were divorced. The study established that majority of the respondents were married.

**Figure 4: Marital status of the respondents**



#### 4.1.4 Highest Level of education of respondents

In order to get information from all categories of people, those that have attained Secondary, tertiary, University levels of education and others like primary, certificate, professional courses like CPA were all approached during the study process. This established the levels of education of the respondents as indicated in table 4.4 below.

**Table 5: Highest level of education of the respondents**

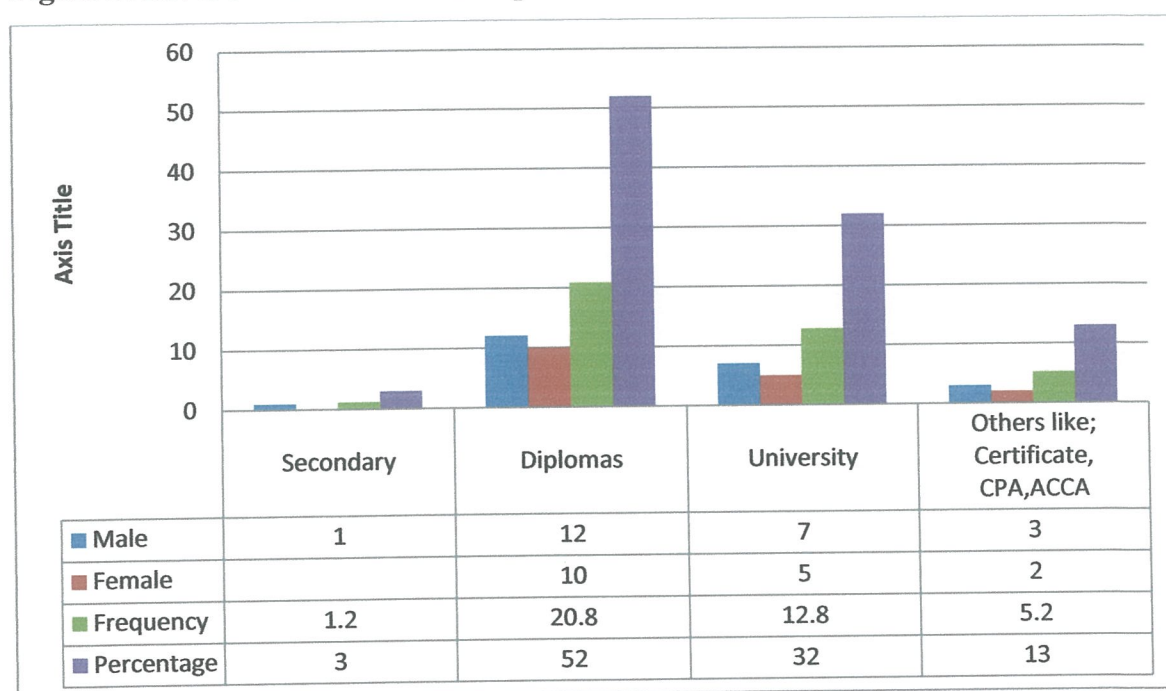
Level of education	Male	Female	Frequency	Percentage
Secondary	1		1.2	03
Diplomas	12	10	20.8	52
University	7	5	12.8	32
Others like; Certificate, CPA,ACCA	3	2	5.2	13
<b>Total</b>	<b>23</b>	<b>17</b>	<b>40</b>	<b>100</b>

*Source: Primary Data, 2019*

The table 4.3 above shows that most of the respondents had attained up to diploma level of education with 52%, followed by 32% of the study respondents who had university level then secondary as was reported by 03% of the respondents, and finally 13% of the respondents who cited that had attained other levels of education like certificate, and professional courses like CPA, counseling.

The study on further understanding revealed that respondents with professional courses comprised of those in finance department at the local government of Kaliro district, as some of the people in such category reported that were still students in away to attaining such professional courses like CPA, and ACCA, in addition to post graduate diplomas in relevant specific fields. The above findings show that tertiary level of education take a lead in participating within local government of Kaliro district as compared to other levels of education. This is showed that the information was from literate people and who could understand better the internal audit and performance of local governments.

**Figure 5: Level of education of the respondents**



**Table 6: Designation of the respondents**

Designation of respondents	Frequency	Percentages
Civil servants	23	57.5
Politicians	10	25
Business persons	07	17.5
<b>Total</b>	<b>40</b>	<b>100</b>

*Source: Primary Data, 2019*

About the occupations of respondents, majority were civil servants consisting of fifty seven percent, politicians making (25%) and only 17.% business persons. According to responses of the term financial performance the definition were ranked in percentages according their

financial performance indicators of local government accountability towards services delivery in areas of health, roads and schools

## 4.2 Control environment

**Table 7 Control environment**

<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Rank</b>
Have been trained policies that govern the corporate structure	2.97	Satisfactory	1.
Have organized seminars where I have gained the managerial skill of the organization value	2.86	Satisfactory	2.
Control environment have improved the philosophy and operating style	2.77	Satisfactory	3.
Control environment have improved on the my financial management of the organization	2.71	Satisfactory	4.
Control environment have taught me on the importance of strategic management	2.66	Satisfactory	5.
<b>Overall means</b>	<b>2.81</b>	<b>Satisfactory</b>	

*Source: Primary Data, 2019*

Table 7 revealed that control environment was assessed by respondents as satisfactory (average mean=2.81). This is recognized to the fact that majority of the respondents agreed that internal audits charter it is accessible to everyone in the organization have been trained policies that govern the corporate structure (mean=2.97) while others agreed that control environment have improved the philosophy and operating style (mean=2.77). However, they revealed that control environment have taught me on the importance of strategic management (mean=2.66). The respondents also revealed that the management always organizes seminars for employees where they gained the managerial skill of the organization value (mean=2.86) and some of the respondents agreed that all major areas of concern that control environment have improved on my financial management of the organization (means=2.71). This implies that control environment plays an important role of identifying the structure of the company with the involvement of board of directors and audit committee.

### 4.3 Risk assessment

**Table 8: Risk assessment**

<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Rank</b>
Provide appropriate risk management status and performance information to the board audit and risk committee	2.98	Satisfactory	1.
Advise management and the board on the interpretation of risk management information	2.89	Satisfactory	2.
Advise management on integration of risk management into the organization operations and roles	2.79	Satisfactory	3.
Develops the risk management framework	2.77	Satisfactory	4.
Implement the risk management framework	2.68	Satisfactory	5.
<b>Overall means</b>	<b>2.88</b>	<b>Satisfactory</b>	

*Source: Field data 2019*

Table 8 revealed that risk assessment was assessed by respondents as satisfactory (average mean=2.88). This is recognized to the fact that majority of the respondents agreed that provide appropriate risk management status and performance information to the board audit and risk committee (mean=2.99) while others agreed that advise management and the board on the interpretation of risk management information (mean=2.89). moreover other respondents revealed that advise management on integration of risk management into the organization operations and roles (mean=2.79). The respondents also revealed that developing the risk management framework was efficiently done (mean=2.77) and some of the respondents agreed that implementing the risk management framework is necessary for the organization (means=2.68). This implies that risk assessment is a fundamental element of organizational governance and should be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value..

#### 4.4 Information and communication

**Table 9: Information and communication**

<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Rank</b>
Internal audits charter it is accessible to everyone in the organization	2.99	Satisfactory	6.
There adequate communication of the internal audit plan to management after approval.	2.88	Satisfactory	7.
There sufficient information and coordination by internal audit before each phase of the internal audit.	2.79	Satisfactory	8.
All major areas of concern that you had raised and reviewed by the management team.	2.73	Satisfactory	9.
Department discuss its approach and major areas of audit focus with the management.	2.68	Satisfactory	10.
<b>Overall means</b>	<b>2.83</b>	<b>Satisfactory</b>	

*Source: Primary Data, 2019*

Table 9 revealed that information and communication was assessed by respondents as satisfactory (average mean=2.83). This could have been attributed to the fact that majority of the respondents agreed that internal audits charter it is accessible to everyone in the organization (mean=2.99) while others agreed that there sufficient information and coordination by internal audit before each phase of the internal audit (mean=2.79). However, they revealed that Department discuss its approach and major areas of audit focus with the management (mean=2.68). The respondents also revealed that there adequate communication of the internal audit plan to management after approval (mean=2.88) and some of the respondents agreed that all major areas of concern that you had raised and reviewed by the management team (means=2.73). This implies that the local leaders can have the autonomy of determining how the money received from the central government can be planned, budgeted and put into proper use.

#### 4.5 Liquidity

Table 10: Liquidity

Descriptive Statistics	Mean	Std. Deviation	Rank
provides reasonable assurance about the reliability of financial statements	2.98	Satisfactory	
puts in place the policies and procedures related to maintaining accounting records	2.87	Satisfactory	
ensures that material financial statements misstatements cannot occur within the organization	2.74	Satisfactory	
ensures that material financial statements will be detected and corrected by the management before financial reports are issued	2.71	Satisfactory	
Determines whether the audit risk model is descriptive of what occurs in practice	2.66	Satisfactory	
<b>Overall means</b>	<b>2.80</b>	<b>Satisfactory</b>	

*Source: Primary Data, 2019*

Table revealed 10 that liquidity was assessed by respondents as satisfactory (average mean=2.80). This could have been attributed to the fact that provides reasonable assurance about the reliability of financial statements (mean=2.98) while others agreed that putting in place the policies and procedures related to maintaining accounting records (mean=2.87) additionally, respondents revealed that ensures that material financial statements misstatements cannot occur within the organization (mean=2.74). The respondents also revealed that ensuring that material financial statements will be detected and corrected by the management before financial reports are issued (mean=2.71) and some of the respondents agreed that Determines whether the audit risk model is descriptive of what occurs in practice (means=2.66). This implies that financial liquidity was handled well by the financially department in the local government.

## 4.5 Autonomy

**Table 11: Autonomy**

<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Rank</b>
You have much autonomy over the assigned tasks at work?.(main responsibilities and what you do in a given day)	2.95	Satisfactory	
You have much autonomy over your time at work? (when you arrive, when you leave, and how you allocate your hours each day)	2.86	Satisfactory	
You have much autonomy over your team at work? (To what extent are you able to chose the people with whom you typically collaborate)	2.77	Satisfactory	
You have much autonomy do over your technique at work? (how you actually perform the main responsibilities of your job)	2.71	Satisfactory	
<b>Overall means</b>	<b>2.83</b>	<b>Satisfactory</b>	

Table revealed 11 that the autonomy was assessed by respondents as satisfactory (average mean=2.83). This is recognized to the fact that majority of the respondents agreed that they have much autonomy over the assigned tasks at work (mean=2.95) while others agreed that they have much autonomy over their time at work (mean=2.86). However, they revealed that they have much autonomy over their team at work (mean=2.77). The respondents also revealed that they have much autonomy do over their technique at work (mean=2.71). This implies that employee's autony to work plays an important role to the district's development.

## 4.6 Nature of internal audit and performance in local government

One of the study objectives was set to find out the characteristics of internal audit and financial performance of Kaliro local government, the following was established as below;

### Characteristics of Internal Audit system

In a bid to generate a clear background for this research from with in the minds of respondents, the researcher found it vital to find out responses of various targeted respondents on the characteristics of internal audit systems. The findings are revealed in table 4.8 below

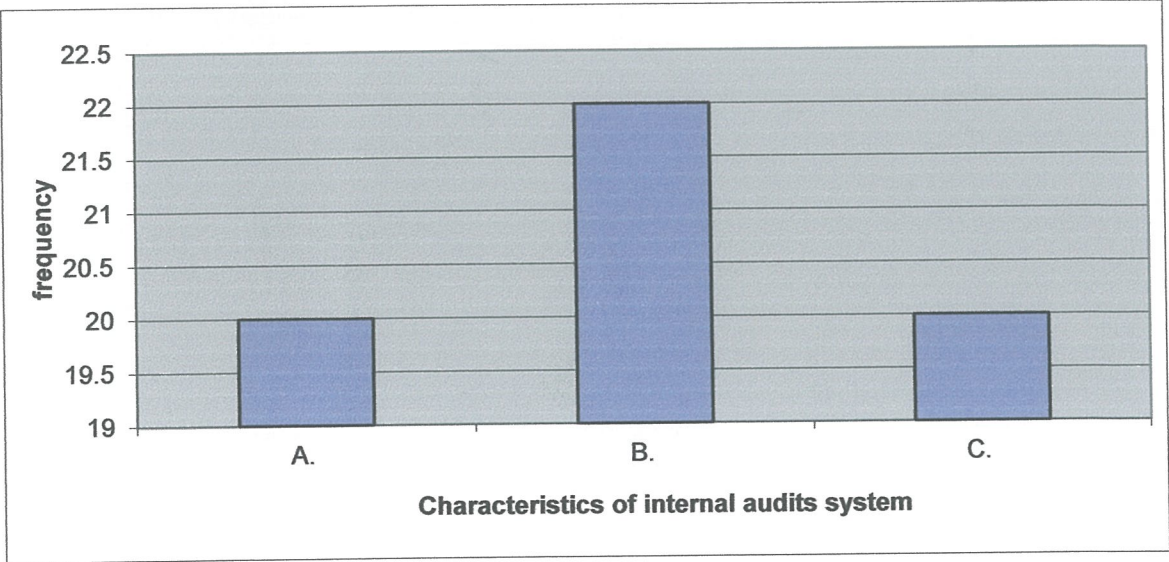
in response to the question that was asked that is, what are the characteristics of a good internal audit system?

Table 12: The views of the characteristics of internal audit system

Characteristics	Frequency	Rank	Total score	Sample response
A. Should be free from political interference	20	1	20	Should be able to act on their own
B. Should have well trained and competent auditors	22	3	66	Should have qualified auditors Should have experienced auditors
C. Should have enough resources that is computerized systems	20	2	44	Should be technological innovative Enough transport and communication equipments.

Source: Primary Data, 2019

Figure 6: characteristics of internal audit system



From figure above, the study established that: internal auditing system should have well trained and competent auditors as was supported by 22(34.4%) respondents.

**Respondents opinions on whether financial performance is related to internal audit**

Respondents were also required to give their opinion on whether internal audit was related to performance. To establish this, the respondents during the study were provided with options of Yes and No as in table 13.

**Table 13: Respondents opinions on whether performance is related to internal audit**

Responses	Male	Female	Frequency	Percentage
Yes	22	16	38.8	97
No	1	1	1.2	03
<b>Total</b>	<b>23</b>	<b>17</b>	<b>40</b>	<b>100</b>

*Source: Primary Data, 2019*

According to the study findings as indicated in table 13 above, at least more than 97% that is 38.8(97%) of the study respondents said that there is a relationship between the Internal audit and performance of local governments as compared to only 03% of the respondents who reported that there is no relationship between the Internal audit and performance of local governments as such respondents did not explain why thought of such.

However, most 97% of the respondents who revealed that there is a relationship between the Internal audit and performance of local governments were able to cite different reasoning including that auditing establishes whether local governments activities are done in accordance with the required standards and that internal audit looks at compliance with the regulations. Respondents further revealed that internal auditing when well-done helps auditors to arrive at the best opinion regarding the local governments' transactions as such aid in the proper making of decisions for improved performance.

Respondents reported that proper internal audit helps external auditors in writing audit reports when performing local governments' audit. These same respondents indicated that if internal audit is properly done by the required parties, external auditors find no problem in the process of conducting an audit that later helps to reach the best conclusion. As mannaseh (2007) puts it internal audit forms basis for external auditing.

## **CHAPTER FIVE**

### **DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter of the study provides a summary of the study findings by making conclusions and recommendations. The study conclusions and recommendations done are based on the findings from the study objectives.

#### **5.1 Discussion of the findings**

Findings showed that control environment was assessed by respondents as satisfactory (average mean=2.81). This implies that control environment plays an important role of identifying the structure of the company with the involvement of board of directors and audit committee. Moreover, risk assessment was assessed by respondents as satisfactory (average mean=2.88). This implies that risk assessment is a fundamental element of organizational governance and should be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value. Information and communication was assessed by respondents as satisfactory (average mean=2.83). This implies that the local leaders can have the autonomy of determining how the money received from the central government can be planned, budgeted and put into proper use. Additionally, liquidity was assessed by respondents as satisfactory (average mean=2.80). This implies that financial liquidity was handled well by the financially department in the local government and finally the autonomy was assessed by respondents as satisfactory (average mean=2.83). This implies that employee's autonomy to work plays an important role to the district's development.

The study established that Kaliro local government audit department is responsible for making comparisons between different period's figures with the current period figures and find out the changes which at the time must be explained and justified. In addition, that checking books of accounts among the roles performed by the internal audit section under that local government of Kaliro district. It was revealed by the respondents that checking of the totals in books of accounts was done by the people under the audit section in the study area to prove for the accuracy of the balances. The study finding above is in line with Okwoli (2004) also shares the view that the present requirement of internal audit is not the detection and prevention of fraud and errors, but reviewing the system of internal control. This is

because in public organizations, internal audit is meant to carry out an independent appraisal of the effectiveness of internal controls and other financial controls operating in such ministry. Normanton, as cited in Daniel (1999), emphasizes the importance of internal audit by saying that “without audit, no accountability; without accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the government and the success and sustenance of the internal control lies on internal auditing. The above observation underscores the importance of internal audit in every government organisation.

Findings from the study further revealed that internal audit in local government of Kaliro district make comparison of physical items and if possible sometimes count them in the trial balance of the current year with items of that trial balance of the previous year and see whether an item has been left out which at times are traced to the ledger to find exactly that which has been left out. Respondents argued that safeguard of the assets at Kaliro district local was helping the district assets from use for the private purposes that would making the depreciation level increase. The finding is in line with internal auditing is to provide assurance to the management that the internal control system in the organisation is sound in design and effective in operation. It also helps to achieve value for money (Momoh, 2005).

It was further indicated by the study that ensuring compliance is another role performed by the staff in audit section at Kaliro district local government. Regarding this, respondents indicated that audit ensures compliancy to the local government financial statements accounting standards and regulations. Also, the findings revealed comparison of the list of debtors and creditors from the respective ledgers with the trial balance, total up such accounts to find out whether they agree with those in the trial balance. The study respondents indicated that internal audit at the local government of Kaliro was responsible for such activity and at times was responsible for checking of every transaction taking place almost all the departments at Kaliro Local Government among other roles under the audit section. The finding is in line According to Thompson (2003: 17), internal auditing should not be restricted to financial transaction only. He believes that internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weaknesses in such system and making recommendations toward their improvement which include among the others; with internal audit, errors are more likely to be discovered in their early stages. Existence of

assets is verified so as to protect the assets of the organisation, errors in account can be corrected early once detected by the internal auditor, it acts as moral influence on the staff and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

According to the findings, majority of the respondents had their opinions that performance and internal audit are related. Respondents indicated that performance and internal audit are related since auditing involves verification of the activities especially the local government transactions whether they comply with the regulations as performance shows how the planned activities have been carried out and achieved, therefore both compare the planned activities with the activities carried out. Qualitative results during an interview with some of the study respondents indicated that as per ISA 700 requires the audit report to contain specific contents and these were followed at the local government of Kaliro district during the process of conducting an audit. It was reported that report of the auditor whether or not considers the person to whom the audit report is addressed, the particulars in the financial statements audited, the respective responsibility of the auditor, the basis of the opinion on the financial statement, any other information or opinion as prescribed by the statute or other requirements, the signature of the auditor and the date of the audit report.

From the study findings revealed corruption among the risks of internal audit department and performance of Kaliro local government. The respondents revealed that most of the local government officials are corrupt and tend to embezzle government funds that impends performance. Respondents cited that due to corruption the auditors sometimes are bribed to produce qualified reports about the use of public funds in local government of Kaliro district. In addition, respondents cited that people tend to fulfill their interests ignoring the public and such also becomes problem in the process of providing accountability for the resources used. These results could imply that corruption is hitting most of the local governments in Uganda in the process of controlling public funds. Millichamp (2000) identifies the following as the essential elements of internal audit; independence, staffing, training, relationship, due care, planning, controlling and recording, system control, evidence, reporting. It can be seen that without such essential element, no way the internal audit can perform their duties effectively.

Further findings also showed that internal audit department and financial performance of Kaliro local government is faced with the risks of political interference and inadequate information each. This is because, qualitative findings from the study revealed that people with negative aspect on the current government come to intervene in the internal audit system as they always only want to say negative on the performance of the local government. Some of these respondents also reported that political interference was a challenge in way that leaders Kaliro Local Government tend to develop their places or origin as they use the allocated funds to the local government as such was contradicting the government objective of prosperity for all. This position is enhanced by local government Act (1997) which views that accountability of public funds for it to be conclusive has to be physical like physical assets that have come into place for the use of the entrusted public funds against paper accountability that does not always suffice the situation.

Further findings from the study revealed that inadequate information was affecting the auditing and accountability process in the local government of Kaliro district. This is because, respondents indicated that some transactions made at the district are not properly accounted for as auditors could find a problem in providing proper report due to lack of audit evidence. Conflict of interest was also revealed among the risks faced by internal audit department and performance of Kaliro local government. It was indicated by the study that internal auditors sometimes audit their relatives as such impend their independence. Respondents reported that self interest was one of the major risks that at times were facing the auditing process and performance at Kaliro district local government.

## 5.2 Conclusions

It is concluded that that control environment plays an important role of identifying the structure of the company with the involvement of board of directors and audit committee. Moreover, risk assessment is a fundamental element of organizational governance and should be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value. Information and communication was assessed by respondents as satisfactory; this implies that the local leaders can have the autonomy of determining how the money received from the central government can be planned, budgeted and put into proper use. Additionally, financial liquidity was handled well by the financially department in the local government and finally employee's autonomy to work played an important role to the district's development.

In relation to the nature of internal audit and performance of Kaliro local government, the study concludes that making comparisons between different period's figures with the current period figures and find out the changes which at the time must be explained and justified, checking books of accounts, making comparison of physical items and if possible sometimes count them in the trial balance of the current year with items of that trial balance of the previous year and see whether an item has been left out which at times are traced to the ledger to find exactly that which has been left out, ensuring compliance is another role performed by the staff in audit section at Kaliro district local government, checking of names in the accounts ledgers against the names recorded in the trail balance are done under the internal audit department.

In addition, the study concludes that there is a relationship between internal audit and financial performance of Kaliro local government. This is because most of respondents revealed the same and that if internal audit takes place, local government employees fear of misusing the public resources as they have provide accountability of the used resources that results proper management of such resources that improve the financial performance of public funds. It was also evidenced by the calculated value of Karl Pearson which is 1 showing a positive relationship between internal audit and financial performance.

The study also concluded that political interference, corruption, conflict of interest, inadequate skills, inadequate information, inadequate funds, and improper communication

flow are the major challenged faced by internal audit and financial performance of Kaliro local government.

### **5.3 Recommendations of the study**

From the above study findings, the study recommends the following;

The immediate computerization of the accounting and budgeting systems so as to overcome over – expenditure problems and non - budgeted expenditure in general.

Employment of strong internal control system in local governments. This will eventually reduce on the frauds and error done by the employees. In addition corruption and embezzlement of public funds as risks will also be reduced. This can be done through employment of controls like segregation of duties monitoring, information and communication, control activities, risk assessment, control environment among others are properly employed corruption and embezzlement of public funds will be controlled that will help in the proper auditing of local governments' resources. Careful selection of employees in local government is also recommended by the study. If employees are carefully recruited and selected will help in proper performing control of local governments' activities in providing the public services to the communities. By doing this, auditing of local governments' activities will be done properly by proper employees that will foster performance.

Recruit more qualified and trained staff in the finance section. Since time immemorial accountants' expertise has always been an important component of managing a company efficiently. An efficient accountants' service plan necessitates that a business enterprise maintains appropriate accounting data files and documentation. This is undoubtedly an aid to effortless accounts preparation and processing. To be able to put together accounting information that the local government could use to support the operating of the operations it is vital that regular trading accounts preparation steps are put into practice.

An accounting staff training curriculum instructs employees on how to comply with the latest rules and regulations regarding financial accounting and reporting systems. This program also helps accountants understand techniques used in preparing accurate and complete financial statements in accordance with professional standards, senior management's recommendations, industry practices and government rule and develop programs for updating

and training them from time to time in order to reduce backlog risks, inadequacies, and other improper performances such as improper vouching.

Improvement must be made on motivation schemes of staff to enhance integrity and team work. Motivation plays a critical role in achieving goals and business objectives and is equally as important for companies that work in a team-based environment or in a workplace comprised of workers who work independently. Making sure each employee's workplace goals and values are aligned with the organization's mission and vision is important for creating and maintaining a high level of motivation. That can lead to higher productivity, improved work quality and financial gain across all departments. Motivation has become increasingly important for organizations and companies of all sizes that want to reach their organizational objectives in a competitive market place. Top performers of an organization consistently provide high - quality work; maintain a high level of productivity and overcome obstacles or risks. Helping all employees maintain a high level of motivation can help keep employees committed to working hard and contributing as much value as possible to the organization.

That global accounting harmonization. This so because, if there are auditors in one country who there would be need of hiring other more experts as such auditors will be familiar with what is supposed to be prepared in the financial statements. This will help to reduce on the funds needed by the workers in the audit section within local governments.

It is also recommended that local governments' employees should always follow the drafted work plan in the departments if the auditing is to be effective. This is so because the actual work plan will help in the proper performing of the drafted activities that will assists in writing of reports by the external auditors.

### **5.3.1 Recommendation for further research**

If better conclusions are to be made, the following areas should be researched upon;

- ✓ Internal control and financial performance in local governments in Uganda
- ✓ The effects of political factors and performance of local governments in Uganda
- ✓ The relationship between employees' retention and performance of audit department in local governments as areas for further studies

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Ethical Issues in Accounting, Kampala Uganda

## APPENDIX I: QUESTIONNAIRE

I am **Sekatiko Jude** a student at Kampala International University pursuing a Bachelor's Degree in Business Administration majoring in Accounting and Finance conducting a research study entitled Internal Auditing and Performance of Local Governments in Uganda, a case study of Kaliro district local government. The results are purely meant for academic purposes only and the information given will be treated with utmost confidentiality.

### SECTION A. Demographics of respondents (tick the appropriate response)

• **Gender**

a) Male ☐ b) Female ☐

• **Age**

a) 20-29 ☐ b) 30-39 ☐ c) 40-49 ☐ d) 50 and above ☐

• **How long have you worked in Kaliro District Local Government**

a) Less than 1 year ☐ b) Between 1-3 years ☐ c) Between 3-5 years ☐  
d) 6 years and above ☐

• **Highest level of qualification**

a) Certificate ☐ b) Diploma ☐ c) Degree ☐ d) Masters ☐  
e) Post graduate ☐ f) others ☐

### SECTION B. Control Environment

*Instructions; use linkert scale of 1-5 to rank. Below are the statements on the role of internal auditing helps Kaliro Local Government to improve on the control environment for better financial performance. Kindly indicate the extent to which you agree with each statement (Use the scale 1= Strongly Agree, 2= Agree, 3= Neutral, 4= Disagree, 5= Strongly Disagree)*

Control environment	Rankings				
Statement	1	2	3	4	5
Have been trained policies that govern the corporate structure					
Have organized seminars where I have gained the managerial skill of the organization value					
Control environment have improved the philosophy and operating style					
Control environment have improved on the my financial management of the organization					
Control environment have taught me on the importance of strategic management					

## SECTION E: Liquidity

Below are several statements on the role of liquidity in internal auditing to improve the performance of Kaliro Local Government. Kindly indicate the extent to which you agree with each statement. (Use the scale 1= Strongly Agree, 2=Agree, 3= Neutral, 4= Disagree5= Strongly Disagree)

Liquidity	Rankings				
Statement	1	2	3	4	5
provides reasonable assurance about the reliability of financial statements					
puts in place the policies and procedures related to maintaining accounting records					
ensures that material financial statements misstatements cannot occur within the organization					
ensures that material financial statements will be detected and corrected by the management before financial reports are issued					
Determines whether the audit risk model is descriptive of what occurs in practice					
Ensures that financial reports are not generated in the vacuum					

## SECTION F. Autonomy

Below are several statements on the role Autonomy in internal auditing to improve the performance of Kaliro Local Government. Kindly indicate the extent to which you agree with each statement. (Use the scale 1= Strongly Agree, 2=Agree, 3= Neutral, 4= Disagree5= Strongly Disagree)

Autonomy	Rankings				
Statement	1	2	3	4	5
You have much autonomy over the assigned tasks at work?.(main responsibilities and what you do in a given day)					
You have much autonomy over your time at work? (when you arrive, when you leave, and how you allocate your hours each day)					
You have much autonomy over your team at work? (To what extent are you able to chose the people with whom you typically collaborate)					
You have much autonomy do over your technique at work? (how you actually perform the main responsibilities of your job)					

## APPENDIX II. PROPOSED BUDGET

Activity	Amount (UGX)
Stationery	30,000
Questionnaire administration	90,000
Transport	70,000
Typing and printing	70,000
Miscellaneous	50,000
<b>Total</b>	<b>310,000</b>



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

24<sup>th</sup>/07/2019

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR SEKATI KO JUDE 1163-05014-07195**

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 Accounting and Finance, Third year Second semester.

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

**TOPIC: - INTERNAL AUDITING AND PERFORMANCE OF LOCAL GOVERNMENTS IN UGANDA**

**CASE STUDY: - KALI RO DISTRICT LOCAL GOVERNMENT**

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

We shall be grateful for your positive response.

Yours truly,

  
**DR. JOSEPH B.K. KIRABO**  
**HOD - ACCOUNTING AND FINANCE**  
**0772323344**





THE REPUBLIC OF UGANDA

## KALIRO DISTRICT LOCAL GOVERNMENT

OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER

P.O BOX 56, KALIRO

Our Ref: CR 164/1

16<sup>th</sup> August, 2019

Your Ref: .....

The Head of Accounting & Finance,

Kampala International University,

P.O.BOX 20000,

Kampala, UGANDA

### ACCEPTANCE OF MR. SEKATI KO JUDE FOR FIELD RESEARCH IN KALIRO DISTRICT LOCAL GOVERNMENT

This is to acknowledge receipt of your letter dated 27<sup>th</sup> July, 2019 regarding the research information for the above mentioned student.

The purpose of this letter therefore, is to inform you that we have accepted him to carry out his research study in **Kaliro Town Council**.

You are also advised to avail the evaluation criteria to the work based supervisor to guide the student appropriately.

Lujumwa Nathan

For: Chief Administrative Officer, Kaliro

Copy: Resident District Commissioner, Kaliro

District Chairperson, Kaliro

Chief Finance Officer, Kaliro

Mr. Wambuzi Tadeo

