**INTERNAL AUDITING AND FINANCIAL PERFORMANCE OF PRIVATE BIOMEDICAL COMPANIES IN UGANDA: A CASE STUDY OF BIOMEDICS PRODUCTS LIMITED.**

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# DECLARATION

I**BASHABA IMMACULATE** declare that this dissertation under the topic “internal auditing and financial performance in Biomedics products limited” is my original work and has never been presented to any university or institution of higher learning for any academic award and where the works of others have been used due acknowledgement has been done.

Sign: ……………………….

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DATE………………………….

# APPROVAL

This dissertation titled internal auditing and financial performance of private Biomedical Companies in Uganda. A Case Study Of Biomedics Products Limited has been submitted for examination with my approval.

Signature……………………………….

MR. OWINO G. JOSHUA

SUPERVISOR

DATE………………………………………

# DEDICATION

I dedicate this dissertation to my dear family and friends who have supported me throughout my academics.

# ACKNOWLEDGEMENTS

I would like to express my deepest appreciation to all those who provided me the possibility to complete this report in one way or another through their prayers, resources and encouragement.

I would also like to acknowledge with much appreciation my family, workmates and friends for your encouragement which has kept me going and for that am sincerely grateful. It is because of your support that I have managed to get this far. May God bless you.

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# DEFINITION OF OPERATIONAL TERMS

**Internal auditing:** According to institute of internal auditors (IIA) (199; 12) internal audit has been defined as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operation. 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 process.

**Internal controls:** Internal control is the integration of the activities, attitudes, plans, policies and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives ad mission. The overall purpose of internal control is to help an organization achieve its mission (DiNapoli, 2007:4)

**Internal check:** This is an arrangement of staff duties whereby no one person is allowed to carry through and record every aspect of transactions so that without collusion between two or more persons, fraud is prevented and at the same time the possibilities of errors is reduced to a minimum.

**Financial performance:** Financial performance is financial soundness (Copeland et al, 1995). Whole Klein (200) opines financial performance as monetary measure of tasks against targets. The study opines financial performance as a monetary measure of results of operations. Among measurements of financial performance taken into consideration include: reduced operating costs, increased sales and customer loyalty, increased productivity and quality, increased access to capital and earnings.

# ABSTRACT

The study examined the extent to which internal auditing contributes to financial performance in Biomedics products limited. It was guided by three objectives i) to examine how internal auditing ensures profitability in Biomedics products limited, ii) to examine how internal auditing ensures proper utilization of funds in Biomedics products limited, iii) To assess how internal auditing ensures value for money in Biomedics products limited.

The study adopted both positivism-phenomenological approaches called combination approach, using hypothesis testing and explaining, also using both quantitative and qualitative information. The study population was 65 and a sample size of 65 respondents. It is also shown that the Adjusted R square is .700 which is an indication that 70.0% of the changes that do occur in financial performance of Biomedics products limited are due to changes in internal auditing.

In conclusion, the study notes that the internal audit department is very important inside a firm where the internal audit is regarded as the key element in the application of accounting systems and this in turn, helps in evaluating the work of the department.

In recommendation, the study suggested that management to should ensure that there is diversity in the nature of work done and a balance stroked to ensure optimal performance. It was also revealed that Biomedics products limited should maintain the existing control environment, information and communication, assurance services as per results of the findings which showed a positive significant effect on how this attributes to performance.

# CHAPTER ONE: INTRODUCTION

# Back ground to the study

The study is about internal auditing and financial performance of biomedical private companies in Uganda focusing on Biomedics products limited.

Globally financial scandals have been witnessed triggering reaction for tighter regulation and enhanced standards for accounting and co-operate governance (Sarbones and Oxley 2002). In America, scandals such as world.com and Enron in the year 2002 where investors lost over $180 Billion led to enactment of corporate and auditing accountability and responsibility Act (Sarbanes & Oxley 2002). The major financial scandals were caused by poor internal controls systems including weak corporate governance which Sarbanes and Oxley Act of 2002 tried to address. In South Africa, the effects and implementation of the King 11 report on audit practices on organisation performance have not been clearly measured and results reported.

Mahadeva (2009) explains that such scandals and losses are due to the failure of regulatory bodies to provide proper guidance on how to evaluate these scandals. He further suggests that this process should be customised for individual companies and that it cannot be a case of one size fits all.

According to Ellis (2000), the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions and so having no much impact on performance .Internal audit departments are now being challenged by audit committees to only prove their value but also play a larger role in overall corporate governance specifically required under Sarbanes-Oxley act 2002 in ensuring organization performance (Hespenheide, 2003).

According to institute of international auditors (IIA) (2009) Internal auditing is an independent, goals and consulting activities that is intended to add imperative value and build up the operations of an organization. It assists any firm to complete its targets through bringing a composed restrained approach that builds up the adequacy of hazard administration, control and administration forms.

In this way, interior evaluation is being performed by experts with a careful comprehension of the business culture, frameworks and procedures, the inner review movement which offers ensure that inside controls set up are adequate keeping in mind the end goal to ease the dangers, administration procedures are useful and equipped and authorization objectives and targets are being met (IIA 2004)

This pronouncement recommends internal control as a system that brings a unique experience to organizations and an outlook change from an accentuation on responsibility about the past to enhancing future result which helps evaluators’ works in more compelling and effective way (Nagy & Cenlcer 2002)

Internal auditing is a target and independent appraisal benefit risk management, control and administration by measuring and assessing their viability in accomplishing the organizational concurred goals (Hages, 2005). Internal audit results are basics to the board of directors and line administration in the inspected units. The administration applies the master capacities of examining through exact and controlled evaluation of the techniques, strategies and operations that administration set up to ensure achievement of the associations objectives.

Cai(2007) suggests that by accessing and evaluating ability of the definitive controls, internal looking shapes a key managerial control mechanism that is clearly associated with the structure and general standards of an affiliation. Internal audit function has a few points and standards which are vital to adhere to: it is the top management staff of any organization which bears the last obligation, internal audit offers a system of evaluating banking activity risk and risk concerning , organization capital, appropriate strategies for checking consistence with laws, measures and internal control methods, internal audit is a part of the monotonous checking of the internal control frame work of the organization and its methodology for assessing internal company. In that capacity, it helps administration and board of directors in viable execution of their obligation as outlined in organization mission (Gramling 2007)

Hayes (2005) posits that internal auditing is a professional and movement required in promptly associations respect to how to better accomplish their goals through overseeing dangers and enhancing internal control. Internal auditing involves the utilization of systematic methodology for analyzing business processes or organizational problems and recommending solutions.

According to Stoner (2003) financial performance refers to the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this Solenberg and Anderson (1995) assert that performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Financial measures of performance include return on assets, profitability, and value for money, return on sales, return on equity, and return on capital employed, liquidity and efficiency (Beeler et at, 1999)

Jennings et al (2008) posits that internal auditing is there to primary enhance the accuracy and reliability of financial performance either directly or indirectly by increasing accountability among information provided in an organization.

A viable internal audit function is one of the most grounded device to screen and improve on organizations performance generally but more specifically in financial terms (Cohen 2002)

KPMG (2011) established that internal audit reviews in a firm contributes impressively to execution change and help in distinguishing benefit prone in corporate fiascos, especially monetary extortion, Reliability reports a relationship between powerless administration (fewer independent boards or Nonattendance of internal audit system) and incidence of problems (Beasley, 2000) As such audit comes as a guard dog to prevent an organization, to have a misconduct and anomalies subsequently empowering the association to accomplish its destinations of guaranteeing abnormal state of profitability and benefit. Greenlay and Foxall (2012) pointed out that despite the fact that studies have found a relationship between books- keeping control framework and performances hypothesis.

This study was guided by agency theory propounded by Adams (1994).

The rationale for financial responsibility have been in the existence ever since it became necessary for an individual to assign the best of his or her management of resources or institution to another person or group of individuals to manage. In both public and private sector the suppliers of financial or business resources are normally different from those managing the organization or business. The management of the organizations or businesses is tasked by the owners to report on financial performance of the organizations or institutions. Conversely, it is very cumbersome to monitor manager’s action and information symmetry between the managers and owners of the institutions which results in to the “agency problem” relating to the stewardship of institutions. Agency theory, which is derived from financial economic literature, is put of the positivist group of theories (Adams 1999)

Internal auditing maintains that a firm is made up of a nexus of agreement between the providers of resources (principals) and managers (agents) who are responsible for utilizing for an economic, efficient and effective use of resources under their care.

Again it is of the view that managers possess more and devalued information than owners and they would employ effective and efficient means to increase their capital or resources. (Adams 1994)

As a result of information asymmetries and self-interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interest of agents with principals and to reduce the scope for information asymmetries and opportunistic behavior through internal auditing.

Nkundabanyanga (2000) explains that an audit is a planned and documented activity performance by qualified personnel to determine by investigation, examination or evaluation of objective evidence the adequacy and compliant with established procedures or applicable documents for effective’s implementation. The term may refer audits in accounting, internal controls, quality management, project management and energy conservation.

Ellis (2000) most organizations have not realized the importance of internal audit. Many still perceive it as revelation of organizations secret information initially it was seen to resolve around internal control evaluation, financial, operational and regulatory compliance audits.

IAPS006 (2003) states that the needs for an internal audit function will usually be governed by size risks and complexity of the business.

The role of the board is to see that the internal audit function is being properly and fully utilized. According to Ellis (2000) auditors must be able to justify internal audit existence just like any other activity in the organization.

Biomedics products limited is a company that deals in supply and logistics of laboratory chemicals, Medical supplies, reagents and laboratory equipment’s and Consumablesoffering total logistical solutions, supply of items to all customers in the medical, life science industries by engagement of all customers in the process of improvement and overall quality test results and clients relationships with users of the test results.

They are true to their goals of offering solutions and supplies for laboratory processes to become safer, simpler, faster and more efficient. Biomedics Products Limited are in close contact with research organizations and manufacturers worldwide and in addition, work hand in Hand with National Medical stores in the supply of health and laboratory equipment which are latter distributed to different government or public hospitals around the country. As to all needs of their customers, Biomedics Products provides a challenge and motivation at the same time. And in accordance with their holistic company philosophy, Biomedics products take their social responsibility for the environment very seriously hence undertake biological wastes as part of their concern. Biomedics products limited identifies the environmental impact resulting from their actions and usage of products that they supply to end users and bio wastes generated; develop strategies to reduce those impacts and to avoid them altogether.

The case study is chosen as a respective sample because of the huge independence assigned to private institutions and because of its role in the establishment of programs running.This study is important because it explains the importance of internal audit since it is emphasized too much in Public Limited companies. Research on internal audit and its success factors, effects & effectiveness has been mainly focused on public limited company. It is also relevant for private limited companies

According to the internal audit and inspection Manual (2007; 2) the internal audit unit at Biomedics products spells out the following objectives to be achieved:

1. To provide Internal Control to ensure profitability
2. To establish internal checks in the accounting system to enhance proper utilization of funds.
3. To facilitate proper monitoring and control to ensure value for money.
4. To provide control mechanism that ensures accountability.

The study looked at the first three objectives

# Statement of the problem

As stated in IIA (2009) internal auditing is an independent, goals and consulting activities that is intended to add imperative value and build up the operation of an organization. It assists any firm to complete its targets through bringing a composed, restrained approach that builds up the adequacy of hazard administration control and administration forms.

In spite of the above objective of internal auditing financial performance problems continue to emerge in various reports of Biomedics products limited.

The external audit report (2017) indicated payments totaling to UGX 12,674,000 had no supporting documents and in the absence of supporting documents the funds were unaccounted for.

The Auditor General’s Report (2016) pointed out that there were irregularities in payments in relations to repairs of motor vehicles and purchase of spares. It further revealed that there were missing vouchers and unexplained short fall in revenue arising from supply of weighing scales.

It is against such evidence that the study intends to examine the role of internal auditing on the financial performance of Biomedics products limited

# Purpose of the study

The purpose of the study was to establish the extent to which internal auditing contributes to financial performance in Biomedics products limited.

# Objectives of the study

The study was guided by the following objectives:

1. To examine how internal auditing ensures profitability in Biomedics products limited.
2. To examine how internal auditing ensures proper utilization of funds in Biomedics products limited
3. To assess how internal auditing ensures value for money in Biomedics products limited.

# Research questions of the study

1. How does internal auditing ensure profitability in Biomedics Products Limited?
2. How does internal auditing ensure proper utilization of funds in Biomedics Products Limited?
3. How does internal auditing ensure value for money in Biomedics Products Limited?

# Research hypothesis

The study tested the following hypotheses of the study.

H0: there is no significant relationship between internal auditing and financial performance in Biomedics products limited

H1: there is a significant relation between internal auditing and financial performance in Biomedics products limited.

# Scope of the study

# Subject /content scope

 The study is about internal auditing and the performance of private Biomedical companies in Uganda. The study specifically focused on risk management and profitability, internal environment and proper utilization of funds and monitoring and control activities ensure value for money in Biomedics products limited.

# Geographical scope

The organization operates through its headquarters and is located on Plot 229 off Weraga Rd, Ndeeba, Kabowa. P.O. Box 70793, Kampala, Uganda.

The organization structure has the chief executive officer (CEO). Below the CEO are the departments of finance and administration, procurement, stores department, engineering and sales and marketing department

# Time scope

The research is designed to cover the time scope fromyears2015to 2018. This is the period when Biomedics products limited faced challenges of accountability declining profits.

# Significance of the study

The study may be of great significance in the assessment of the effectiveness of the internal audit function in the performance of Biomedics products limited

The management of Biomedics products limited may be able to understand the various issues affecting the effectiveness of the internal audit function and consequence this may help them redesign their modes of operation in a bid to achieve their objectives.

The findings and recommendations of the study may help stakeholders to understand the abnormalities in their operations which will go a long way in helping them redesign their role structures to suit stake holder’s needs.

The study lays in the hope of adding to existing knowledge of other researchers of other Biomedics companies. This study may be considered as a reference to other future researchers study since empirically generated facts which may be of pertinence to them.

# Setting of the study

A Biomedics product limited is a self-accounting body under private limited companies and is incorporated and registered in 2008.

The organization operates through its headquarters and has no branches in any other country or district. The organization is located on Plot 229 off Weraga Rd, Ndeeba, Kabowa. P.O. Box 70793, Kampala, Rubaga division Uganda.

The organization structure has the chief executive officer (CEO). Below the CEO are the departments of finance and administration, procurement, stores department, engineering and sales and marketing department.

**Biomedics Products Services**

Biomedics Products offers a comprehensive strategic solution to products that it’s offering to the Testing laboratories and Public bodies/programs responsible with availing the same products to end-users undertaking the following critical steps as way to offer availability of products on time and manageable inventory holdings, undertaking end-user capabilities of performing the tests accurately, proper laboratory management information systems, including quantification and forecasting process at facility based point of consumption that is key to good supply value

# Structure of the dissertation

The dissertation is presented in eight chapters. Chapter one is an introduction while chapter two provides the study literature. Chapter three addresses the research methodology that was used in collecting, processing and analyzing data.

Chapter four, five and six cover the research findings under each of the study objective of proper review and control over receipts, the integrity of financial and operational data: and conformity with operational and financial policies respectively. Chapter seven covers the harmonization of internal audit and performance in Biomedics products limited and chapter eight presents a summary, conclusion and recommendation.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter is broken down into the literature survey, literature review and the conceptual framework. The literature survey focuses on the studies undertaken in Uganda with the view to justify the need for this study. The literature review on the other hand focuses on the conducted outside Uganda.

# Literature survey

There is dearth of literature in this important area of internal auditing and financial performance in biomedical products. The survey of literature on Internal Audit (IA) and performance shows that most studies have focused on the local government and educational institutions and not the private owned companies that this study is directed upon. These include the studies conducted by Alobo (2008)

Mawanda (2008 p.71) in his study of the effects of Internal control system on financial performance in institutions of higher learning in Uganda, a case of Uganda Martyrs University found that there is a relationship between internal auditing and financial performance. However, most of these studies were done in universities which may not be the case with biomedical private companies and this study is being undertaken to confirm or dispel the results of these studies with empirical evidence.

Amudo and Inanga (2009, p.387) carried out an evaluation of IA on the regional member countries of the African Development Bank, focusing on Uganda in East Africa. The study established that some control components of effective IA are lacking in these organisation which renders current structures ineffective, hence affecting performance negatively.

Alobo (2008) carried out a study entitled “the role of internal audit in the performance of local authorities in Uganda” focusing on Kampala city council (KCCA) as a case study. He examined the following objectives: to establish how KCC has implemented internal control (ICs) in its systems: to establish how KCCA has ensured the reliability of financial and other management information system within KCC headquarters, and: to establish how KCC has ensured effective accounting procedures in its accounting system. The findings from Alobos study indicated that IA had a significant contribution to the performance of local authorities in Uganda. This contribution can be enhanced if the IA department receives positive management support, is well funded, has the necessary resources, is independent and is equipped with adequate and qualified staff. Much as Alobos study deserves some praise, she did not critically look at controls over cash receipts and how they affect organizational performance.

According to the new vision News Paper dated November 25th 2012, the office of the Prime Minister of Uganda was reported to have lost over 12 million Euros which was Irish aid money in what is quoted to have been a very “sophisticated, well thought out fraud involving a high level of collusion at a senior level. In its earlier News Paper dated October 24th 2012, it had been stated that the office of the Auditor General had been prompted among others by revelations of the paper of payments made to private bank accounts of civil servants to do Government work. It further added that the account on which the money had been channeled was held with the central bank but “had fallen off the audit radar”. On November 11th 2013, the new vision News Paper reported that the office of the Prime Minister of Uganda had lost over 60 billion which was meant for war veterans and victims under the Luweero- Rwenzori Development programme. Over the years, a number of graft scandals have hit the country which include; the Chogm 4 scandal in 2007, Global Fund scandal in 2008, Temangalo scandal in 2008, ID scandal in 2010, bicycle scandal in 2011, microfinance and Specioza Kazibwe scandal 2011, Hassan Basajjabalaba compensation scandal in 2011 and the Pension’s scandal 2012.

According to Ellis (2000), the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions and so having no much impact on performance .Internal audit departments are now being challenged by audit committees to only prove their value but also play a larger role in overall corporate governance specifically required under Sarbanes-Oxley act 2002 in ensuring organization performance (Hespenheide, 2003).

According to institute of international auditors (IIA) (2009) Internal auditing is an independent, goals and consulting activities that is intended to add imperative value and build up the operations of an organization. It assists any firm to complete its targets through bringing a composed restrained approach that builds up the adequacy of horizon administration, control and administration forms.

According to the Chartered Institute of Internal Auditors (CIIA) Financial Code as at July 2013, the Scope and Priorities of internal audit shall include; Risk assessments and prioritization of internal audit work, internal governance, the setting of and adherence to the risk appetite, the evaluation of information presented to the Board and Executive Management for strategic and operational decision making, the risk and control culture of the organization, risks of poor 8 customer treatment giving rise to conduct of reputational risk, capital and liquidity risks and outcomes of processes among others. This therefore implies that the scope and Priorities of an Internal Audit function is unrestricted and may involve all the above priorities. However the Chief Audit Executive should establish risk based plans to determine the priorities of the internal audit activity (Rudd, 2001). Internal audit needs to understand the expectations of its primary stakeholders (senior management and the audit committee) and align its activities accordingly. This alignment ensures that the internal audit function and key stakeholders share the same priorities when it comes to applying internal audit resources to risk management and control. By maintaining good communication, internal audit can also ensure that its priorities continue to match those of its key stakeholders as they evolve (Mallin, 2011).

# Literature review

This section covers literature relating internal auditing, theories and models of how internal auditing has been handled elsewhere in other countries to develop the conceptual framework for the current study.

Internal auditing has evolved remarkably over the last 60 years and has gained an increasingly important role within organizations, whether in industry, government, or the nonprofit sector. Alongside this development, the internal auditing function today accepts a broader responsibility toward the organization itself and its stakeholders. By offering expanded assurance and consulting services to the organization, i.e., in particular to the audit committee of the board of directors as well as to executive management, the internal audit function effectively contributes to improved organizational governance. Furthermore, information assured by internal auditors enhances both internal and external decision-making, thereby improving the deployment, and the effective and efficient use of scarce organizational and economic resources.” (Ramamoorti 2003)

# Agency Theory

This study uses agency theory (Jensen and Meckling, 1976) in the examination of the relationship between internal auditing and financial performance of LGs. There is a principal-agent relationship in the public sector. This imposes duties of accountability and stewardship on the officials. They have to periodically justify the decisions made in carrying out their stewardship role and the extent to which they have managed to achieve public objectives. This relationship is not devoid of risks. Agents by virtue of their direct and immediate involvement in the operations of the organization have more access to information as compared to the principals. This results in information asymmetry hence principals cannot easily monitor to determine whether their interests are being fronted by the agents. Agents may have conflicting interests as compared to those of the principals.

“The stakeholders have no belief in the performance reports that are provided by the management of public organizations and therefore demand for an independent report. The principals are required to ensure that third party authenticates the integrity of financial reporting, compliance and financial performance reports. The stakeholders rely upon the independent person (auditor) to provide an independent and objective assurance on the true and fair view of the financial reporting or performance reports by public officers and also to give an opinion on whether the resources entrusted to them have been utilized in accordance with the stakeholders’ interest.” (Tudose & Andrei, 2013)

Auditors as independent and objective third parties help to reduce the inherent risks in the relationship between the principal and their agents and assess the extent to which resources have been used as desired by the principal. It is necessary to have a third party to attest to the credibility of financial of the financial reporting, performance results, compliance, and other measures arises from several factors inherent in the relationship between the principal and its agent:

1. Moral hazards (conflicts of interest): Agents may use their resources and authority to benefit their own interests, rather than the principal’s interests.
2. Remoteness: Operations may be physically removed from the principal’s direct oversight. The principal is not involved in the daily management of the organization therefore, they have limited access to information which is always provided by the agent.
3. Complexity: Activities of public sector organizations are increasingly becoming complex and the principal may not possess the technical expertise needed to oversee the activity.
4. Consequence of error: Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens’ lives and health (IIA, 2006).

Figure 2 1: Illustration of the Principal-Agent Relationship

Resources/ Authority

Report

Accounting of accomplishment

Verify/ validate

**Source: Adapted from IIA (2014)**

The management acts as an agent on behalf of the owners. These company managers hold resources in trust of the shareholders. Thus, they are expected to account for the management of these resources. However, their accountability reports need to be verified by an independent and competent internal auditor to assess whether they faithfully represent what they purport to represent. (Onoja & Haruna 2015)

# Concept of Internal Audit

Institute of Internal Audit (2009) defined internal audit “as an independent, objective assurance and consulting activities designed with the intention to add value and improve an organization’s operations. It then helps an organization to 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 “an independent and objective functional activity which provides security and management advice with the aim of ensuring effective management of public income and expenditure, ensuring proper activities within public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes” (Jurchescu, 2010).

The Institute of Internal Auditors New York defines Internal Audit as: “Internal audit is an independent, appraisal activity within an organization for the review of accounting, financial and other operations on the basis as a basis of service to the organization. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls”.

The Institute of Internal Auditors of UK and Ireland defines Internal Audit as: “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.”

According to PWC (2018) internal Audit (IA) “is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. IA is responsible to assess the effectiveness of risk management, control and governance processes and to provide insight and recommendations that can enhance these processes, particularly relating to: effectiveness of operations; reliability of financial management and reporting; and compliance with laws and regulations.

CIPFA (2010) explained internal audit “as an assurance function which provides an independent and objective opinion to the organization on their control environment, evaluating its effectiveness toward organizational goals achievement. It clearly examines, evaluates and reports on adequacy of control environment as a contribution toward appropriate, economic, effective and efficient utilization of resources”.

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 (OECD, 2011)

“Internal audit can be seen as independent appraisal established within the organization with the aim of reviewing the effectiveness and efficiency of the activities of an organization, ensuring compliance with established regulations, evaluation of risk management and internal controls system of the organization. Therefore, the internal auditor is an employee within an organization's internal audit department who is assigned with the responsibility of performing internal auditing functions.” (Badara & Saidin 2012)

Internal audit is key source of assurance to management. Internal audit forms a building block in the three lines of defense model which establishes responsibility for internal controls and how organizations can best establish and coordinate duties related to risk and control. An organization’s internal controls form the first line of defense against risks. Their effectiveness is monitored by management who form the second line of defense by evaluating the quality of the controls and compliance to those controls. Internal audit is the third line of defense as it offers independent assurance over the first two lines of defense (KPMG 2016; IIA 2018).

Figure 2 2: Internal audit model (IIA 2004)

Internal auditing involves the process of Identifying departments that operate by using policies and procedures written by the organization or by regulatory agencies. This can include areas as complex as manufacturing processes or as simplistic as accounting procedures. A list of each area is necessary to be made and the functions of the area that require review.

Determining How Often Auditing Needs to be Done because in Some areas auditing may only be need to be audited annually while some departments may require more frequent audits for example in accounting departments, daily audits for [quality control](http://thethrivingsmallbusiness.com/seven-management-tools-for-quality-control/) purposes are required while in the [marketing departments function](http://thethrivingsmallbusiness.com/human-resource-management-in-small-business/)  auditing may only require an annual audit of records and processes.

An audit sequence and calendar And, like any other business goal, audits should be integrated into corporate objectives. Scheduling audits on the business calendar ensures that it is done consistently which enables the smooth flow of the business.

Alerting Departments of Scheduled Audits is of important courtesy to give departments notice of an audit so they can have the necessary documents and materials ready and available for the reviewer. A surprise audit should only be done if there is suspicion of unethical or[illegal activity](http://thethrivingsmallbusiness.com/employee-fraud/). Department managers should not feel threatened by an auditor but view them as a valued resource to help them better manage their area.

The auditor should come prepared with an understanding of policies, procedures and a list of items that will be reviewed. The more prepared the auditor is the more efficient the process will be and the less down time there will be for the area being reviewed.

The auditor should interview employees and ask them to explain their work process. Comparisons in the process, as the employee explained it, should be done according to what the written policy says. This step is to gain an understanding of employee competence and identify areas that need additional training.

Documenting the results and any differences in practice to how the policies are written, when policies are complied with and when they are not is very important. This may also include other information that is gathered from the interview process. Again, the goal is to identify gaps in compliance and to figure out a way to bridge that gap.

Creating an easy to read audit report in which these reports should be reviewed with senior management and an improvement plan developed for areas that have gaps in practice compliance.

# Internal Auditing and profitability

In auditing for audits performed by an outside audit firm, Risk management is a crucial stage before accepting an audit engagement. According to ISA315 understanding the entity and its environment and assessing the risks of material misstatement “the auditor should perform risk assessment procedures to obtain an understanding of the entity and its environment including its internal control evidence relating to the auditors risk assessment of a material misstatement in the clients financial statements. Then the auditor obtains initial evidence regarding the classes of transaction at the client and operating effectiveness of the clients’ internal control.

An organization management of internal control has a key part in the administration of dangers that are noteworthy to the satisfaction of its business targets. A sound arrangement of inward control adds to protecting the shareholders venture and the organization's advantages. Inside control encourages the adequacy and effectiveness of operations, guarantees the dependability of interior and outside reporting and helps consistence with laws and directions (Whittington and Pany, (2010) asserts that an organization arrangement of inward control has a key part in the administration of dangers that are noteworthy to the satisfaction of its business targets. A sound arrangement of internal control adds to shielding the shareholders venture and the organization's advantages. Inner control encourages the viability and productivity of operations, guarantees the unwavering quality of inward and outer reporting and helps consistence with laws and directions (Whittington &Pany, 2010).

Organizations understand risk and need valuing the significance of hazard administration to an association. Great corporate administration codes require the board to introduce an arrangement of hazard administration and educate their shareholders regarding this framework (Pickett, 2003). An organization cannot get smaller its way to approach to extent. It must create, and one of the keys to fruitful development is compelling danger administration. Chance affects an association's capacity to contend and to keep up its money related quality and the nature of its items and administrations. It is the interior examiner's business to recognize all auditable exercises and important hazard figures and to evaluate their noteworthiness.

An effective internal control structure requires that the material perils that could unfavorably impact the achievement of the bank's destinations are being perceived and constantly surveyed. As indicated by Beyanga (2011) this evaluation ought to cover all dangers confronting the bank and the combined keeping money association (that is, credit hazard, nation and exchange chance, showcase chance, financing cost chance, liquidity chance, operational hazard, legitimate hazard, and reputational chance). Inward controls ought to be modified to fittingly address any new or beforehand uncontrolled dangers (Radu and Ramona, 2013). Subsequently it is basic that, as a major aspect of an inner control framework these dangers are being perceived and ceaselessly surveyed. From an inside control point of view, a hazard appraisal ought to recognize and assess the inward and outer components that could antagonistically influence the accomplishment of the administrative bodies' execution, data and consistence objective.

Risk assessment system is divided into three steps: risk identification, risk analysis and evaluation, risk control and report. Risk identification deals with finding out how the enterprise judges and analyzes risks, including its nature, types and reasons of the occurrence. On the other hand risk analysis and evaluation needs quantitative analysis of digital information collected by mathematical method in order to make the risk management based on scientific basis. The result of risk analysis and risk evaluation is the probability of occurrence and size of the risk so as to provide a dependable basis for decision-making. When dealing with risk control and report management is required to consider how to control risk. The method of controlling risk usually is to transfer risk, adverse risk and disperse risk.

In auditing audit risk is defined as the risk that the auditor will issue a cleanup modified opinion regarding the financial statements. When in fact the financial statement are materially misstated and therefore do not qualify for a clean unmodified opinion. As a formula audit risk is the product of two other risks. Risk of material misstatement and detection risk; this formula can be further broken down as follows; inherent risk control, risk detection risk.

Risk management has main four phases to implement; the identification of risk, the assessment of risk, the prioritization of risk and response planning, in addition to the last phase of monitoring (the IRM, 2002; ISO 31000, 2009; BS 31100, 2008; COSO ERM, 2004; Moller, 2011). According to the risk standards approach (the IRM, 2002; BS 31100, 2008; COSO ERM, 2004), the monitoring phase should rely on internal auditing. Moreover, some standard bodies emphasize clearly the importance of achieving an independent and objective assurance in monitoring risk management activities and assure that the internal auditing missions should comply with that (Hopkin,2012; Moller, 2011; BSI, 2008; COSO ERM, 2004;the IRM, 2002).

Owenrich (2001) emphasize that the scope of internal auditing is to determine whether the company’s network of risk management, control and governance processes, as designed and represented by management, its adequate and function in a manner which ensures that risk are appropriately identified and managed; interaction with the various governance groups occurs as needed; significant financial , management and operational information is accurate, reliable and timely; employees’ actions are in compliance with policies, standards, procedures and applicable laws and regulations, regulations; resources are acquired economically, used efficiently and adequately protected; programs ,plans and objectives are achieved; quality and continuous improvement are fostered in the company’s control process; significant legislative or regulatory issues impacting the company recognized and addressed properly.

Furthermore, the BS 31100:2008; COSO ERM, 2004; IRM, 2002, Sharman report 20 and other scholars such as Fraser et al, (2010), Moller (2010) and others all state that there is a separate role for internal auditors and risk management functions. Additionally, they limit the internal auditing role by providing the top management with independent assurance regarding the effectiveness of managing risk, by assuring the effectiveness of controls, risk management processes, managing the key risks, and reliability, in addition to the appropriateness of assessing and reporting risks and controls. In particular, achieving independency and objectivity in these activities seeks a separation in roles between risk management and internal auditing (Bazerman et al, 1997)

According to Merchant (2000) internal auditing professional standards require the function toevaluate the effectiveness of the organization’s risk management activities.

Risk management is the process by which an organization identifies analyses, responds, gather information about and monitor strategic risks thatcould actually or potentially impact the organization’s ability to achieve its mission and objectives.

Under the COSO enterprise risk management, framework an organization strategy, operations, reporting and compliance objectives all have associated strategic business risks the negative outcomes resulting from internal and external events that inhibit the organization’s ability to achieve its objectives. Management assesses risk as part of the ordinary course of business activities such as strategic planning, market planning, capital planning ,budgeting ,hedging, incentives pay out structure, credit practices, mergers and acquisitions strategic partnerships legislative changes and conducting business abroad. Sarbanes Oxley regulations require extensive risk assessment of financial reporting processes corporate legal counsel often prepare comprehensive assessments of the current and potential litigation a company faces.

Internal auditors may evaluate each of these activities or focus on the overarching process used to manage risks entity-wide for example internal auditor can advise management regarding the reporting of forward looking operating measures to the board to help identity emerging risks or internal auditors can evaluate and report on whether the board and other stakeholders can have reasonable assurance the organization management team has implemented an effective enterprise risk management program.

In larger organizations major strategic initiates are implemented to achieve objectives and drive changes. As a member of senior management the chief audit executive may participate in status updates on these major initiates. This places CAE in the position on many of the major risks the organization faces the Audit committee or ensures management reporting is effective for that; purpose. Internal auditors may help companies establish maintain enterprise risk management processes. Internal auditors also play an important role in helping companies execute SOX 404 top-down risk assessment.

In these latter two areas, internal auditors typically are, internal auditors typically are part of the risk assessment team in an advisory role.

Internal auditing activity as it relates to corporate governance has in the past been generally informal, accomplished primarily through participation in meetings and discussions with members of the Board of Directors. According to COSO’s ERM framework, governance is the policies, processes and structures used by the organizations leadership to direct activities, achieve objectives and protect the interests of diverse stakeholders groups in a manner consistentwith ethical standards. The internal auditor is often considered one of the “Four Pillars “rate governance, the other pillars being the Board of Directors, management and the external auditor.

A primary focus area of internal auditing as it relates to corporate governance is helping the audit committee of the Board of Directors perform its responsibilities effectively. This may include reporting critical management control issues suggesting questions or topics for the audit committees, meeting agendas and the coordinating with the external auditor and management toensure the committee receives effective information. In recent years the IIA has advocated more formal evaluation of corporate governance particularly in the areas of board over sight of enterprise risk, corporate ethics and fraud Ritter erg(2001).

According to Symcon, (2003) internal auditing activity is primarily directed at evaluating internal control. Under the COSO framework, internal control is broadly defined as a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance, regarding the achievement of the following core objectives for which all businesses strives effectiveness and efficiency of operations reliability of financial and management reporting compliance with laws and regulations and safe guarding of assets.

# Internal auditing and proper utilization of funds

Whittington and Pany (2001) characterized internal environment audit practices as the tone of the association by impacting the control awareness of individuals. They encourage affirm that control environment is seen as the establishment for the various segments of inner control. Internal environment audit practices hones variables incorporate; trustworthiness and moral estimations of work force in charge of making, managing, and checking the controls, duty and skill of people performing doled out obligations, top managerial staff or review panels, management philosophy and operating style and authoritative structure (which might be an all-around sorted out structure that accommodates appropriate arranging, coordinating and controlling operations or a disordered structure that may just serve to befuddle the key players by making misty parts).

Administration state of mind ought to be focused on moral business hones and to taking after the set up control techniques (Fish, 2001). This is the establishment for each other piece of internal control, giving request and structure. Inside environment control sharpens components include: Integrity and good values; the devotion to wellness; organization hypothesis and working style; and the way organization distributes power and commitment, deals with and develops its family. The Internal environment control practices are the establishment of the five components in the inner control system. Its assignment and operation influence the venture' general action, as well as the other four components. In this way control environment specifically influences the impact of execution of interior control system and the advanced ventures ought to build up a reasonable internal environment control (Eden, 2006).

Internal environment audit practices has a few components, nonetheless, for reasons for this exploration, the survey will concentrate on administration rationality and working style, the trustworthiness and moral estimations of staff that make and regulate controls, and review councils and directorate. For motivations behind the study, governing body will be spoken to by the Board of Management and the different advisory groups of the Board (Verschoor, 1999). Whittington and Pany (2001) likewise trust that these variables set a premise whereupon the other inward control parts can be manufactured. They additionally give a structure inside which alternate segments work. Be that as it may, these attestations have not generally remained constant, since administration in associations has dependably superseded these controls, the absence of tutoring.

The internal environment audit practices usually include the following context. To begin with, there is personnel integrity and quality. The staffs assume a double part: on one hand, they are the subjects of inward control in the association and control the execution of their task; then again, they are the objects of interior control in the association and regulated and controlled by the other. Anything of inner control framework might not go past the staffs' trustworthiness and quality that makes, oversees, actualizes and administers the framework. Besides, there is the administration style and administration thought (Eden, 2006).

The leadership administration style and administration thought impact the method for overseeing of the undertakings, particularly the supervisor singular marvelousness and the capacity to settle on choice. Directors control the endeavor principally by planning the association and administration component, approving and outlining the framework. What's more, in conclusion there is the association structure. Organization structure including association structure settings, duties portion, what position of the individual in the association is and what power and obligation he has. Association structure is the grantee for the undertaking to accomplish generally speaking.

# Internal Auditing and value for money

Internal control may be defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records. It will be observed that the concept of internal control goes beyond financial and accountancy matters and the custody of company assets to include controls designed to improve operational efficiency and ensure adherence to company policies. The board of directors should have the responsibility for approving strategies and policies and ensuring that senior management is monitoring the effectiveness of the internal control system (Basle, 1998:2).

Ray and Pany (2010) referred control exercises as another part of inner controls. They observe that control activities are methodologies and frameworks that certification that organization commands are finished. Controls exercises in an association essentially involve; execution surveys (contrasting genuine execution and spending plans, gauges and earlier period execution), data preparing (important to check exactness, culmination and approval of exchanges), physical controls (important to give security over both records and different resources), and isolation of obligations (where nobody individual ought to handle all parts of an exchange from the earliest starting point to the end).

Internal control insufficiencies should be represented upstream, with bona fide matters reported quickly to top association and regulating sheets. Internal control systems change after some time (Dumitrescu, 2004).

The way controls are associated may progress once suitable frameworks can end up being less convincing a direct result of the arrival of new staff, fluctuating sufficiency of planning and supervision, time and resources necessities, or additional weights. Also, conditions for which within control structure was at first sketched out furthermore may change. In light of advancing conditions, organization needs to make sense of if the inside control system continues being correlated and prepared to address new dangers (Roth, 1997).

According to ISA UK & Ireland (315) internal control comprises five components: control environment, the entity’s risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for purpose of this study the research will narrow on three components of internal control systems. These are the control activities, internal audit and control environment.

The statement of Standard Auditing Practices No.6 (SAP 6)defines internal control as “ the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets prevention and detection of fraud and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information”.

COSO internal control framework organized an integrated relationship between all internal control elements as well as their activities (Rae et al, 2008). Consequently, the internal audit which refers to the monitoring component ensures that risk assessment is linked with all entity objectives. All the external and internal risk which may influence entity objectives are identified and assessed, the mechanisms are put in place to identify changes affecting the entity’s ability to achieve objectives and all policies and procedures are modified as conditions warrant (Moeller, 2011).

Foulks, (2004) defines internal control system as comprising of the control environment and control procedures adopted by directors and management of an organization in achieving its objectives by ensuring practical, orderly and efficient conduct of an organization. This may include adherence to policies, safe guarding assets, prevention and detection of fraud accuracy and competences of accounting records and timely preparation of financial reports.

Moreover, Sawyer et al, (2003) indicated that auditing control in organizations achieve the following objectives; the controls are in place and are structurally sound and effective, the control objectives are achieved with effectiveness, and they are being utilized. Moreover, the IIA in section ‘2130–Control’ indicating that “The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement” (the IIA, 2010).

On the other hand, the effectiveness of the internal control system is evaluated by assessing the effectiveness of all five internal control elements together, so the effectiveness of all five elements yield an effective internal control system and give a reasonable assurance that the company is achieving its objectives. Accordingly, the effectiveness of the overall control system is reflected in the effectiveness of the monitoring (internal audit) and versa visa (Evaluation Tools COSO, 1994). As a result, the presence of all five elements with integrated operation is essential to gain an effective internal control system in organizations (Ricketts, 1992; Rae et al, 2008; COSO, 2011).

Internal control ought to be successful when looking at outline can amazingly helpful and is as a rule for association administration and broadly to budgetary articulations at present, an extensive variety of business firms have used internal controls through the advancement of ways to deal with certification a protecting assets and profitable business environment especially accounting course of action, organization procedure, and operational approach (Ogneva, Subramanyam and Raghunandan, 2010). Thus, internal control ought to be all the time survey in all parts of their organization and embed inside controls that will reinforce the organization and increment benefit (Skaife, 2009).

Control activities are the Inside control structures ought to be watched - a system that assesses the way of the structure's execution after some time. Constant watching happens in the ordinary course of operations, and joins reliable organization and supervisory activities, and diverse moves staff make in playing out their commitments that assess the way of inside control system execution (Colbert and Bowen, 1996). The expansion and repeat of specific evaluations depend basically on an examination of perils and the feasibility of advancing checking systems (Anduuru, 2005).

According to Whittington (1999), an internal control system consists of policies and procedures

Established to provide reasonable assurance that the organization’s related objectives are achieved. The concept of reasonable assurance recognizes that no structure is perfect and that the cost of the entity’s internal control should not exceed the benefits to be derived.

Consistency with the firm’s objectives of maintaining optimum cash balance in order to meet the Firm’s obligations as and when they fall due, and the awareness of the different risks associated with the various sources and uses of funds, is important in streamlining the policies and procedures for accessing, using, recording and custody of cash (Pandey, 1995).

According to Swamy (1994), internal controls in accounting system serves the function of ensuring that all transactions carried out are suctioned and authorized by management. This is important because all activities of the organization are performed in line with the laid down policies. All transactions should be accounted for in the relevant books of accounts regularly, correctly and systematically (Millichamp, 1996). This should be according to the application Reporting framework, like the relevant legislation and applicable Accounting Standards.

According to Foulks, 2005, this should lead to proper accountability of all assets and liabilities of the firm. The reporting in Internal Audit should be accurate that is free from errors and distortions and Faithful to the underlying facts. The Objective should be Fair, impartial, and unbiased and is a Result of a fair minded and balanced assessment of all relevant facts and circumstances. Though

the OAG and the Inspector General of Government have continued to castigate local Government Units (LGUs) in Uganda not only for misappropriation of billions of shillings annually, but also for gross incompetence and abuse of authority, which undermines accountability, efficient and effective performance, institutional reports still highlight local government institutional decay which suggests problems in the internal systems of control (Kakumba 2008: 5). However even where (internal administrative) controls play a vital role, theycan be abused and thus, may fail to ensure good governance (Olowu (2003: 46)

Whereas there have been several attempts to evaluate local governments’ performance in over a decade-long, these attempts have tended to focus on the general issues of financial management, personnel and political decentralization. There has hardly been any major investigation to evaluate the capacity and effectiveness of control systems put in place to enhance accountability at local government sphere (Kakumba, 2008).

It is therefore worth noting from the above that properly instituted internal control will ensure completeness of all transactions undertaken by an entity; that the entity’s assets are safeguarded from theft and misuse; that transactions in the financial statement are stated at the appropriate amount; that all assets in the financial statement do exist; that all the assets in the financial statement of the company are revalued regularly and recoverable amounts stated and transactions are presented according to the Generally Accepted Accounting principles.

Internal controls refer to measures instituted by an organization so as to ensure attainment of the organizations objectives, goals and mission (Ejoh and Ejom, 2014, p.133). In government, such controls are put in place by various legal documents and managed by the internal audit department to ensure that the objectives of the council are achieved effectively for good financial performance.

On the other hand, financial controls entail objective criteria such as return on investment (ROI) on the evaluation of business level manager’s performance. They are similar to what Eisenhard (1985, p.134) referred to as outcome controls. Thus top-level managers establish financial targets for each business and measure the business level manager’s performance against these targets. Such an approach can be problematic when the degree of interdependence among business units is high. Hayes (2005, p.823) notes that “The three major categories of management objectives comprise effective operations, financial reporting and compliance”. Effective operations means safeguarding the assets of the organization, the physical assets, cash and non-physical assets like receivables, important documents and confidential records of the entity must not be misused or accidentally destroyed. The goal of financial records requires accurate information for internal decisions because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with many laws and tax laws and environmental protection laws.

According to Verschoor (1999, p.408),approximately three quarters of the 500 largest publicly held U.S corporations voluntarily make a public assertion of management’s responsibilities for properly reporting financial results and also maintaining an effective system of internal control. He asserts that virtually all these companies report using the same strategies to execute managements internal control responsibilities. These include references to segregation of functions, programs of selection and training of personnel, the result of an internal auditing function, oversight from the audit committee of the board of directors and the work of the external auditors. This can be equated to the Audit Committee created by the Public Finance Management Act (2015, p.48)

# The conceptual frame work

The researcher, after a review of related literature finds it relevant to construct a conceptual framework to analyze the problem. The independent variable is role of internal auditing while the dependent variable is performance. The role of internal auditing is analyzed in terms of internal controls, audit reviews, financial controls, internal checks, accuracy and reliability, independence, segregation of duties, among others. The independent variable will be analyzed in terms of risk management, internal environment, and monitoring and control activities. The model will be adopted in developing the conceptual framework is that proper internal audit and internal control systems will lead to performance for the organization in terms of measurement and generation of revenues and value added. Internal auditing leads to the external investigation that finally will cause better value addition and better revenue generation.

Figure 2 3: Conceptual framework

**Independent variable Dependent variable**

**Internal auditing**

* Internal control
* Internal checks
* Monitoring and control activities

**Financial performance**

* Accountability
* Profitability
* Value for money
* Proper utilization of funds

**Moderating variable**

Audit committee

Audit policy

Qualifications

Ethical conduct

Expert investigation

Competence

**Source: Adopted from COSO (1992) and modified by the researcher**

The conceptual framework above reveals that risk management, internal Environment, monitoring and control activities are elements of internal auditing. If these elements are handled by an audit committee, audit policy, staff that are qualified, experienced, competent, experts in investigation, and practice ethical conduct, then this will lead to improved performance of Biomedics Products limited. Performance will be realized in terms of accountability, profitability, value for money and proper utilization of funds.

# CHAPTER THREE

# METHODOLOGY

# Introduction

This chapter gives the research design, the study population, the sampling frame, the sampling methods, the sample size, the data collection methods and instruments, validity and reliability of the instruments, data processing and data analysis.

# Research design

According to Creswell (2012), a research design is the basic plan which guides the data collection and analysis phase of the research project. The research design consists: research approach, research strategy, and research duration and research classifications.

# Research approach

The research approach includes: a positivism approach, phenomenological approach and combination approach. So in this case the researcher embraced both positivism-phenomenological approaches called combination approach, using hypothesis testing and explaining the events as obtained from the respondents.

# Research strategy

Basically research strategy is a general plan of how a researcher goes about answering the research question (Kothar 2000). Therefore research strategies include: experiment, survey and case study, so in this case the researcher employed a case study strategy asking broad questions and collecting data from participants to find out the role of internal auditing on the performance of Biomedics products limited. The case study enabled the researcher to gain deeper understanding of what was happening in the organization of a period of time.

# Research duration

The research duration involves: cross sectional studies which is a study of a particular phenomenon at a partial time and longitudinal studies which is studying changes and developments over a long period of time. The study was longitudinal because data was collected over a long period of time in relation to the study variables.

# Research classification

The research was classified according to their purpose such as: exploratory, explanatory, and multi method. The researcher used the explanatory approach to establish causal relationship between the research variables.

# The study population

The study population comprised of the entire staff of Biomedics Products Limited and clients totaling to 65 people.

# Sample size

# Table 3.1: Population and sample size

|  |  |  |  |
| --- | --- | --- | --- |
| **Department**  | **Population**  | **Sample**  | **Sampling technique** |
| Management  | 3 | 3 | Census |
| Internal audit | 2 | 2 | Census |
| production | 18 | 18 | Census |
| Finance and administration | 5 | 5 | Census |
| Marketing  | 12 | 12 | Census |
| Field officers | 15 | 15 | Census |
| Customers  | 10 | 10 | Convenient sampling |
| **Total**  | **65** | **65** |  |

**Source: Primary data (2019)**

# Background information of respondents

In this section, respondents were asked to provide their background information and their responses are presented in tables.

# Age group of respondents

The respondents were asked to identify their age category; results are presented in table 3.2

|  |
| --- |
| Table 3.2: Age |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 20-29 Years | 16 | 26.7 | 26.7 | 26.7 |
| 30-39 Years | 20 | 33.3 | 33.3 | 60.0 |
| 40-49 Years | 15 | 25.0 | 25.0 | 85.0 |
| 50 Years and above | 9 | 15.0 | 15.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 3.2, the results indicate that 26.7% of the respondents were aged between 20-29 years, 33.3% were aged between 30-39 years, 25.0% were aged between 40-49 years while 15.0% were aged above 50 years. This is an indication that respondents were well distributed in terms of age.

# Gender

Respondents were also asked to identify the gender they belonged to, results are summarised in table 3.3

|  |
| --- |
| Table 3.3: Gender |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 26 | 43.3 | 43.3 | 43.3 |
| Female | 34 | 56.7 | 56.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 3.3 show that majority of the respondents 56.7% were females while minority 43.3% were males. This means that the study did not suffer from gender bias as information was gathered from both genders respectively.

# Highest level of education

Respondents were also asked to identify their highest levels of education, results to the question are obtained in table 3.4

|  |
| --- |
| Table 3.4: Highest level of education |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | PhD | 4 | 6.7 | 6.7 | 6.7 |
| Master | 16 | 26.7 | 26.7 | 33.3 |
| Bachelor | 22 | 36.7 | 36.7 | 70.0 |
| Diploma | 8 | 13.3 | 13.3 | 83.3 |
| Certificate | 7 | 11.7 | 11.7 | 95.0 |
| Others, specify | 3 | 5.0 | 5.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 3.4 revealed that 6.7% of the respondents had PhD, 26.7% had master levels of qualification, 26.7% had bachelor, 13.3% had diploma, 11.7% had certificate while 5.0% specified with qualifications such as UCE as they didn’t qualify highly.This is an indication that majority of the respondents engaged in this study had university bachelor degrees as their highest level of education.

# Years in service

The study also sought to determine the current years in service respondents had within Biomedics products limited. Results are captured in table 3.5

|  |
| --- |
| Table 3.5: Years in service |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Less than a year | 16 | 26.7 | 26.7 | 26.7 |
| 2-4 Years | 22 | 36.7 | 36.7 | 63.3 |
| 5-8 Years | 12 | 20.0 | 20.0 | 83.3 |
| 9 Years and more | 10 | 16.7 | 16.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 3.5 indicate that 36.7% of the respondents had served in Biomedics products limited for a period between 2-4 years, 26.7% had served for a period of less than a year, and 20.0% had served between 5-8 years while 16.7% had served for a period of more than 9 years. This is an indication that the respondents had prior knowledge from auditing and presumably had working experience in terms of internal auditing; hence provide reliable and relevant data.

# Sampling technique

**Census method** was used. In this attempt the researcher gathered information from each and every respondent from the population. In this way every number of the population under the study had an equal chance of being selected. Census was used in all departments at Biomedics products limited in order to obtain detailed and accurate information.

**Stratified sampling** involved organizing the units in the population into strata using a common characteristic of the activities performed. In this way, every member in the selected strata had an equal chance of being represented.

# Data collection methods

This study utilized a questionnaire to gather essential information. Questionnaires are important for studies since they gather data that is not straightforwardly discernible as they ask about sentiments, inspirations, mentalities, achievements and also encounters of people (Mellenbergh, 2008). The questionnaire involved both open and close-finished inquiries. The study used Likert scale to generate the questions in the questionnaire. The questionnaire had structured questions. The close-ended questions give more organized reactions to encourage substantial suggestions. The questionnaire addressed the three research objectives therefore it was sub-divided into two sections. The first section of the questionnaire collected demographic data of the respondents, while the next sections answered the three objectives of the study, that is, risk management, internal environment, control and monitoring activities.

# Interviews

Data collection was also carried out through personal interview method. The purpsoe of the interview is to gather consistent general information about IA activiteis within biomedics products limited. The interviewer interviewed each respondnet, this was important because helped the respondents to undersand the questions by interpreting them to fit his / her understanding. And this also was to ensure that the respondent answers the questions in the appropriate sequence and as elaborately as the researcher wanted. Respondents interviewed were drawn from the departments of Finance and Administrtion, internal audit, production, information and Communication Technology (ICT), and the marketing Department. Open and close ended questions were used to generate more discussion and to provide a particualr reponse respectively. The interviews lasted for about 15 minutes with each respondents in a bid to probe deeply the various developments with regard to Biomedics products limted financial performance and the various procedures put in place to ensure their proper use.

# Document review

Secondary data for the study was obtained by the reading books and documentary evidence already generated by the other reseachers and other printed documents relating to the organaisation. The reseacher throught out the course of the reseach consulted various reasources centers like university libraries Biomedics products limited resports and ciculars, the internet and journals among others.

# Data collection instrunments

The following instruments were used to collect data

# The self administered questionaite(SAQ)

The questionaire was designed andwasdistributed to all identified categories of respondents who are employees of Biomedics Products Limited aimed at obtaining there considerd opinion on the issue of internal audit in Biomedics prducts limited this contained questiones on persons demographies and the three objectives of the study that is , controls over receipt, the intergrity and reliability of financial and operational data. Conformance with financial and operational policies and the safeguards on the assets. The questionire was primarily made up of the statements requiring the respondents to opt for one answer out of the five(5) using the Likert formart of the questuinaire desigk requiring respondents to deside between varrrying degrees of fhe disaggreements in agreements. The questionaire was selected for use in this study because it was easy to apply yielded consistent results, easy to anayze and they reduced bias.

# Interview guide

The interview guide is a list of questions a researcher asks participants during the interview (Angus, 2000). The researcher designed structured interview guide where each respondent was asked the same question in the same order. The researcher clearly expressed the purpose of the interview and started with the neutral questions to facilitate free flow of information

# Document review checklist

Document review is a systematic collection, documentation, analysis and interpretation, and organization of data as a data collection method in research. The document review was used to collect secondary data because the process can be done independently without needing to solicit extensive input from other sources.

# Validity and reliability of the instruments

# Validity

Validity of instrument refers to the extent to which it measures what it claims to measure (Mugenda&Mugenda, 2003). In testing validity, the researcher used content validity index (CVI). Content validity refers to the degree that the instrument covers the content that it is supposed to measure. Measuring content validity of instruments is important. This type of validity can help to ensure construct validity and give confidence to the readers and researchers about instruments (Lawshe, 1975).

**CVR = (n-N/2)/ (N/2)**

CVR = content validity ratio or Index, n = number of respondents indicating essential, N= total number of respondents, Inter-rater re reliability was employed. Here assistants were used to do interviewing or content analysis for the researcher. To calculate this kind of reliability, the researcher will report the percentage of agreement on to the same subject.

The study conducted pilot study to pretest and validates the data instrument. The pilot testing conducted using the questionnaire on 10 management staff from Biomedics Products Limited. The pilot group was done through random sampling. The motivation behind the pilot test is to set up the legitimacy and unwavering quality of the exploration instruments and thus upgrade confronts legitimacy. The dependable guideline is that 1% to 10% of the specimen ought to constitute the pilot test (Cooper & Schilder, 2011).

The study utilised both face and substance legitimacy to find out the legitimacy of the surveys. Content validity draws a derivation from test scores to a vast space of things like those on the test. Content validity is concerned with test populace representativeness. Response options were given to the majority of the inquiries to guarantee that the answers given are in accordance with the examination questions they are intended to gauge.

**Reliability**

Reliability of research instrument refers to the measure of degree to which research instrument yield consistent result or data after repeated trials. To establish the reliability of the research instruments, the researcher used Cronbach’s alpha. Cronbach’s alpha is a measure used to assess the reliability, or internal consistency, of a set of scale or test items. In other words, the reliability of any given measurement refers to the extent to which it is a consistent measure of a concept, and Cronbach’s alpha is one way of measuring the strength of that consistency (Rousson, Gasser & Seifer, 2002). They suggest 0.6 or more as a cut-off of reliabilities, the pilot testing was re-run until the researcher is satisfied with the data collection instruments.

|  |
| --- |
| Reliability Statistics |
| Cronbach's Alpha | N of Items |
| .996 | 33 |

# Data processing

The data obtained was then processed for analysis. This involved cross checking the completed questionnaires to check for any errors that could have been committed. This process involved editing, cleaning the data, categorizing/ coding the data, entering the data into the computer and summarizing the data.

# Data analysis

After data collection**,** process, the data obtained was coded, refined before being entered in the computer tor analysis. The data was then summarized and analyzed using the statistical package and social scientists (SPSS).Descriptive statistics mainly frequencies and percentages were used as well as inferential statistics correlation.

# Ethical considerations

Ethical considerations were catered for by first seeking permission from the top management of Biomedics products limited through the introductory letter from the University. Questionnaires were structured in such a way that they do not require the respondents to mention their names.

A statement as to the strict confidentiality with which data was held clearly was stated in the questionnaire. Participation in the study was voluntary.

The researcher also briefed the respondents as to the purpose of the study, their relevance in the research process, and expectations from them.

# Limitations of the study

Survey has the problem of internal limitation and interpretation, however, the method was still used and results accepted.

Some respondents were hesitant to give information about internal auditing as asked in the questionnaires. The researcher however, informed them of the objectives of the research and confidentiality of the information that was provided.

Scheduling problems, especially with respondents that need to be interviewed; some respondents might be too busy to be interviewed. The researcher kept in touch with all the respondents to harmonize schedules.

# CHAPTER FOUR

# INTERNAL AUDITING AND PROFITABILITY

# Introduction

This chapter deals with the first objective of the study; to establish how internal auditing ensures profitability in Biomedics products limited. It aims at examining the situation at Biomedics products limited with the intention of establishing whether risk management has ensured on profitability. 65 questionnaires were distributed to respondents and 60 were filled and returned representing 92% (60/65\*100) response rate which is above the 50% recommended by Kothori (2013)

Risk is defined as the probability of an event and its consequences. Risk management is the practice of using processes, methods and tools for managing these risks. Risk management focuses on identifying what could go wrong, evaluating which risks should be dealt with and implementing strategies to deal with those risks. Businesses that have identified the risks will be better prepared and have a more cost-effective way of dealing with them.

Businesses face many risks; therefore risk management should be a central part of any business' strategic management. Risk management helps you to identify and address the risks facing your business and in doing so increase the likelihood of successfully achieving your businesses objectives.

In an attempt to explore whether Biomedics products Limited’s internal auditing ensures profitability, respondents were asked the following questions and responses are presented in the following tables.

# Risk assessment is carried out on monthly basis

Respondents were asked whether the company carries out risk assessment on a monthly basis. Results to the question are summarized in table 4.1

|  |
| --- |
| Table 4.1: Risk assessment is carried out on monthly basis |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 22 | 36.7 | 36.7 | 36.7 |
| Disagree | 19 | 31.7 | 31.7 | 68.3 |
| Not sure | 5 | 8.3 | 8.3 | 76.7 |
| Agree | 10 | 16.7 | 16.7 | 93.3 |
| Strongly agree | 4 | 6.7 | 6.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.1, results indicate that 36.7% of the respondents strongly disagreed, 31.7% disagreed, 8.3% were not sure, 16.7% agreed while 6.7% strongly agreed. The results indicate that majority of the respondents 68.3% generally disagreed to the statement, this means that the management does not regularly analyse and evaluate risk associated within the company. Respondents expressed that the company still has the old control measures of which there is a possibility that they have been bypassed by some employees. The monthly risk assessment would be very crucial in evaluating risks and remove them by adding on effective and efficient control measures.

# Segregation of duties is effective in ensuring custody of assets

Respondents were asked whether the segregation of duties has proved effective in ensuring custody of assets. Results are captured in table 4.2

|  |
| --- |
| Table 4.2: Segregation of duties is effective in ensuring custody of assets |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 15.0 | 15.0 | 15.0 |
| Disagree | 8 | 13.3 | 13.3 | 28.3 |
| Not sure | 7 | 11.7 | 11.7 | 40.0 |
| Agree | 17 | 28.3 | 28.3 | 68.3 |
| Strongly agree | 19 | 31.7 | 31.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.2 show that 15.0% of the respondents strongly disagreed, 13.3% disagreed, 11.7% were not sure, 28.3% agreed while 31.7% strongly agreed respectively. The results shows that majority of respondents 60.0% generally agreed to the statement, this means that there is oversight and review of catching errors.

*“Respondents noted that segregation of duties has been successful in preventing theft because the process emphasises two employees to collude in performance in order to hide a transactions. This means that for segregation to be effective, activities such as authorisation, recording and custody of assets is performed by different employees”.*

# The organisation has a well-developed computerised internal control system

Respondents were also asked whether the organisation has a well-developed computerised internal control system. Results to the question are obtained in table 4.3

|  |
| --- |
| Table 4.3: The organization has a well-developed computerized internal control system |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 6.7 | 6.7 | 6.7 |
| Disagree | 5 | 8.3 | 8.3 | 15.0 |
| Not sure | 7 | 11.7 | 11.7 | 26.7 |
| Agree | 21 | 35.0 | 35.0 | 61.7 |
| Strongly agree | 23 | 38.3 | 38.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.3 indicate that 6.7% of the respondents strongly disagreed, 8.3% disagreed, 11.7% were not sure, these stated that their roles are not in direct link with accounting information, 35.0% agreed while 38.3% strongly agreed.Majority of the respondents 73.3% generally agreed that the organisation has a well-developed computerised internal control system. Respondents stated the company uses Sage One accounting software which does not include features such as payroll, purchase orders, or time billing, and reporting is minimal. It was also revealed that the system has not had major functional failures and is able to produce all the required reports as initially scheduled for meetings. This means that accounting records are kept properly due to maximum recording features of the software.

# The installed internal control easily detects risks and errors

Respondents were asked whether the internal control easily detects risks and errors, results to the question are highlighted in table 4.4

|  |
| --- |
| Table 4.4: The installed internal control easily detects risk and errors |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 15 | 25.0 | 25.0 | 25.0 |
| Disagree | 19 | 31.7 | 31.7 | 56.7 |
| Not sure | 5 | 8.3 | 8.3 | 65.0 |
| Agree | 9 | 15.0 | 15.0 | 80.0 |
| Strongly agree | 12 | 20.0 | 20.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 4.4, it is seen that 25.0% of the respondents strongly disagreed, 31.7% disagreed, 8.3% were not sure, 15.0% agreed while 20.0% strongly agreed respectively. Majority of the respondents that is 56.7% generally disagreed to the statement, which means that the system is not effectively utilised to detect risk and errors. During an interview session, one respondent stated that;

*“The inconsistencies of the system are one of the major contributing factors to increased levels of risk within the company. It was basically due to such failures that the payments totaling to UGX 12,674,000 had no supporting documents and in the absence of supporting documents the funds were unaccounted for, and this was not the first instance of risk/ error as the matter is yet to be concluded”.*

This means that auditors have not developed an efficient and reliable system to implement the prevention and identification of errors.

# There are ongoing and independent reconciliation of all balances

Respondents were also asked whether there are ongoing and independent reconciliation of all balances. Results to the question are captured in table 4.5

|  |
| --- |
| Table 4.5: There are ongoing and independent reconciliation of all balances |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 9 | 15.0 | 15.0 | 28.3 |
| Not sure | 4 | 6.7 | 6.7 | 35.0 |
| Agree | 15 | 25.0 | 25.0 | 60.0 |
| Strongly agree | 24 | 40.0 | 40.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 4.5, it is indicated that 13.3% of the respondents strongly disagreed, 15.0% disagreed, 6.7% were not sure, 25.0% agreed while 40.0% strongly agreed to the statement. A combined percentage of 65.0% agreed which means that the accounting department ensures that there are reconciliations of all balances. Respondents stated that the accountants make reconciliations in with assist of the bank statement retrieved online, these reconciliation statements are prepared by the accountant, and forwarded to the company accountant who later forwards them to the director for approval. The reconciled statements are later kept in a recon file where all monthly reports are filed.

# The weakness pointed out are addressed by the management

The respondents were also asked whether the weakness pointed out is addressed by management. Results are presented in table 4.6

|  |
| --- |
| Table 4.6: The weakness pointed out are addressed by the management |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 18 | 30.0 | 30.0 | 30.0 |
| Disagree | 19 | 31.7 | 31.7 | 61.7 |
| Not sure | 5 | 8.3 | 8.3 | 70.0 |
| Agree | 9 | 15.0 | 15.0 | 85.0 |
| Strongly agree | 9 | 15.0 | 15.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.6 indicate that majority of the respondents generally disagreed to the statement; this was presented by 30.0% and 31.7% who strongly disagreed and disagreed respectively. Since this was the majority response it can be implied to mean that management is reluctant in addressing and resolving issues pointed out within internal audit. Respondents noted that although the internal auditor points out the weaknesses, it is the responsibility of addressing those rests with management and company officers not with IAs and this is because the job description of an internal auditor only extends to the responsibility of recording and reporting the weakness in the internal control. It was revealed that the corporation internal auditor in collaboration with his team is solely responsible to detect and submit the issues that had occur due to weakness of internal control to management for resolution.

# Internal audit reviews establish process to ensure that such channels operate efficiently

Respondents were also asked whether the internal audit reviews processes that can ensure internal audit channels operate efficiently. Results to the question are summarised in table 4.7

|  |
| --- |
| Table 4.7: Internal audit reviews establish process to ensure that such channels operate efficiently |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 6 | 10.0 | 10.0 | 10.0 |
| Disagree | 7 | 11.7 | 11.7 | 21.7 |
| Not sure | 10 | 16.7 | 16.7 | 38.3 |
| Agree | 16 | 26.7 | 26.7 | 65.0 |
| Strongly agree | 21 | 35.0 | 35.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.7 indicate that 10.0% of the respondents strongly disagreed, 11.7% disagreed, 16.7% were not sure, 26.7% agreed while 35.0% strongly agreed to the statement. The results indicate that 61.7% generally agreed, this means that the internal audit activity provides assurance that internal controls in place are adequate to mitigate risks and ensuring organisational goals and objectives are met such as profitability. During an interview session, one key respondent expressed that;

“*An effective internal audit channel is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the company and its culture, operations and risk profile. The objectivity*, *skills, and knowledge of competent internal auditors can significantly add value to an organization s internal control, risk management, and governance processes. Similarly an effective internal channel activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders”.*

# The company carefully selects assigned staff with risk management training

Respondents were also asked whether the company carefully selects assigned staff with risk management training. Responses to the question are obtained in table 4.8

|  |
| --- |
| Table 4.8: The Companycarefully selects assigned staff with risk management training |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 11.7 | 11.7 | 11.7 |
| Disagree | 8 | 13.3 | 13.3 | 25.0 |
| Not sure | 3 | 5.0 | 5.0 | 30.0 |
| Agree | 18 | 30.0 | 30.0 | 60.0 |
| Strongly agree | 24 | 40.0 | 40.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.8 revealed that 11.7% of the respondents strongly disagreed, 13.3% disagreed, 5.0% were not sure, 30.0% agreed while 40.0% strongly agreed respectively.The results showed that a combined 70.0% generally agreed to the statement, this can be interpreted to mean that company employs risk managers to ensure that risk management receives the attention that it deserves. The respondents also noted that during induction, management always takes an effort in ensuring that training programmes for new recruits incorporate risk governance, this also applies to management and other staff members who are responsible for monitoring finance and human resource risks and ensuring that its implementation is maintained.

# Employee’s roles are changed from time to time to reduce on likelihood of fraud

Respondents were also asked whether employee’s roles are changed from time to time to reduce on likelihood of fraud. Results are captured in table 4.9

|  |
| --- |
| Table 4.9: Employees roles are changed from time to time to reduce on likelihood of fraud |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 15 | 25.0 | 25.0 | 25.0 |
| Disagree | 17 | 28.3 | 28.3 | 53.3 |
| Not sure | 7 | 11.7 | 11.7 | 65.0 |
| Agree | 8 | 13.3 | 13.3 | 78.3 |
| Strongly agree | 13 | 21.7 | 21.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.9 indicate that 25.0% of the respondents strongly disagreed, 28.3% disagreed, 11.7% were not sure, 13.3% agreed while 21.7% strongly agreed. The results also showed that a combined percentage of 53.3% generally disagreed to the statement and one can conclude that fraud perpetrators often display behavioral traits that can indicate the intention to commit fraud. Respondents also stated that management does not encourage employees to change roles; however it practices segregation of duties. In addition, it was stated that personnel who create or maintain payroll data and lists should not be allowed to make changes or add employees without management approval.

# CHAPTER FIVE

# INTERNAL AUDITING AND PROPER UTILISATION OF FUNDS

# Introduction

This chapter deals with the second objective of the study; to establish how internal auditing ensures proper utilization of funds in Biomedics products limited. It aims at examining the situation at Biomedics products limited with the intention of establishing whether internal auditing has ensured on proper utilisation of funds.

Businesses do not operate in a vacuum but rather in a dynamic environment that has a direct influence on how they operate and whether they will achieve their objectives. This external business environment is composed of numerous outside organizations and forces that we can group into seven key sub environments that are economic, political and legal, demographic, social, competitive, global, and technological. Each of these sectors creates a unique set of challenges and opportunities for businesses.

Business owners and managers have a great deal of control over the internal environment of business, which covers day-to-day decisions. They choose the supplies they purchase, which employees they hire, the products they sell, and where they sell those products. They use their skills and resources to create goods and services that will satisfy existing and prospective customers. However, the external environmental conditions that affect a business are generally beyond the control of management and change constantly.

In an attempt to explore whether Biomedics products Limited’s internal auditing ensures proper utilisation of funds, respondents were asked the following questions and responses are presented in the following tables.

# Performance reviews are done monthly

Respondents were also asked whether performance reviews are done monthly. Results are summarised in table 5.1

|  |
| --- |
| Table 5.1: Performance reviews are done monthly |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagree | 3 | 5.0 | 5.0 | 5.0 |
| Not sure | 5 | 8.3 | 8.3 | 13.3 |
| Agree | 17 | 28.3 | 28.3 | 41.7 |
| Strongly agree | 35 | 58.3 | 58.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.1, results indicate that 5.0% of the respondents disagreed, 8.3% were not sure, 28.3% agreed while 58.3% strongly agreed to the statement. Results also revealed that a combined majority of respondents 86.6% generally agreed, this means that the performance of employees in the audit department is analyses and evaluated to measure the input performance of the employees. Respondents stated that management evaluates the feelings and guide corrective actions which measure performance factors which can help determine where the team stands. It was also revealed that performance reviews are conducted by sitting down employees and set goals through conversations that allow the members to have more of a say in their job, these reviews are later submitted to management and are usually used to determine amount of benefit package awarded to each employee.

# There is accurate and timely transfer of accounting information within internal environment

The respondents were also asked whether there is accurate and timely of accounting information within internal environment. Results in are presented in table 5.2

|  |
| --- |
| Table 5.2: There is accurate and timely transfer of accounting information within internal environment |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 6.7 | 6.7 | 6.7 |
| Disagree | 7 | 11.7 | 11.7 | 18.3 |
| Not sure | 9 | 15.0 | 15.0 | 33.3 |
| Agree | 14 | 23.3 | 23.3 | 56.7 |
| Strongly agree | 26 | 43.3 | 43.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.2, results indicate that 6.7% of the respondents strongly disagreed, 11.7% disagreed, 15.0% were not sure, 23.3% agreed while 43.3% strongly agreed to the statement. The results also showed that there was a combined percentage of 66.6% who generally agreed. Since this was the majority response it can be implied to meanthat decision making in reference to company accounting reports is always on time. During one of the interview sessions, one respondent stated that;

*“Some personnel at the company state that the accounting information fed into the system does not take much time. They opined that this is due to step by step screens; the process often takes a short time especially since personnel have required experience and some are still new to using the program. It was also stated that with the system failures, time requirements usually outweigh the benefits of automatic calculations”.*

This means that delay in generating of reports as and when needed by stakeholders means delay in decision making.

# Physical controls are in place to eliminate risks

Respondents were also asked whether physical controls are in place to eliminate risks. Results to the question are obtained in table 5.3

|  |
| --- |
| Table 5.3: Physical controls are in place to eliminate risks |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 15 | 25.0 | 25.0 | 25.0 |
| Disagree | 20 | 33.3 | 33.3 | 58.3 |
| Not sure | 7 | 11.7 | 11.7 | 70.0 |
| Agree | 10 | 16.7 | 16.7 | 86.7 |
| Strongly agree | 8 | 13.3 | 13.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to the results in table 5.3, it is indicated that 25.0% strongly disagreed, 33.3% disagreed, 11.7% were not sure, 16.7% agreed while 13.3% strongly agreed to the statement. This means that the company complies with laws, regulations and policies which seek to eliminate fraud and abuse. Respondents also expressed that the most common physical control measure applied is locking the office at close of business day. It was also revealed that effective physical controls help the various departments to keep required information safe, effective and efficient in order to provide a reasonable level of assurance that the processes and products for which it is responsible are adequately protected.

# Procedures in place are monitored to implement company policies

Respondents were asked whether the procedures in place are monitored to implement company policies. Results are obtained in table 5.4

|  |
| --- |
| Table 5.4: Procedures in place are monitored to implement company policies |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 11.7 | 11.7 | 11.7 |
| Disagree | 5 | 8.3 | 8.3 | 20.0 |
| Not sure | 8 | 13.3 | 13.3 | 33.3 |
| Agree | 18 | 30.0 | 30.0 | 63.3 |
| Strongly agree | 22 | 36.7 | 36.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.4 reveal that 11.7% of the respondents strongly disagreed, 8.3% disagreed, 13.3% were not sure, 30.0% agreed while 36.7% strongly agreed to the statement, it was also revealed that majority of respondents that is 66.7% generally agreed to the statement, this means that the financial policies and procedures are implemented at all times consistently. During an interview session, one respondent expressed that;

*“Internal environment of the company interacts with management to implement and monitor the internal control structure and to take steps to insure that the possible risks of fraud or embezzlement are mitigated”.*

This means that the employees understand the organisation’s internal audit controls and policies.

# Reconciliation of company accounts is done on a regular basis to ensure accuracy of financial information

Respondents were also asked whether the reconciliation of company accounts is done on a regular basis to ensure accuracy of financial information. Results to the question are presented in table 5.5

|  |
| --- |
| Table 5.5: Reconciliation of company accounts is done on a regular basis to ensure accuracy of financial information |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 16.7 | 16.7 | 16.7 |
| Disagree | 9 | 15.0 | 15.0 | 31.7 |
| Not sure | 7 | 11.7 | 11.7 | 43.3 |
| Agree | 16 | 26.7 | 26.7 | 70.0 |
| Strongly agree | 18 | 30.0 | 30.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.5 indicate that 16.7% of the respondents strongly disagreed, 15.0% disagreed, 11.7% were not sure, 26.7% agreed and 30.0% strongly agreed. Results also showed that majority of the respondents that 56.7% generally agreed, it can be interpreted to mean that financial statements of the company are always complete, neutral or free from error at all times. Respondents stated that uncompleted reports are due to multiple system failures and unskilled personnel in accounting practice. Respondents stated that management revealed that reports prepared show all transactions that are made in the business. This means that the financial information contained at Biomedics Products Limited represent the business’s essence of transactions and events are merely legal and also present a true and fair view.

# Compliance with laws gives reasonable assurance of the reliability of financial reporting is followed

Respondents were also asked whether compliance with laws gives reasonable assurance of the reliability of financial reporting is followed. The results are summarised in table 5.6

|  |
| --- |
| Table 5.6: Compliance with laws gives reasonable assurance of the reliability of financial reporting |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 10 | 16.7 | 16.7 | 16.7 |
| Agree | 19 | 31.7 | 31.7 | 48.3 |
| Strongly agree | 31 | 51.7 | 51.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to the results in table 5.6 it is indicated that 16.7%were not sure, 31.7% agreed while 51.7% strongly agreed to the statement. The results also showed a combined percentage of 83.4% generally agreed to the statement, this can be implied to mean that compliance with laws provides reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes. The respondents also stated that the management of a company is responsible for preparing the financial statements. The auditor is responsible for expressing an opinion indicating that reasonable assurance has been obtained that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and that they are fairly presented in accordance with the relevant accounting standards

# The senior staff carry out their supervisory roles spelt out in the organisation

Respondents also stated that the senior staffs carry out their supervisory roles spelt out in the organisation. Results are captured in table 5.7

|  |
| --- |
| Table 5.7: The senior staffs carry out their supervisory roles spelt out in the organization |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 11.7 | 11.7 | 11.7 |
| Disagree | 8 | 13.3 | 13.3 | 25.0 |
| Not sure | 11 | 18.3 | 18.3 | 43.3 |
| Agree | 20 | 33.3 | 33.3 | 76.7 |
| Strongly agree | 14 | 23.3 | 23.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results also showed that 11.7% of the respondents strongly disagreed, 13.3% disagreed, 18.3% were not sure, 33.3% agreed while 23.3% strongly agreed. The results also indicated that majority of respondents that is 56.6% generally agreed. Since this is the majority response it can be interpreted to mean that senior staffs manage other employees through leadership. Respondents stated that senior staffs help getting things done, not necessarily through coordination of the efforts of the rest of the team. The respondents also noted that the senior staff usually sharesmany qualities, including the ability to maintain distance from their employees without losing awareness of their activities, yet still carrying about their productiveness and well-being.

# Internal audit consist a continuous evaluation of internal controls

Respondents were also asked whether internal audit consist a continuous evaluation of internal controls. Results are shown in table 5.8

|  |
| --- |
| Table 5.8: Internal audit consist a continuous evaluation of the internal controls |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 15.0 | 15.0 | 15.0 |
| Disagree | 10 | 16.7 | 16.7 | 31.7 |
| Not sure | 5 | 8.3 | 8.3 | 40.0 |
| Agree | 20 | 33.3 | 33.3 | 73.3 |
| Strongly agree | 16 | 26.7 | 26.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.8, results indicate that 15.0% strongly disagreed, 16.7% disagreed, 8.3% were not sure, 33.3% agreed while 26.7% strongly agreed respectively. Since majority of the respondents generally agreed, it can be implied to mean that internal audit monitors performance and taking corrective action under internal controls if either policy or its implementation is defective. Respondents also noted that the internal controls of the company provides a means of assurance that corporate objectives are being achieved, also those audit units constitute an important element of internal control by providing a continuous means for improving an organisation’s operation.

# The internal control system forwards the reports to various stakeholders

Respondents were also asked whether the internal control system forwards the reports to various stakeholders. Results are captured in table 5.9

|  |
| --- |
| Table 5.9: The internal control system forwards the reports to various stakeholders |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 8.3 | 8.3 | 8.3 |
| Disagree | 10 | 16.7 | 16.7 | 25.0 |
| Not sure | 7 | 11.7 | 11.7 | 36.7 |
| Agree | 19 | 31.7 | 31.7 | 68.3 |
| Strongly agree | 19 | 31.7 | 31.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.9 indicate that 8.3% strongly disagreed, 16.7% disagreed, 11.7% were not sure, 31.7% agreed while 31.7% strongly agreed to the statement. The question had a combined response of 63.4% generally agreed; this can be implied to mean that the company’s multiple locations or business units identify the significant accounts and disclosures and their relevant assertions based on the consolidated financial statements.

During one of the interview session, it was revealed that;

*‘The internal control system at Biomedics products limited instantly electronically sends back to office via wireless technology our engineers written worksheets in ‘real time’ digitally, this enables us to operate a paperless office system whilst ensuring our customers receive their completed written worksheets”.*

# CHAPTER SIX

# INTERNAL AUDITING AND VALUE FOR MONEY

# Introduction

This chapter deals with the third objective of the study; to assess how m internal auditing ensures value for money in Biomedics products limited. It aims at examining the situation at Biomedics products limited with the intention of establishing whether internal auditing has enhanced on value for money.

Value for money (VFM) is derived from the optimal balance of benefits and costs on the basis of total cost of ownership. The nature of public procurement is such that it involves discretionary decision-taking on behalf of government at all levels. Value for money is therefore not a choice of goods or services which is based on the lowest bid price but a choice based on the whole life costs of the project or service.

Value for money is derived from the optimal balance of benefits and costs on the basis of total cost of ownership. As such, value for money does not necessarily mean that a tender must be awarded to the lowest tenderer (Civil Service College, 2010). Value for money in public procurement is achieved through pursuing the lowest whole of life cost, clearly defining relevant benefits and delivering on time. Preventing waste and fostering competition, transparency and accountability during the tendering process are key conditions to achieving value for money.

In an attempt to explore whether Biomedics products Limited’s monitoring and control activities enhances value for money, respondents were asked the following questions and responses are presented in the following tables.

# Systems of approval and authorisation are complied with

Respondents were also asked whether the systems of approval and authorisation are complied with. Results to the question are highlighted in table 6.1

|  |
| --- |
| Table 6.1: Systems of approval and authorization are complied with |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 10 | 16.7 | 16.7 | 30.0 |
| Not sure | 9 | 15.0 | 15.0 | 45.0 |
| Agree | 21 | 35.0 | 35.0 | 80.0 |
| Strongly agree | 12 | 20.0 | 20.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.1, it is indicated that 13.3% of the respondents strongly disagreed, 16.7% disagreed, 15.0% were not sure, 35.0% agreed while 20.0% strongly agreed to the statement. The results reveal that there is a combined percentage of 55.0% who generally agreed, this can be implied to mean that there are specific authorisations related to individual transactions and require formal approval by the company personnel having proper approval authority. During an interview guide, one key respondent expressed that

*“It is important to remember that approving a transaction is assuming responsibility for the authenticity of that transaction or verifying it. An example of a general authorization is the matching of vendor invoices to receiving reports and purchase orders prior to payment to ensure that the university is only paying for items actually received and in accordance with negotiated terms and prices”.*

# There is transparency in recording transactions

Respondents were also asked whether there is transparency in recording transactions. Results to the question are presented in table 6.2

|  |
| --- |
| Table 6.2: There is transparency in recording transactions |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 15.0 | 15.0 | 15.0 |
| Disagree | 8 | 13.3 | 13.3 | 28.3 |
| Not sure | 10 | 16.7 | 16.7 | 45.0 |
| Agree | 18 | 30.0 | 30.0 | 75.0 |
| Strongly agree | 15 | 25.0 | 25.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.2, results indicate that 15.0% of the respondents strongly disagreed, 13.3% disagreed, 16.7% were not sure stating that the information is above their clearance level, 30.0% agreed while 25.0% strongly agreed to the statement. Since majority of the respondents agreed, once can conclude that transparency adds a degree of comparability of financial statements prepared in different financial periods; respondents further noted that the internal audit department offers a clear, concise and balanced view of the company’s financial situation to shareholders and that this helps to meet the heightened government regulations that require companies to comply with specific reporting standards

# The different systems in the organisation are continuously reviewed

Respondents were also asked whether the different systems in the organisation are continuously reviewed. Results are presented in table 6.3

|  |
| --- |
| Table 6.3: The different systems in the organization are continuously reviewed |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 15 | 25.0 | 25.0 | 25.0 |
| Disagree | 19 | 31.7 | 31.7 | 56.7 |
| Not sure | 8 | 13.3 | 13.3 | 70.0 |
| Agree | 10 | 16.7 | 16.7 | 86.7 |
| Strongly agree | 8 | 13.3 | 13.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.3, results indicated that 25.0% of the respondentsstrongly disagreed, 31.7% disagreed while 13.3% were not sure, 16.7% agreed and 13.3% of the respondents disagreed. There was a combined response of 56.7% who generally disagreed; this can be implied to mean that management routinely reviews the company’s process safety systems to spur continuous improvement. Respondents stated that management review is the routine evaluation of whether management systems are performing as intended and producing the desired results as efficiently as possible. This means that effective performance is a critical aspect of any process safety programs.

# Responsibility recording is practiced in medical procedures

Respondents were also asked whether responsibility recording is practiced in medical procedures. Results to the question are summarised in table 6.4

|  |
| --- |
| Table 6.4: Responsibility recording is practiced in medical procedures |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 13.3 | 13.3 | 13.3 |
| Disagree | 4 | 6.7 | 6.7 | 20.0 |
| Not sure | 9 | 15.0 | 15.0 | 35.0 |
| Agree | 18 | 30.0 | 30.0 | 65.0 |
| Strongly agree | 21 | 35.0 | 35.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to the results in table 6.4, it is revealed that 13.3% strongly disagreed, 6.7% disagreed, 15.0% were not sure, 30.0% agreed while 35.0% strongly agreed. The results show that there was a combined response percentage of 65.0%, this means that medical recording in terms of health records and medical charts are used are interchangeably to describe the systematic documentation of a single [patient](https://en.wikipedia.org/wiki/Patient)'s [medical history](https://en.wikipedia.org/wiki/Medical_history) and [care](https://en.wikipedia.org/wiki/Health_care) across time within one particular health care provider's jurisdiction. The results also indicated that at Biomedics products limited, the statutory duty of medical personnel to document the treatment of the patient in either hard copy or within the electronic patient.

# Internal audit has made explicit commitment to openness and transparency in all activities of the company

Respondents were also asked whether internal audit has commitment to openness and transparency in activities of the company. Results to the question are summarised in table 6.5

|  |
| --- |
| Table 6.5: Internal audit has made explicit commitment to openness and transparency in all activities of the company. |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 6.7 | 6.7 | 6.7 |
| Disagree | 7 | 11.7 | 11.7 | 18.3 |
| Not sure | 10 | 16.7 | 16.7 | 35.0 |
| Agree | 17 | 28.3 | 28.3 | 63.3 |
| Strongly agree | 22 | 36.7 | 36.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.5, results revealed that 6.7% of the respondents strongly disagreed to the statement, 11.7% disagreed, 16.7% were not sure, 28.3% agreed while 36.7% strongly agreed respectively to the statement. Since majority of the respondents generally agreed, it can be implied to mean that transparency in company operations have provisions for contingencies which are made explicit in policy statements and budget documents. During an interview session, one key respondent expressed that;

*“There are situations where for tactical reasons governments may choose to adopt implicitly a somewhat conservative set of underlying commitment to openness and transparency”.*

# The documents used are serially numbered

Respondents were asked whether the documents used are serially numbered. Results to the question are captured in table 6.6

|  |
| --- |
| Table 6.6: The documents used are serially numbered |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 12 | 20.0 | 20.0 | 20.0 |
| Agree | 20 | 33.3 | 33.3 | 53.3 |
| Strongly agree | 28 | 46.7 | 46.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.6 reveal that 20.0% of the respondents were not sure, 33.3% agreed while 46.7% strongly agreed respectively. The results show that majority of respondents 80.0% generally agreed to the statement, this can be interpreted to mean that Biomedics products limited has a numbered filing system of keeping records. The respondents also noted that medical documents are filed numerically according to patient’s medical record numbers. In the past, the hospital had filed records according to patient’s names, discharge numbers, or diagnostic code numbers. Alphabetic filing by patient names is more cumbersome and subject to more error than numerical filing. It was also noted that filing by discharge numbers and diagnostic code numbers is generally unsatisfactory because other important records or registers in the facility are concerned exclusively with medical record numbers.

# Cash receipts bear distant features and are in triplicate

Respondents were further asked whether cash receipts bear distant features and are in triplicate. Results are presented in table 6.7

|  |
| --- |
| Table 6.7: Cash receipts bear distant features and are in triplicate |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 6.7 | 6.7 | 6.7 |
| Disagree | 6 | 10.0 | 10.0 | 16.7 |
| Not sure | 8 | 13.3 | 13.3 | 30.0 |
| Agree | 17 | 28.3 | 28.3 | 58.3 |
| Strongly agree | 25 | 41.7 | 41.7 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.7, it can be seen that 6.7% of the respondents strongly disagreed, 10.0% disagreed, 13.3% were not sure, 28.3% agreed while 41.7% strongly agreed. 70.0% of the respondents generally agreed to the statement which implies to mean that the cash receipts feature provides the central cash receipt and accounts receivable tracking utility for the entire integrated system. It was also revealed that immediate posting of transactions lets management instantly see the results of the transactions entered which is a built in feature when batch control is not enabled.

# There is proper accountability of resources

Respondents were also asked whether there is proper accountability of resources. The results are summarised in table 6.8

|  |
| --- |
| Table 6.8: There is proper accountability of resources |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 15 | 25.0 | 25.0 | 25.0 |
| Disagree | 20 | 33.3 | 33.3 | 58.3 |
| Not sure | 7 | 11.7 | 11.7 | 70.0 |
| Agree | 10 | 16.7 | 16.7 | 86.7 |
| Strongly agree | 8 | 13.3 | 13.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 6.8 indicate that majority of respondents generally disagreed; this was presented by 25.0% and 33.3% who strongly disagreed and disagreed respectively. Since this was the majority, it means that Biomedics products limited effectively assign resources/funds to each activity in the activity list. Respondents stated that Biomedics products limited uses various tools and techniques for effectively allocating resources however the inexperience of staff leads to difficulty in achieving success. Respondents also stated that company lacks expert judgment and alternative analysis which could be used to effectively allocate resources from the bottom to most prioritized department; this had led to delays in performance of various tasks and activities by employees.

# The recommendation from the audit reports are taken into consideration

Respondents were asked whether the recommendation from the audit reports is taken into consideration. Results are summarised in table 6.9

|  |
| --- |
| Table 6.9: The recommendation from the audit reports are taken into consideration |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 15.0 | 15.0 | 15.0 |
| Disagree | 8 | 13.3 | 13.3 | 28.3 |
| Not sure | 9 | 15.0 | 15.0 | 43.3 |
| Agree | 19 | 31.7 | 31.7 | 75.0 |
| Strongly agree | 15 | 25.0 | 25.0 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.9, results indicate that 15.0% strongly disagreed, 13.3% disagreed, 15.0% were not sure, 31.7% agreed while 25.0% strongly agreed to the statement. The results indicate that majority of respondents 56.7% generally agreed to the statement, this means that management takes an initiative to find solutions to the raised issues in audit reports. It was also stated that the recommendations are usually provided immediately and in time, this is attributed to the fact that management established a responsive program to detect errors or misrepresentations in the audit reports to correct the identified issues.

# Internal audit reports are reviewed by management and form the basis for future review

Respondents were also asked whether the internal audit reports are reviewed by management and form the basis for future review. Results are captured in table 6.10

|  |
| --- |
| Table 6.10: Internal audit reports are reviewed by management and form the basis for future review. |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 6 | 10.0 | 10.0 | 10.0 |
| Disagree | 9 | 15.0 | 15.0 | 25.0 |
| Not sure | 12 | 20.0 | 20.0 | 45.0 |
| Agree | 16 | 26.7 | 26.7 | 71.7 |
| Strongly agree | 17 | 28.3 | 28.3 | 100.0 |
| Total | 60 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.10, it is revealed that 10.0% of the respondents strongly disagreed, 15.0% disagreed, 20.0% were not sure, 26.7% agreed while 28.3% strongly agreed. Since majority of the respondents generally agreed represented by 55.0%, this can be implied to mean that as part of the evaluation process, the auditor and management review reports issued during the year by internal audit or a personnel with similar function. Respondents also noted that the reviews address controls related to internal control over financial reporting and evaluation control deficiencies identified in the reports. During an interview session, a key respondent stated that;

*“Usually after the review is done, an opinion from management is formed on the effectiveness of the company’s internal control over financial reporting, the auditor evaluates the presentation of the elements that management is required, under the company rules, to present in its annual report on internal control over financial reporting”.*

# Hypothesis testing

The hypothesis H0: there is no significant relationship between internal auditing and financial performance in Biomedics products limited; H1: there is a significant relation between internal auditing and financial performance in Biomedics products limited.

In this study, to facilitate the testing of the hypothesis of the study, the researcher used correlation analysis to test the study hypothesis that there is no relationship between internal auditing and financial performance. The results of the test are shown in the tables below.

# Regression Analysis

Multiple regression analysis was performed in order to establish the level at whichinternal auditing explained the degree of variance in financial performance. The result obtained is presented in the model summary table 6.11

|  |
| --- |
| Table 6.11: Model Summary |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .840a | .705 | .700 | .79120 |
| a. Predictors: (Constant), Internal auditing |

Results in table 6.11 indicate that the Adjusted R square, which is the variability of the dependent variable financial performance, explained by the regression is .700 or 70.0%, this can be interpreted to mean that 70.0% of the variability in financial performance of Biomedics products limited (profitability, proper utilisation of funds, value for money) is explained by the independent variable internal auditing. The R value from the summary model is 0.840 which is the correlation coefficient.

# ANOVA (Analysis of variance)

ANOVA analysis was performed to test the equivalent hypothesis that there is no relationship between internal auditing and financial performance in Biomedics products limited. The results are summarized in table 6.12

|  |
| --- |
| Table 6.12: ANOVAa |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 86.676 | 1 | 86.676 | 138.461 | .000b |
| Residual | 36.308 | 58 | .626 |  |  |
| Total | 122.983 | 59 |  |  |  |
| a. Dependent Variable: Financial performance |
| b. Predictors: (Constant), Internal auditing |

F= 138.461, p<0.05, the null hypothesis that there is no significant relationship between internal auditing and financial performance in Biomedics products limited is rejected. This means that there is a significant relationship between internal auditing and financial performance in Biomedics products limited.

|  |
| --- |
| Table 6.13: Coefficientsa |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.381 | .206 |  | 6.708 | .000 |
| Internal auditing | .935 | .079 | .840 | 11.767 | .000 |
| a. Dependent Variable: Financial performance |

The regression matrix in table 6.13 tests what independent variable is more important to the dependent variable. The results indicate that distribution internal auditing has Beta=.840. The t=6.708 is statistically significant with p<0.05 (0.01) and this signifies that the model fits the data and that there is a significant relationship between internal auditing and financial performance in Biomedics products limited

# CHAPTER SEVEN

# TOWARDS HARMONISING INTERNAL AUDITING AND FINANCIAL PERFORMANCE

# Introduction

This chapter sets out to link study findings to the literature review by discussing the findings in relationship with literature review, and then suggest a way forward for Biomedics products limited. Implications are, deduced, from the findings, discussed and interpreted basing on the research hypotheses of the study.

# Internal auditing and profitability

Findings on this question revealed that majority of the respondents 68.4% generally disagreed to the statement that risk assessment is carried out on monthly basis. The results also showed that majority of respondents 60.0% generally agreed to the statement that segregation of duties is effective in ensuring custody of assets. 35.0% agreed and 38.3% strongly mentioned that the company uses Sage One accounting software which does not include features such as payroll, purchase orders, or time billing, and reporting is minimal. Majority of the respondents that is 56.7% generally disagreed to the statement that the installed internal control easily detects risk and errors. A combined percentage of 65.0% agreed that there are ongoing and independent reconciliation of all balances.30.0% and 31.7% strongly disagreed and disagreed respectively that the weakness pointed out are addressed by the management. The results indicate that 61.7% generally agreed that internal audit reviews establish process to ensure that such channels operate efficiently. The results showed that a combined 70.0% generally agreed to the statement that the company carefully selects assigned staff with risk management training. The results also showed that a combined percentage of 53.3% generally disagreed to the statement that employee roles are changed from time to time to reduce on likelihood of fraud.

Strong risk management practices can help institutions to reduce their exposure to credit risks, and enhance their ability to compete in the market with other well established financial institutions like private hospitals (Basel 1999). A reduction in private hospital exposure to credit risks will enable achieving of the private hospitals set objectives and ascertain its success. Therefore, it is necessary that private hospitals have in place a comprehensive risk management practices and reporting process to identify, measure, monitor, manage, report and control credit risks. Efficient risk management practices have been vital in allowing the phenomenal growth in credit unions. The effective management of credit risk by private hospitals and other financial institutions is critical to private hospital’s viability and sustained growth. Failure to control credit risk, may lead to insolvency (Greuning and Iqbal, 2007).

According to Marshall and Siegel, (2006), there are also some risks that can be eliminated, or at least substantially reduced through the technique of risk transfer. Markets exist for many of the risks borne by the private hospital. Interest rate risk can be transferred by interest rate products such as swaps or other derivatives. Borrowing terms can be altered to effect a change in their duration. Finally, the hospital can buy or sell financial claims to diversify or concentrate the risks that result in from servicing its client base. To the extent that the financial risks of the assets created by the firm are understood by the market, these assets can be sold at their fair value. Unless the institution has a comparative advantage in managing the attendant risk and/or a desire for the embedded risk they contain, there is no reason for the hospital to absorb such risks, rather than transfer them

The importance of risk management is increasing with time because of some reasons like economic crises and stagnation, company insolvencies, infraction of rules in company accounting and audits, growth of off-balance sheet derivatives, declining and volatile values of collateral, borrowing more easily of small firms, and financial globalization.

According to Parrenas, (2005), organizations have long viewed the problem of risk management as the need to control risks which make up most, if not all, of their risk exposure, credit, interest rate, foreign exchange and liquidity risk. While they recognize counterparty and legal risks, they view them as less central to their concerns. Where counterparty risk is significant, it is evaluated using standard credit risk procedures, and often within the credit department itself. Likewise, most hospitals would view legal risks as arising from their credit decisions or, more likely, proper process not employed in financial contracting. Accordingly, the study of organizational risk management processes is essentially an investigation of how they manage these four risks.

# Internal auditing and proper utilization of funds

The findings on this question revealed that that a combined majority of respondents 86.6% generally agreed that performance reviews are done monthly. The results also showed that there was a combined percentage of 66.6% who generally agreed that there is accurate and timely transfer of accounting information within internal environment. 25.0% strongly disagreed and 33.3% disagreed respectively that physical controls are in place to eliminate risks.It was also revealed that majority of respondents that is 66.7% generally agreed to the statement that procedures in place are monitored to implement company policies. Results also showed that majority of the respondents that 56.7% generally agreed that reconciliation of company accounts is done on a regular basis to ensure accuracy of financial information. The results also showed a combined percentage of 83.4% generally agreed to the statement that compliance with laws gives reasonable assurance of the reliability of financial reporting. The results also indicated that majority of respondents that is 56.6% generally agreed that the senior staffs carry out their supervisory roles spelt out in the organization. The question had a combined response of 63.4% generally agreed that the internal control system forwards the reports to various stakeholders.

Business owners and managers have a great deal of control over the internal environment of business, which covers day-to-day decisions. They choose the supplies they purchase, which employees they hire, the products they sell, and where they sell those products. They use their skills and resources to create goods and services that will satisfy existing and prospective customers. However, the external environmental conditions that affect a business are generally beyond the control of management and change constantly. To compete successfully, business owners and managers must continuously study the environment and adapt their businesses accordingly.

The environment in which business organizations operate is a complex, multi-focus dynamic and has a far reaching effect on such organization. The environment tends, shape the outlook, and goal of the organization by placing constraints on them. These constraints in the environment of organizations goal could be in the form of competition, this sets a limit on the goals specify by the organization. For instance, trade union asking for increase in salary, will affect the shareholder dividend. Unethical behaviour also affects profit. All these settings provide multiple contexts that influence how the organization operates and how and what it produces

Since business makes demand on the society and the society makes demands on the business, managers in any organization must interact with and respond to environmental factors internal or external to their organizations. The sum of these interrelationships within the business and between the business and the society is what is the management regarded as business environment.

Organizations survival and success depend on the appropriate adoptions to a complex and over changing environment. It is pertinent for top management of organization to identify opportunities and threats in the external environment. Internal environment, it should focus on strengths and weakness, potential and existing ones. It should respond swiftly, in order to know where it can have competitive advantage over its rivals. Therefore, any organization should look or search its environment continuously (Oghojafor, (2008).

# Internal auditing activities and value for money

Findings revealed that there is a combined percentage of 55.0% who generally agreed that systems of approval and authorization are complied with. The results also revealed that 30.0% agreed while 25.0% strongly agreed to the statement that there is transparency in recording transactions. There was a combined response of 56.7% who generally disagreed to the statement that the different systems in the organization are continuously reviewed. The results show that there was a combined response percentage of 65.0% who generally agreed to the statement that responsibility recording is practiced in medical procedures. 28.3% agreed while 36.7% strongly agreed respectively to the statement that internal audit has made explicit commitment to openness and transparency in all activities of the company. The results show that majority of respondents 80.0% generally agreed to the statement that the documents used are serially numbered. 70.0% of the respondents generally agreed to the statement that cash receipts bear distant features and are in triplicate. The results indicate that majority of respondents 56.7% generally agreed to the statement that the recommendation from the audit reports are taken into consideration.Lastly majority of the respondents generally agreed to the statement and this was represented by 55.0%, that internal audit reports are reviewed by management and form the basis for future review

Administrative management is responsible for maintaining an adequate system of internal control. Management is responsible for communicating the expectations and duties of staff as part of a control environment. They are also responsible for assuring that the other major areas of an internal control framework are addressed.

In defining the term monitoring, one needs to be exposed to a number of concepts associated therewith. Monitoring is the continuous assessment of a programme or project in relation to the agreed implementation schedule. It is also a good management tool which should, if used properly, provide continuous feedback on the project implementation as well assist in the identification of potential successes and constraints to facilitate timely decisions. Unfortunately, in many organisation, the role of this is barely understood and therefore negatively impacts on the organisation.

The very nature of project / programme management makes it inevitable that certain meetings are convened to communicate and share project information. Other programmes may even require standing committees where outsiders may be invited to review programme performance. One needs to be cautioned that, while it is important to have meetings, they should be used as effective tools. Meetings can be used for sharing and interchanging information, clarifying, stimulating, and seeking the best solutions regarding organisational performance

# CHAPTER EIGHT

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

This chapter comprises of the summary of findings, conclusion and recommendation of the study according to the study objectives. The study is about internal auditing and financial performance of biomedical private companies in Uganda. The recommendations are on a basis of the findings and relates to advice and the interventions that the researcher feels should be brought to the attention of Biomedics products limitedto improve on financial performance through internal auditing. The study ends by presenting the areas that the researcher considers vital for further studies

# Internal auditing and profitability

The findings under this section revealed that the company still has the old control measures of which there is a possibility that they have been bypassed by some employees. It was also revealed that that segregation of duties has been successful in preventing theft because the process emphasises two employees to collude in performance in order to hide a transactions. The accountants make reconciliations in with assist of the bank statement retrieved online; these reconciliation statements are prepared by the accountant, and forwarded to the company accountant who later forwards them to the director for approval. It was also established that management is reluctant in addressing and resolving issues pointed out within internal audit. The findings also showed that the internal audit activity provides assurance that internal controls in place are adequate to mitigate risks and ensuring organisational goals and objectives are met such as profitability. Respondents also noted that company employs risk managers to ensure that risk management receives the attention that it deserves. In addition, results also indicated that management does not encourage employees to change roles; however it practices segregation of duties.

# Internal environment and proper utilization of funds

The results revealed that the performance of employees in the audit department is analyses and evaluated to measure the input performance of the employees. It was also seen that that decision making in reference to company accounting reports is always on time. It was also revealed that effective physical controls help the various departments to keep required information safe, effective and efficient in order to provide a reasonable level of assurance that the processes and products for which it is responsible are adequately protected. Management revealed that reports prepared show all transactions that are made in the business. The respondents also stated that the management of a company is responsible for preparing the financial statements. Results also revealed that senior staffs help getting things done, not necessarily through coordination of the efforts of the rest of the team. Internal audit monitors performance and taking corrective action under internal controls if either policy or its implementation is defective. The results also indicated the company’s multiple locations or business units identify the significant accounts and disclosures and their relevant assertions based on the consolidated financial statements.

# Internal auditing and value for money

The findings under this section revealed that there are specific authorisations related to individual transactions and require formal approval by the company personnel having proper approval authority. Respondents stated that management review is the routine evaluation of whether management systems are performing as intended and producing the desired results as efficiently as possible. The results also indicated that at Biomedics products limited, the statutory duty of medical personnel to document the treatment of the patient in either hard copy or within the electronic patient. The results also showed that medical documents are filed numerically according to patient’s medical record numbers. It was also revealed that immediate posting of transactions lets management instantly see the results of the transactions entered which is a built in feature when batch control is not enabled. Respondents also stated that company lacks expert judgment and alternative analysis which could be used to effectively allocate resources from the bottom to most prioritized department; this had led to delays in performance of various tasks and activities by employees. It was also stated that the recommendations are usually provided immediately and in time, this is attributed to the fact that management established a responsive program to detect errors or misrepresentations in the audit reports to correct the identified issues.

# Conclusion

The study makes a conclusion that the internal audit department is very important inside a firm where the internal audit is regarded as the key element in the application of accounting systems and this in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department’s quality.

The study also concludes that an internal audit is considered as a significant part of Biomedics products limited structure in the organization and the company covers the activities of oversight by the board of directors and audit committees to ensure credible financial reporting process. Previous studies have attempted to provide a clear picture of the relationship between internal audit (professional qualifications of the chief audit executive, experience of internal audits and internal audit qualifications) and firm performance. The present study included the qualification of the internal audit’s chairman. In theory, the present study is unique in its examination of the relationship between internal audit factors and firm performance.

# Recommendations

In a bid to further improve financial performance, it is recommendable for management to ensure that there is diversity in the nature of work done and a balance stroked to ensure optimal performance.

Biomedics products limited should maintain the existing control environment, information and communication, assurance services as per results of the findings which showed a positive significant effect on how this attributes to performance.

Continuous improvement control activities, procedures and policies should be regularly revised at least annually to meet the very changing and complicated business environment and ensure they are communicated to the implementers.

# Areas of further research

The research was carried on the role of internal audit and performance of Biomedics products limited. From the findings, there is still a gap as on whether risk management should be a function of internal audit or be left to management and as such, one can carry out a research on the role of internal audit on risk management and performance.

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# SELF ADMINISTERED QUESTIONNAIRE

I am carrying out a research an internal audit in the performance of Biomedics Private Companies in Uganda. It focused on Biomedics Products Limited a case study. I therefore seek your cooperation for the success of this research by kindly filling and returning this questionnaire. The information given will be strictly be confidential and only used for academic purposes.

S**ection A: Personal information**

Where options have been provided, tick only the box with the appropriate answer

1. Age

20 – 29 years 30 – 39 years 40 – 49 years 50 years and Above

1. Gender

Male Female

1. Highest level of education
	1. PhD
	2. Masters
	3. Degree
	4. Diploma
	5. Certificate
	6. Others ……………………
2. Years in service

Less than a year 2 – 4 years 5 - 8 years 9 years and more

**SECTION B: RISK MANAGENMENT AND FINANCIAL PERFORMANCE IN BIOMEDICS PRODUCTS LIMITED**

1. Use a scale of 1-5 where 5= Strongly agree, 4= Agree, 3 = Not sure, 2= Disagree and 1= Strongly disagree

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Risk management and financial performance** | **1**  | **2** | **3**  | **4**  | **5**  |
| 1. Risk assessment is carried out on monthly basis |  |  |  |  |  |
| 2. Segregation of duties is effective in ensuring custody of assets |  |  |  |  |  |
| 3. The organization has a well-developed computerized internal control system |  |  |  |  |  |
| 4. The installed internal control easily detects risk and errors |  |  |  |  |  |
| 5. There are ongoing and independent reconciliation of all balances |  |  |  |  |  |
| 6. The weakness pointed out are addressed by the management |  |  |  |  |  |
| 7. Internal audit reviews establish process to ensure that such channels operate efficiently. |  |  |  |  |  |
| 8. The company carefully selects assigned staff with risk management training |  |  |  |  |  |
| 9. Employees roles are changed from time to time to reduce on likelihood of fraud |  |  |  |  |  |

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| **SECTION C: INTERNAL ENVIRONMENT AND FINANCIAL PERFORMANCE IN BIOMEDICS PRODUCTS LIMITED**How effective are the following functions of internal audit through internal environment audit practices enhancing financial performance? Use a scale of 1-5 where 5= Strongly agree, 4= Agree, 3 = Not sure, 2= Disagree and 1= Strongly disagree

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Internal environment** | **1**  | **2**  | **3**  | **4**  | **5**  |
| 1.Performance reviews are done monthly |  |  |  |  |  |
| 2. There is accurate and timely transfer of accounting information within internal environment |  |  |  |  |  |
| 3. Physical controls are in place to eliminate risks  |  |  |  |  |  |
| 4. Procedures in place are monitored to implement company policies |  |  |  |  |  |
| 5.Reconciliation of company accounts is done on a regular basis to ensure accuracy of financial information |  |  |  |  |  |
| 6.Compliance with laws gives reasonable assurance of the reliability of financial reporting is followed |  |  |  |  |  |
| 7.The senior staffs carry out their supervisory roles spelt out in the organization. |  |  |  |  |  |
| 8. Internal audit consist a continuous evaluation of the internal controls  |  |  |  |  |  |
| 9. The internal control system forwards the reports to various stakeholders |  |  |  |  |  |
|  |
| **SECTION D: MONITORING AND CONTROL ACTIVITIES AND FINANCIAL PERFORMANCE IN BIOMEDICS PRODUCTS LIMITED**  |
|  |
| How effective are the following functions of internal audit through monitoring and control activities enhance financial performance? Use a scale of 1-5 where 5= Strongly agree, 4= Agree, 3 = Not sure, 2= Disagree and 1= Strongly disagree

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Monitoring and Control activities** | **1**  | **2**  | **3**  | **4**  | **5**  |
| 1.Systems of approval and authorization are complied with. |  |  |  |  |  |
| 2. There is transparency in recording transactions. |  |  |  |  |  |
| 3. The different systems in the organization are continuously reviewed |  |  |  |  |  |
| 4. Responsibility recording is practiced in medical procedures |  |  |  |  |  |
| 5. Internal audit has made explicit commitment to openness and transparency in all activities of the company. |  |  |  |  |  |
| 6.The documents used are serially numbered. |  |  |  |  |  |
| 7.Cash receipts bear distant features and are in triplicate. |  |  |  |  |  |
| 8.There is proper accountability of resources. |  |  |  |  |  |
| 9. The recommendation from the audit reports are taken into consideration |  |  |  |  |  |
| 10. Internal audit reports are reviewed by management and form the basis for future review. |  |  |  |  |  |

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# INTERVIEW GUIDE

1. How long have you worked with the company

2. What is auditing?

3. What are the functions of internal audit function?

4. What are the problems faced by the internal audit to improve on its performances?

5. How has the internal audit function helped the company to improve on its performance?

6. Do you think the internal audit function is important? If yes explain how?

7. What do you think should be done to solve the problems faced by the internal audit function?

***Thank you so much for your time***