**INTERNAL AUDITING AND FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS IN UGANDA: A STUDY OF KALIRO DISTRICT LOCAL GOVERNMENT**

**BY**

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# DECLARATION

I Ddumba Peter hereby declare that the work presented in this dissertation is original and has not been presented to any University or institution of higher learning for any academic award and where the work of others have been used, due acknowledgement has been made.

SIGN……………………………….

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2018/FEB/MAF/M223113/WKD

Date:…………………………….

# APPROVAL

This dissertation has been submitted with my approval as the supervisor from the School of Business and Information Technology of Nkumba University.

Signature…………………………… Date………………

Mr.Owino. G. Joshua

**Supervisor**

# DEDICATION

I dedicate this dissertation to my siblings Mark, Ashraf, Anne, Emmanuel and Charles.

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# LIST OF ACRONYMS

ANOVA : Analysis of Variance

CEO : Chief Executive Officer

CIPFA : Chartered Institute of Public Finance Accountancy

FY : Financial Year

IA : Internal audit

ICAEW : Institute of Certified Accountants of England and Wales

IIA : Institute of Internal Auditors

INTOSAI : International organization of supreme audit institutions

IT : Information Technology

KDLG : Kaliro District Local Government

LAN : Local Area Network(s)

LG : Local Government

LGFAR : Local Government Financial & Accounting Regulations

LGIAM : Local Government Internal Audit Manual

LLG : Lower Local Government

MoLG : Ministry of Local Government

OAG : Office of the Auditor General

OECD : Organization for Economic Cooperation & Development

PFMA : Public Finance and Management Act

PGIAM : Philippine government internal audit manual

PSAB : Public Sector Accounting Board

SPSS : Statistical Package for Social Sciences

UGX : Uganda Shillings

# ABSTRACT

This study is about the role of internal auditing in the financial performance of local governments in Uganda, a study of Kaliro District Local Government (KDLG).It was guided by three research objectives i) to examine how internal auditing enhances revenue performance in KDLG, ii) to examine how internal auditing ensures value for money in KDLG and iii) to assess the extent to which internal auditing enhances service delivery in KDLG.

The study embraced both positivism phenomenological approaches known as mixed approaches. A sample size of 89 respondents using the census technique was computed. Primary data was collected using self-administered questionnaires and interview guide. Secondary data was collected using a documentary review checklist. Data was analysed using SPSS and multivariate regression analysis. It is also shown that the Adjusted R square is .483 which is an indication that 48.3% of the changes that do occur in financial performance are due to changes in internal audit. The study notes that, internal audit functions have a significant effect on the financial performance of KDLG. Where the internal audit function is emphasized clearly, it can impact positively on financial performance of the district.

Finally the study recommended that KDLG should adopt effective internal processes and practices that address key effective internal controls, set regulations and safeguard the council’s assets for ensuring the effectiveness of audit quality. In addition, it was also suggested that KDLG should consider skills, personal qualities of audit partners and staff, and the training given to audit personnel.

# CHAPTER ONE

# INTRODUCTION

# Background to the study

This chapter describes the background to the research problem, statement of the problem, objectives of the study, research questions and research hypotheses. It also explains the scope, significance and arrangement of the study.

This study is about the role of internal auditing in the financial performance of local governments in Uganda, a case of Kaliro District Local Government. The Local Government Performance Synthesis Report for the financial year 2017/2018 showed that Kaliro District Local Government was one of the worst performing Local Governments in the country. The report further showed that KDLG only satisfied two out of the six accountability requirements such as submitting quarterly financial reports department on time. This is one of the functions of the internal audit department (MoLG, 2018). There is scanty research that has been carried out on the role of internal auditing in the financial performance of local governments in Uganda. The study sought to establish the relationship between internal auditing and financial performance of Local Governments in Uganda.

Kaliro District Local Government is located in eastern Uganda. It is one of the districts that have been created over the last 15 years. The district population is now estimated at 236,927 people and is growing at a rate of 3.55% which is higher than the national average of 2.88%. The district has a total of 43,222 households with an average household size at 5.4. Nawaikoke is the most populated sub county with 63,585 people. The population explosion has increased demand for better service delivery. The major economic activities people are engaged in are: agriculture, trade, transport (land and water), lumbering, small scale manufacturing, telecommunication services, fishing, etc. The district Local government provides basic infrastructure like roads, health facilities and services education services, water for domestic, business, and for production (Kaliro District Local Government Development Plan 2015/2016).

Public sector reforms that have been rolled out in many developing countries, privatization and new technologies have changed the way the public sector operates. They have created a need to find new ways of ensuring agency and government accountability. However, ensuring that the public sector conforms to set policy objectives in regards to controls over expenditure is becoming increasingly complex because of the continued devolution of the public sector (OECD, 2006).

Uganda like many other developing countries has been engaged in decentralization programs in order to eliminate centralized bureaucracies that have for long hindered service delivery. According to the Local Government Internal Audit Manual, 2007 (LGIAM), the key elements in decentralized environments that include discretionary decision making, planning, administration and financial management are transferred to independent Local Governments (LGs). This is aimed at ensuring that the points of delivery have political and administrative control over services which in turn helps to improve on accountability and transparency. The fact that there is transfer of decision making, planning, administration and financial management to LGs, means that significant amounts of funds are transferred each financial year to respective LGs (LGIAM-Guidelines 2010).

There has been a tremendous improvement in service delivery in Uganda owing to direct government investments in key sectors, but there remain several challenges. Despite the enactment of a number of public finance management reforms, inefficiencies in the allocation and use of public funds in Uganda remain prevalent. This is manifested in a number of ways that include:

1. Delays in funds disbursement.
2. Low absorption capacity by some departments.
3. Poor accountability and reporting for funds disbursed (Mofped, 2015)

Many decentralization efforts have cultivated “weak fiscal discipline and poor expenditure management, attributable to a combination of weak managerial capacity in local governments, pervasive capture by local elites, widespread mismanagement or misallocation of public resources or both, and rampant corruption.” (Baltaci &Yilmaz 2006). “Public managers are continuously being asked to deliver better services more efficiently, exercise better control over limited public resources and provide more accountability for their performance. At the same time, in the face of global competition, demographic change and technological transformation, public managers are also being challenged to take more risk, innovate and find new ways to meet the public’s changing needs. This demanding environment is not only a challenge for ministers, senior executives and managers; it also raises questions about what internal auditors can do to help the public sector perform under these conditions” (Juillet, Liston-Heyes, Mitchel and Zussman, 2016) .

The media in Uganda has been awash with reports of fraudulent conduct by government staff over the past decade or so which would ideally have been prevented if the requisite controls had been aggressively implemented. In the FY 2014/2015, expenditure amounting to UGX.5, 524,074,947 could not be accounted for as accounting officers failed to enforce accountability controls and maintain advances ledger to monitor advances. This was in contravention of regulation 43 (2) of the LGFAR (2007) which requires Administrative advances to council employees to be authorized by the Chief Executive and accounted for within a month (Auditor General 2014/2015). These unaccounted for funds are always at risk of being misappropriated. The Auditor General also noted that “a number of entities conducted procurements worth UGX.14,524,961,893 in violation of the provisions of the procurement law and its regulations. The violations were mainly in form of non-enforcement of performance security, advances beyond set limits, procurements without plans, huge variance between estimated and actual prices, supplies before contract award, un-authorized call off orders, un-authorized direct procurements and insufficient procurement records” (Auditor General 2014/2015).

Auditing (both external and internal auditing) is a cornerstone of good public sector governance. It provides an unbiased opinion to public sector organizations to achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The auditors ensure that those charged with governance carryout their mandate of oversight, insight and forecast effectively.

Oversight exists to prevent corruption as it ensures that activities are as per laid down procedures. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. The public sector is being challenged to keep pace with the private sector. Through foresight, public sector organisations are able to identify emerging opportunities and threats (IIA, 2012). Auditing provides the desirable assurance that audited financial statements can be trusted to represent the economic activities they are intended to portray (Shah 2007).

Internal audit is a long-standing function and an effective tool of management in many organizations. It has been a recognized component of organizations in both the public and private sectors and in most industries for many years. Internal auditing is often seen as an overall monitoring activity with responsibility to management for assessing the effectiveness of control procedures which arc the responsibility of other functional managers (Kiabel, 2012).

According to the Institute of Internal Auditors (2010), internal auditing is defined as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit has been defined in the Philippines Government Internal Audit Manual (PGIAM) as “the evaluation of management controls and operations performance, and the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards and contractual obligations.”

Hayes, Danssen, Schilder and Wallage (2006) identified four theories of auditing namely:

**The policeman theory**

Traditionally, the auditor is responsible for searching, discovering and preventing fraud. Recently, the roles of auditors are changing from detecting fraud to providing reasonable assurance about the truth and fairness of the financial statements. Jackson and Stent (2010) argues that there is a paradigm shift from searching, detecting and prevention of fraud to the provision of satisfactory assurance as to whether the financial statement of an entity fairly presents in all material aspects the financial position, performance and cash flows of an entity. They went on to argue that an auditor is not a blood-hunt but a watch dog whose purpose is to send signals to the owners whenever an irregularity and anomaly comes to its attention.

**The lending credibility theory**

Audit is carried out to enhance the credibility of financial statements to the users who place reliance on them. The increased confidence in the financial statements prospectively improves the quality of decision making as decisions are based on reliable information. The Institute of Chartered Accountants (2009) supported the lending credibility theory by asserting that audits have a fundamental purpose of providing and promoting investor’s confidence and reinforcing trust in financial information.

**The theory of inspired confidence (Theory of rational expectations)**

The participation of third parties in the company and interested parties’ demand for accountability from management initiated the evolution of auditing services (Limperg 2010). Management is required to provide accountability to the persons who have invested their funds in the company. Accountability is made in form of annual reports. These reports may be biased due to existence of information asymmetry hence the need for audition to assure the reliability of the information. The supply of audit assurance on the other hand is premised on the principle that the auditor should always strive to meet the public expectations.

**Agency theory**

According to Adeyemi and Olowookere (2012) the agency theory is the most significant theory which gives a reason to the demand and supply of auditing service. The need for both external and internal auditors emanated out of the emergence of owner-managed business into businesses which are owned by people who do not manage the business (Jackson and Stent 2010).

The study was guided by the agency theory developed by Jensen and Meckling in 1976. There exists a principal-agent relationship in the public sector that 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 organisation have more access to information as compared to the principals. This results in information asymmetry hence principals cannot easily monitor or determine whether their interests are being fronted by the agents. Agents may have conflicting interests as compared to those of their principals.

The stakeholders have no trust in the performance reports that are provided by the management of public organisations and therefore demand for an independent report. Third party authentication is necessary to determine the integrity of financial reporting compliance and financial performance reports. Stakeholders place reliance on an independent person (auditor) who provides an independent and objective assurance on whether the financial and performance reports show a true and fair view. The auditors are also required to give an opinion on whether the resources entrusted to the officials 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 principals and their agents in assessing 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 reporting, performance results, compliance, and other measures arising from several factors inherent in the relationship between the principal and its agent, namely:

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 organisations 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).

In Uganda, regulations such as the LG Act 1997 and the LGFAR (2007) have increased local government departments’ requirements for performing internal audit. Financial performance is critical because it is used as a measure of an organisation’s overall financial health over a given period of time and can be used to compare similar organisations across the same activities or compare operational performance.

Internal auditing plays a central role in the management of both private and public organisations. In private organisations, internal auditing is not statutory responsibility unlike in public sector organisations. Internal audit is seen as an internal policeman. For a district like Kaliro, to be considered effective, the process of internal auditing must be properly managed. Difficulties arise on how to measure financial performance including indicators to consider. This study measured financial performance using revenue performance, service delivery and attainment of value for money.

In local governments, the law specifies the requirements for establishment of the internal audit function. In line with section 90 of the LG Act CAP 243 and the LGIAM (2007), internal audit is considered as a statutory responsibility for all local governments including districts, cities, municipalities and town councils.

According to the LGIAM (2007), Section (2.1) (2.1.2) page 27, the internal audit department is charged with the responsibility of reviewing, appraising and reporting on:

1. The effectiveness and adequacy of internal controls;
2. Value for money;
3. Effectiveness of service delivery;
4. The extent to which the Council's assets are safeguarded from losses arising from fraud, waste, extravagance and mal-administration, poor value for money and other causes.
5. Proper revenue performance.
6. Compliance with the Local Governments Act and the Local Governments Financial and Accounting Regulations.

It is with this background that, the study focused on the following objectives which involve reviewing, appraising and reporting on:

* 1. Proper revenue performance;
  2. Value for money and
  3. The effectiveness of service delivery.

# Statement of the problem

According to the Institute of Internal Auditors (2009), companies are increasing their vigilance towards combating fraud risks due to increased levels of fraud, a heightened regulatory environment and questions from internal and external auditors and board of directors. The local government performance assessment synthesis report 2017/2018 highlighted six accountability requirements which local governments and municipalities are meant to satisfy that were used as the basis of assessing the performance of any Local Government in Uganda. Kaliro District Local Government having complied with only two of the six accountability requirements was ranked among the worst performers.

Additionally, in the FY 2016/2017, a report by the Auditor General showed that KDLG only managed to collect UGX.616,102,287of the total budgeted revenue of UGX.1,210, 348,000. The revenue shortfall had a spiral effect on KDLG’s activities as a number of them like rehabilitation on Kyabazinga-Bugado road, Kikoge-Kirama-Namwiwa road stalled thus denying services to beneficiary communities.

The Auditor General’s report for the year ended June 2017 further showed that Kaliro district failed to recover the monies extended to youths under the Youth Livelihood Programme with UGX. 326,056,016 (82.6%) out of the UGX. 394,831,816 still outstanding; This according to the report is likely to affect government’s objectives to set up a revolving fund to improve the socio-economic wellbeing of youths and curb the systemic unemployment. It is based on such evidence that the study examined the role of internal auditing on the financial performance of local governments in Uganda using Kaliro District Local Government.

# Purpose of the Study

The purpose of the study is to examine the role of internal auditing in ensuring financial performance of Kaliro District Local Government with of a view identifying relationships between internal auditing and financial performance of Local Governments in Uganda.

# Objectives of the Study

The study was guided by the following objectives

1. To examine how internal auditing enhances revenue performance in KDLG.
2. To examine how internal auditing ensures value for money in KDLG.
3. To assess how internal auditing ensures service delivery in KDLG.

# Research questions

The study was guided by the following research questions;

1. How does internal auditing enhance revenue performance in KDLG?
2. How does internal auditing ensure value for money in KDLG?
3. How does internal auditing ensure service delivery in KDLG?

# Hypotheses

**H0** There is no significant relationship between internal auditing and financial performance of KDLG.

**H1** There is a significant relationship between internal auditing and financial performance of KDLG.

# Scope of the Study

# Subject Scope

The study focused on the role of internal auditing in the financial performance of local governments in Uganda using Kaliro District Local Government as the case study. The study specifically focused on internal auditing activities of ensuring internal control effectiveness, compliance with regulations and safeguards over assets.

# Time Scope

The study focused on information in the Office of the Auditor General (OAG) reports for the period 2015-2018 in order to establish relationships between internal auditing and financial performance of Kaliro District Local Government.

# Geographical Scope

Kaliro District is located in Eastern Uganda, between 33°20’-33°38’ E and 0°58’-1°18’ N, at an altitude of 1,052-1,098 m. The district borders Serere District to the north, across Lake Nakuwa, one of the lakes that comprise the Lake Kyoga water complex. Pallisa District lies to the northeast, Namutumba District to the southeast, Iganga District to the south, Luuka District to the southwest and Buyende District to the northwest. Kaliro District was created by an act of parliament in July 2005, curved from Kamuli as the mother district and became operational in September 2005. Administratively the District has one County, 5 Sub-counties (Namugongo, Namwiwa, Bumanya, Nawaikoke and Gadumire), and one self-accounting Kaliro Town Council. It comprises of 34 parishes, 378 villages and covers an area of 905.16 km2 (KDLGDP, 2008).

# Significance of the study

The study intends to be significant to different stakeholders in the following ways:

**Ministry of Local Government (MoLG):** The findings may help the ministry to identify gaps in internal auditing and develop strategies to improve their understanding of the importance of the internal audit function in enhancing the financial performance of local governments.

**Kaliro District Local Government:** The study findings plus recommendations will guide the management of Kaliro District Local Government to develop appropriate measures to empower the internal audit department in order to enhance the financial performance of the district. The local government under study may use the findings of the study to redress the problems affecting their performance, consolidate on their strong areas and improve on their weaknesses.

**Academia:** The study intends to add on the existing literature on the role of internal audit in the financial performance of local governments in Uganda. Future researchers may use the findings of this study in getting related literature regarding this subject. There are a few studies that have been carried out on local governments with particular attention to internal audit function. Hence, the results may be of significant help to those who may be interested in related studies.

**Other Local Governments:** Managers in other related local governments may use the findings and recommendations of this study to improve on their financial performance with the help of the internal audit function.

**Development Partners:** The study intends to help development partners develop a better understanding of influence of internal audit on financial performance to enable them develop better strategies of engagement with the local government.

# Arrangement of the study

This dissertation is arranged in eight chapters.

**Chapter one:** Presents introduction to the study.

**Chapter two:** Presents study literature which highlights literature survey, literature review and the conceptual framework analysis.

**Chapter three:** Presents research methodology. It highlights research design, research approach, research strategy and data collection methods.

**Chapter four:** Presents how internal auditing ensures effectiveness and adequacy of internal controls in KDLG.

**Chapter five:** Presents how internal auditing ensures compliance with the Local Governments Act and the Local Governments Financial and Accounting Regulations in KDLG.

**Chapter six:** Presents how internal auditing safeguards KDLG’s assets from losses.

**Chapter seven:** Links the findings to literature review and suggests the way forward internal auditing and financial performance of KDLG.

**Chapter eight:** Presents summary and conclusion to the study.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter includes the introduction, literature survey, literature review, theoretical review and the conceptual framework.

# Literature Survey

Tabuuza (2013) evaluated the impact of local revenue performance on service delivery in local government in Kaliro district. The objectives of the study were; to evaluate local revenue collection performance in Kaliro district local government, to examine how services are delivered in Kaliro district local government, and to establish the relationship between local revenue collection performance and service delivery in Kaliro district local government. Data collected from 30 respondents using questionnaires was analysed and it was found that there was a positive relationship between local revenue performance and service delivery.

Kipaalu (2010) conducted a study to determine the relationship between the effectiveness of Internal Audit function and management of public funds in Uganda by taking the case of Kaliro District Local Government. The specific objectives were to; To evaluate the relationship between internal control system evaluation and the management of public funds, to find out the relationship between the applicability of audit function and auditor independency and integrity, to establish the relationship between the Applicability of Audit function and the Management of public funds and to find out the Relationship between the auditor independency and integrity and the management of public funds among others. Data was collected using questionnaires, observation checklist and interview guide from 116 employees. It was established that; the internal control system, evaluation and the applicability of Audit function positively complement each other. When the internal control and evaluation systems are effective, auditor independency and integrity also improves. When the internal control evaluation system is effective, it will lead to improved management of public funds. When the audit function is effective, it complements the auditor independency and integrity. When the audit function is effective, it will lead to improved management of public funds. When there is auditor independency and integrity it will lead to improved management of public funds. In view of these findings the study concludes that there is significant positive correlation between the effectiveness of internal audit function and management of public funds.

It is evident from the previous studies that there is scanty research that has been carried out on the role of internal audit in the financial performance of local governments in Uganda.

# Literature Review

The Institute of Internal Auditors was established in 1941, and it has been the driving force behind the professionalization and development of internal audit with a membership of over 94,000 (Van Ganberghe, 2005). Auditing has evolved as business operations are becoming complex too. It has moved from verifying existence of assets, confirming individual transactions to assessing effectiveness of internal control systems.

The last two decades have seen from inspecting accounting inspecting and auditing financial operations of the company to broadly assessing the overall operations of the company (Osama Ibrahim 2011). Internal audit has only of recent become a true profession with a major potential to influence management of public finances. Developed countries which have transitioned are now relevant case studies for countries that are yet to transition to modern internal audit because they provide the relevant experiences (Van Gansberghe, 2005).

The business environment has under gone rapid changes hence leading to fierce competition among organisations which business managers are expected to provide sound responses. This requires information that is timely, reliable and relevant. Internal audit is now seen as key function that can help managers improve on organisations’ governance processes through monitoring the controls and evaluating management’s strategies to test their effectiveness (Deloitte, 2011).

“It is evident from the preceding historical review and summary that 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).

# Concept of Internal Auditing

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 organisation’s operations. It then helps an organisation 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 organisation for the review of accounting, financial and other operations on the basis as a basis of service to the organisation. 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 organisation's operations. It helps an organisation 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 organisation’s internal controls form the first line of defence against risks. Their effectiveness is monitored by management who form the second line of defence by evaluating the quality of the controls and compliance to those controls. Internal audit is the third line of defence as it offers independent assurance over the first two lines of defence (KPMG 2016; IIA 2018).

All the definitions of internal audit highlight the importance of independence and objectivity in enabling internal auditors perform their functions of risk management, evaluating effectiveness of controls and generally helping management execute carryout their governance roles.

# Role of Internal Audit

Internal audit helps an organisation achieve its strategic goals and objectives by “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Services include the provision of assurance and consulting/advisory activities; and can consist of audits of compliance, systems, processes, operations, performance/value- for money, information and related technology, and financial statements and systems” (OECD, 2018).

Internal audit helps to test the effectiveness of internal controls and conformity of completed transactions and expenditures with laid down procedures. Gaps in the internal control system can be identified and recommendations for further improvement suggested. It is an integral part of the internal control system (Baltaci & Yilmaz 2006).

Internal audit helps senior managers and elected officials to fulfill their accountability roles to the citizens and also ensure efficiency in service delivery to the electorates. It gives assurance as to performance of management systems and also reports on the integrity of both financial and non-financial information.

Chepkorir (2010) noted that internal audit assists an institution accomplish their objectives by putting in place an orderly, controlled approach to review and enhance the effectiveness of risk management, control and governance processes. The internal audit activity assesses risk exposures with respect to the enterprise’s governance, operations and information systems. The internal auditors are supposed to provide recommendations for enhancement in those areas where opportunities or weaknesses are identified.

# State of Internal auditing in Uganda

A report on the Status of Internal Audit Profession in Africa shows Uganda’s National Context indicator is becoming “Established” in maturity. The demand for internal audit services is increasing “as big audit firms outsource and/or co-source their internal audit services, and the accounting associations provide support to the profession through training.” The Capital Markets Authority and Bank of Uganda are actively advocating for internal audit through their listing and supervision requirements, respectively.

In the Public Sector, the Governance, Quality, and Resources indicators are at the “Emerging” level of maturity. The Governance indicators are at the “Emerging” level of maturity because audit committees lack independence and have limited understanding of internal audit. Additionally, public entities have no formal risk management frameworks.

The maturity level in regards to the Quality indicator is also at the “Emerging” level. This is because internal audit functions have only basic charters and strategies and have not fully adopted risk-based planning. “Internal audit reports are of poor quality and the follow-up process is not systematic, resulting in weak implementation of internal audit recommendations. Moreover, quality assurance arrangements are still under development.”

There is also shortage of skilled internal auditors, existing internal auditors have limited access to audit training and internal audit functions are yet to fully adopt computerized automated tools and techniques. This explains why the Resources indicator is also “Emerging” in maturity.

# Core principles for the professional practice of internal auditing

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. To achieve this, the internal audit function must be operating effectively by achieving all of the following principles of internal audit: demonstrates integrity, demonstrates competence and due professional care, is objective and free from undue influence (independent), aligns with the strategies, objectives, and risks of the organisation, is appropriately positioned and adequately resourced, demonstrates quality and continuous improvement, communicates effectively, provides risk-based assurance, is insightful, proactive, and future-focused and promotes organisational improvement (CIPFA, 2016).

# Types of Internal Audit Services

The Institute of Internal Auditors (2016) divides internal auditing services into two; traditional assurance and services and consulting services.

**Traditional assurance**

In traditional assurance, internal auditing ensures that there is conformity and adherence of particular area, process, or system to policies, plans, procedures, laws, regulations, contracts, or other requirements that govern the conduct of the area, process, or system subject to audit; sufficient work to provide an opinion on the overall adequacy and effectiveness of the organisation’s governance, risk management, and control processes; performance/value-for-money auditing which covers the full spectrum of operating and business processes, the associated management controls, and the results achieved.

**Consulting services.**

On the other hand, consulting services include advisory services directed toward facilitation rather than assurance and include training systems development reviews, performance and control self-assessment, counseling and advice

# Theoretical review

Hayes, Danssen, Schilder and Wallage (2006) identified four theories of auditing namely:

# The Policeman Theory

Traditionally, the auditor is responsible for searching, discovering and preventing fraud. Recently, the roles of auditors are changing from detecting fraud to providing reasonable assurance about the truth and fairness of the financial statements. Jackson and Stent (2010) argues that there is a paradigm shift from searching, detecting and prevention of fraud to the provision of satisfactory assurance as to whether the financial statement of an entity fairly presents in all material aspects the financial position, performance and cash flows of an entity. They went on to argue that an auditor is not a blood-hunt but a watch dog whose purpose is to send signals to the owners whenever an irregularity and anomaly comes to its attention.

# The Lending Credibility Theory

Audit is carried out to enhance the credibility of financial statements to the users who place reliance on them. The increased confidence in the financial statements prospectively improves the quality of decision making as decisions are based on reliable information. The Institute of Chartered Accountants (2009) supported the lending credibility theory by asserting that audits have a fundamental purpose of providing and promoting investor’s confidence and reinforcing trust in financial information.

# The theory of Inspired Confidence (Theory of rational expectations)

The participation of third parties in the company and interested parties’ demand for accountability from management initiated the evolution of auditing services (Limperg 2010). Management is required to provide accountability to the persons who have invested their funds in the company. Accountability is made in form of annual reports. These reports may be biased due to existence of information asymmetry hence the need for audition to assure the reliability of the information. The supply of audit assurance on the other hand states that the auditor should always strive to meet the public expectations.

# Agency Theory

According to Adeyemi and Olowookere (2012) the agency theory is the most significant theory which gives a reason to the demand and supply of auditing service. The need for both external and internal auditors emanated out of the emergence of owner-managed business into businesses which are owned by people who do not manage the business (Jackson and Stent 2010).

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 organisation 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 organisations 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 organisations 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).

# FIG. 2.1: Illustration of the Principal-Agent Relationship







Verify/ validate

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

The local administrators act as an agent on behalf of the general public. These local government officials hold public resources in trust on behalf of the general public. 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 audit unit to assess whether they faithfully represent what they purport to represent. (Onoja & Haruna 2015)

The elements of effective internal audit comprise; auditor independence, good working relationship, proper staffing and training, exercising due care, evaluation of internal control systems, proper reporting and follow-ups, among others.

# Independence of Internal Auditors

According to IIA Standard 1100, the internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. According to IIA Standard 1110, the chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity. According to IIA (2006), audit activities should be sufficiently independent from those it is supposed to audit. When the auditors are also objective, accuracy and reliability of audit reports will be enhanced. “Internal audit must contribute positively to the management, while at the same time not becoming its servant but faithfully report on the status to the board or other equivalent governing body” (Van Gansberghe 2005: 1). To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. The chief auditor or the audit committee should be the sole determinants of the mandate, scope, methodology, and results without seeking consent from the senior management (Baltaci and Yilmaz 2006).

# Audit Committee

Sec 49 of the Public Finance and Management Act (2015) requires the minister to establish an audit committee for each sector of government and a number of votes in local governments. According to sec 49 (5), an audit committee shall:

1. assist the accounting officer in carrying out the oversight responsibilities relating to financial practices, internal controls, corporate governance issues, compliance with laws, ethics and audit matters;
2. review the arrangements established by the accounting officer for compliance with regulatory and financial reporting requirements;
3. review the financial statements prepared by the accounting officer to ensure that the disclosure in the financial statements is adequate and that fair representation is achieved;
4. facilitate risk assessment to determine the amount of risk exposure of the assets of the vote and the possibility of loss that may occur, with a view to mitigating risks; and
5. Consider the reports submitted by the internal auditor to the accounting officer under section 48 and make recommendations on the findings of the internal auditor.

The audit committee is responsible for confirming that internal audit has the competence, independence, resources and corporate support to do its job properly, and is demonstratively effective in getting results. To determine the competence of the internal audit department, the audit committee can get feedback from external auditors through using in-camera sessions.

Selection of members on the audit committee should ensure that there is a balance of professional skills, knowledge and technical experience, sufficient capacity, independence and objectivity to discharge its responsibilities as defined in its charter so as to give room fresh perspectives to come on board. The Victorian Local Government suggested the following desirable qualities when appointing members: knowledge of the LG’s operations and the environment in which it operates, strong communication skills, high levels of personal integrity and ethics, sufficient time available to devote to executing responsibilities, high levels of financial literacy and, if possible, accounting and finance qualifications. Generally, the audit committee as a whole should have: at least one member with financial qualifications and experience, skills and experience relevant to discharging responsibilities, including experience in business, financial and legal compliance, risk management, local government background and experience as applicable (LG Victoria, 2011)

# Competency

According to IIA 1210, “Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.” IIA 1210 Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. This includes personal qualities, standards of education, sound judgment, innovation and operational and auditing/evaluation experience. It is important to have the right competencies in staff in order to ensure business success.

Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations. IAs should apply the knowledge, skills, and experience needed in the performance of internal audit services. Persons engaged in audit work should possess carryout their work professionally and with due care. This means that they should have requisite training, experience and competence before they take on particular audit roles. Attaining the required proficiencies is a continuous process that can be achieved through continuous professional development. They should be knowledgeable about current developments in the auditing profession in regards to auditing standards, procedures and techniques. Internal auditors ought to develop more competencies than those that were initially required of them during traditional internal auditing. Team spirit is key in developing an internal audit function. Therefore, teams comprising of staff with understanding of the aims of modern IA should be built (Van Gansberghe 2005). Van Gansberghe (2005) further suggested that the employees in the IA should be compensated in such a way that reflects the demands and responsibilities placed on them. Staffs are motivated differently. Van Gansberghe (2005) identified some possible non-financial ways that can be employed to motivate staff which include: having development plans for each staff member, with training and future possibilities, making sure that file reviews praise recommendations made, representing the IA at meetings and conferences, recognizing of IAs at annual audit conference: awards, diplomas, etc, praising in audit publications, choice of assignments, travel opportunities: audit work, training, conferences, etc., support for professional training, participation in exchange programs (for instance with the Auditor-General).

# Management Support

It is the responsibility of management to design internal control systems and also implement the recommendations of the internal audit department.

The success of the IA function depends on the support demonstrated by the management on the process of auditing. Managers must acknowledge the fact that IA is a crucial process and activity like any other activities performed within the organization. Without management commitment, the IA audit process is destined for failure even with the availability of other resources like money and time (Gebre 2018). Management attitude towards internal audit can either strengthen or hamper its role. Alzeban & Gwilliam (2014) found that management support was the most important factor influencing IA effectiveness within the Saudi Arabian public sector organizations.

Management must ensure that internal audit's processes are continuously monitored, reviewed and evaluated against some defined standard. This continuous assessment aimed at continuously improving the internal audit function can be carried out by the audit committee with the help of internal or external parties. This ensures that the internal audit is at pace with other functions of the organisation hence enhancing its credibility and ability to provide greater assurance to its stakeholders.

# Regulations

Section 90 of the LGA requires only the City, Municipal Council, Town Council and Districts to have internal audit units. The scope of internal auditors in LGs is given in Regulation 12 of LGFAR and on page four of the LGIAM.

Section 48 of the PFMA (2015) requires every vote to have an internal auditor who shall:

1. appraise the soundness and application of the accounting, functional and operational controls of a vote;
2. evaluate the effectiveness and contribute to the improvement of risk management processes of a vote; and
3. Provide assurance on the efficiency, and the effectiveness of the economy in the administration of the programmes and operations of a vote.

# Internal auditing and effectiveness of internal controls

Internal control is defined in the 2013 Framework as “a process, affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) identified five components of an internal control system in its Internal Control-Integrated Framework which include the following:

# Control environment

The control environment is a set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. Control environment factors include the integrity, ethical values and competence of the entity’s people; management’s philosophy and operating style; the way management assigns authority and responsibility, and organises and develops its people; and the attention and direction provided by the Board of directors. The control environment is what is referred to as the corporate culture in the private sector. The attitude of management towards internal controls significantly influences their success. According to the Audit Office of New South Wales, an effective internal control environment for the Audit Office includes:

* The Office Executive provides governance oversight by having appropriate management philosophy and operating style, providing the right tone at the top regarding the importance of internal controls and ensuring the development and performance of internal controls.
* maintaining integrity and ethical values
* Processes to attract develop and retain competent people through appropriate selection processes, regular performance reviews, learning development programs and adequate training.
* establishing structures, reporting lines and appropriate authorities and responsibilities to meet objectives
* complying with relevant laws, central agency directions, applicable Auditor-General report recommendations, and Audit Office policies, instructions and guidance as found on the intranet
* Strategic and business planning processes to hold individuals accountable for their internal control responsibilities in order to meet the Audit Office’s objectives by having rigour around performance measures and incentives.

Internal audit plays an active role in monitoring the effectiveness of control-related policies and procedures for management. In this role, internal auditors themselves function as a “super control” that enhances the effectiveness of the entity’s other controls. Thus, an effective internal audit function can contribute significantly to improving the quality of the overall control environment.

# Risk Assessment

Risk assessment forms the basis for determining how risks are managed. A risk is defined as the possibility that an event will occur and adversely affect the achievement of organizational objectives. Management should be in position to identify all such potential internal and external risks promptly so that it can have adequate opportunity to craft an effective and efficient response. It does this by: establishing the context, identifying risks, analysing risks, evaluating controls and determining mitigating actions. Risk assessment should help to highlight the frequency and severity of the risks identified.

# Control Activities

Control activities are actions (generally described in policies, procedures, and standards) that help management mitigate risks in order to ensure the achievement of objectives. Control activities may be preventive or detective in nature and may be performed at all levels of the organization. Control activities are also incorporated specifically in audit assurance policies, procedures and guidelines and include: Control activities include preventive controls, detection controls and correction controls. Prevention controls like segregation of duties, authorization controls.

# Information and Communication

Information is obtained or generated by management from both internal and external sources in order to support internal control components. Communication based on internal and external sources is used to disseminate important information throughout and outside of the organization, as needed to respond to and support meeting requirements and expectations. The internal communication of information throughout an organization also allows senior management to demonstrate to employees that control activities should be taken seriously. Information provided to staff should be appropriate, timely, current, accurate and accessible.

# Monitoring

Monitoring activities are periodic or ongoing evaluations to verify that each of the five components of internal control, including the controls that affect the principles within each component, are present and functioning around their products.

# Criteria to Assess the Design of Internal Controls

Dittmeier and Casati (2014) developed assessment criteria for the design of internal controls which includes the following.

**Relevance:** This is an assessment of the ability of the controls to respond to the primary control objective. It is the capacity of the controls to fully or partially intercept negative events or reduce exceptions to acceptable levels through carrying out particular corrective actions.

**Timeliness:** Controls should have a timely response to negative events by identifying and correcting the negative events. Evaluating the design of the controls in regards to timeliness is a measurement of the controls’ responsiveness to negative events through eliminating or limiting their consequences within a given time frame.

Strength: The strength of the control looks at the probability that the controls will be effective should the related risks arise. It is determined by the following factors;

**Discretion:** Discretionary controls involve subjective application mainly through human judgment. Questions relating to who, when, what and how the control is performed should be addressed.

**Segregation:** Segregation refers to separating operating activities from control activities to ensure that irregularities are captured. Separating can be obtained by having separate functions for gathering information to be controlled, controlling functions, correction functions and communication of results function.

**Independence:** The control owner should be in position to manage resources needed to execute the control itself. The resources can be human, informational, financial and technical which the control owner must be able to access when needed. This helps to ensure that the controls are not compromised.

**Integrative control factor (integration):** This is the ability of the control to create synergies with other controls thereby ensuring overall effectiveness of the internal control system.

**Automation:** Automated systems help to reduce errors arising from human behavior. Highly automated systems are a strong mitigation tool against the risk of error. However, this can only thrive if the overall management of the systems of internal control are free from systemic defects. In circumstances where the level of automation is low, risks can still be mitigated by using human resource processes such as employee training, employee incentive programs, disciplinary systems and control culture.

**Adaptability:** This measures the susceptibility of the control to changing activity volumes. A control that is susceptible to volatile activity volumes is less effective. Adaptability takes into account the timeliness criteria, volume of transactions, average exception levels and quantity or resources foreseen. Legal issues that place time constraints on controls and resources can limit the strength of adaptability.

**Traceability:** Traceability is the degree to which the internal control system is able to verify the internal control subsequent to its execution. This requires the availability of supporting documentation or formalized verifiable actions. The assessment can be affected by legal requisites. For example, formal authorizations may be mandatory, data conservation may be specified legally, and type and timing of documentation may be predefined to allow for outside inspection.

**Coverage**: This measures the degree to which the control covers multiple control objectives which in turn are based on business and governance objectives of related risks.A control process can address operational control, reporting controls, security controls, etc. In fact, in an integrated and efficient control process, the design of controls is improved when it is structured to address all or several pertinent objectives.

Adegoke and Oluwafemi (2016) in their research on the Impact of Internal Audit on Internal control of Public and Private Universities in Nigeria indicated that internal audit is effective for strengthening the internal control in private and public universities. Data analysis was done based on 150 questionnaires that were distributed. They further recommended that management should ensure regular review of the internal audit activities to strengthen its controls.

The presence of internal control systems simply act as a ‘watch dogs’ set up by regulators and policy makers to boost public confidence in state institutions to promote objectivity, due process and accountability (Jill & Houmes, 2014).

Constructing internal control and internal audit requires active involvement from all employees. It should be embedded in the organisation’s culture to enable staff understand and fulfill their responsibilities thereby creating an atmosphere of “everyone involves, everyone supervises”. Internal control and internal audit should be viewed as equally important elements in the organisation because the two have a direct effect on the effectiveness of the institution (Nie, 2017)

However, internal controls have inherent limitations which include faulty decision making due to simple errors or mistakes, collusion by staff to circumvent the controls, overriding of controls by management and resource constraints as the benefits accruing to the organisation from implementing an internal control system must outweigh the relative costs (Shah, 2007)

# Internal Auditing and Compliance with LG Act and LGFAR

Internal audit ensures that LGs conform to the relevant laws and regulations; LGFAR and LGIAM. According to IIA-Australia (2016), “internal audit is well-placed to provide independent insights on the entity’s compliance framework, including how the entity: identifies, facilitates, creates awareness and promotes compliance, undertakes risk assessment and identifies strategies, establishes monitoring and assurance mechanisms, fosters continuous improvement, maintains a compliance register, handles compliance breaches (including escalation and/or breach reporting) and provides internal and external compliance reporting.” Failure to comply with the regulations in place exposes significant risk to the LG. Internal audit is tasked with reviewing how well management meets the organization’s compliance responsibilities and also reporting to senior management the possible impact of noncompliance. Compliance failures may consequently result in fines, prosecution, complaints, and litigation for the entity and its senior officers, and potentially imprisonment for senior officers.

The core element of a typical compliance framework as explained by IIA-Australia (2016) includes:

Well-defined policies and procedures for identifying and updating compliance obligations, including escalation and/or reporting arrangements for breaches, staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster continuous improvement, establishment and maintenance of a comprehensive compliance register to record relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements, risk assessment of compliance obligations, and identification of appropriate compliance strategies that reflect the impact on key business activities and drive a compliance culture, clear allocation of responsibilities for ensuring that effective controls are embedded within key business processes to maintain compliance, monitor and record any changes, provide assurance and report exceptions, and maintain quality control, well-established monitoring and reporting arrangements internally (including the board, CEO and responsible executives) with periodic sign-offs by management and external third party outsourced service providers as to compliance with obligations.

A compliance governance structure that establishes oversight of compliance control activities including periodic compliance reporting to the audit committee and / or others charged with governance and well-defined internal processes for identifying, assessing, rectifying and reporting potential or actual compliance incidents and breaches to the regulators.

# Internal Auditing and Safety of Council Assets and Records

Internal auditors assess the adequacy of safeguards over the LG’s assets and make recommendations where necessary in order to reduce the impact and likelihood of any potential risks identified. Risks may include theft, fire, and illegal fraud or improper activities. Assets include both tangible items such as computers, printers, and copiers, and also intangible items such as employees, IT, and knowledge management. Safe custody of a LG’s assets must be ensured to minimize danger of loss or misuse. Ensuring security of physical assets only is not enough, it is also necessary to maintain security over government records. Maintaining tight control over assets is of little importance if there is easy access to the underlying accounting records as this leaves room for potential loss. Adequate security over assets and records encompasses all of the following:

**Controlled access:** Individuals should only have access to only those assets or records which address specific need of their jobs. For example, an office attendant does need to have access to inventory records in the stores. Sensitive information can be kept away from regular records. It is important that individuals only have access to assets or records based on the specific needs of their job. Controls over computers should be exercised to prevent unauthorized access. Employees should be required to use meaningful passwords which should be changed regularly and kept confidential.

**Physical security:** This involves protecting assets against danger of loss or theft and environmental dangers. Items such as supplies should be kept in locked store room and checks deposited promptly. “Walk-away” assets (e.g., tools) should be assigned to specific employees or checked out by employees as needed. Checkout cards should be required if accounting records are to be removed temporarily. In addition, specific individuals should be assigned responsibility for the custody of specific records. Second, assets and records should be protected against environmental dangers. For instance, computer equipment should be kept in rooms maintained at appropriate temperature and humidity levels.

**Backup for computer records:** There is growing reliance on electronic data processing with the introduction of IFMS. Accounting records are now electronically processed. Data back-ups should be done on a daily basis to protect against the danger of information loss in case of information system malfunction. Only records relating to input data that has been backed up should be disposed. Backup files should also be kept offsite such that they are not destroyed in case destruction of original data.

**Disaster recovery**: Local governments provide many services that are essential to the public welfare. Management must have plans in place to allow the government to continue to provide services even in the event of a disaster. For example, management should have a standing agreement that would provide it with access to needed computer processing services should its own information systems become temporarily in operative in the event of a disaster.

# Concept of Financial performance

Financial performance is one of the mostly used measures of performance in local government. It encompasses the use of budgetary, economic and financial information. The performance of local governments is important because it is the level of government closest to individual communities. It provides economic services to meet the needs of individual communities.

Financial performance is the degree of a firm’s overall health over a specified duration. It shows the importance of a firm’s financial stability in regards to quality of services offered, reduction in creditors turnover, enhanced output and financial risk management (Njahi, 2017)

Mutya and Josephine (2018) defined financial performance as a subjective measure of how well a firm can use its assets from its primary mode of business and generate revenues. Furthermore, this term is used as a general measure of a firm’s overall financial state over a given period of time and can be used to compare similar firms across the same industry.

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. The public sector is undergoing a series of rapid changes and local governments need to keep pace with these developments. LGs are constantly being asked to deliver high quality services at lower costs and also ensure proactive response to constituents’ needs (Deloitte, 2015).

“Financial performance is a subjective measure of the accountability of an entity for the results of its policies, operations and activities quantified for an identified period in financial terms. In the public sector the nature of financial performance is a function of what the public sector entity is held accountable for accomplishing in financial terms in the identified period. Multiple perspectives of financial performance considered together provide a comprehensive picture of a public sector entity’s achievement in relation to the multiple accountabilities expected of it” (PSAB Consultation paper 2). On the other hand, financial condition is the ability of the entity to meet its existing financial obligations to the different stakeholders (PSAB Consultation Paper 2).

Financial performance is limited to short-term horizons and relates to revenue generation and expenditure, while financial condition features with both short- and long-term extensions (Wang, Dennis, &Tu, 2007). According to Carmeli (2002), financial performance concerns the evaluation and reporting of data related to the quality, efficiency, and effectiveness of an organization. According to the Canadian Institute of Certified Accountants (CICA, 1997), the financial condition of a local government is the same as financial health measured based on sustainability, vulnerability, and flexibility within an overall framework governing the economic and financial environment.

One of the most commonly used ways of obtaining a measurement of performance in local government is through the use of budgetary, economic and financial information, i.e. the financial performance. Lewis (1994) and Carmeli (2002) derived indicators in financial terms in order to determine the financial health of local government bodies.

The financial performance of local authorities, directly influenced by the quality of the decision-making specific to the financial management of local government, must be assessed by using a coherent and consistent set of indicators, thus ensuring the grounds for a comparison on the same terms of the evolution of the various administrative-territorial authorities, situated at the same administrative level, at different levels, in the same state or in different states. (Brindusa et al 2013). This study adopted a three measure framework which consists of revenue performance, value for money attainment and service delivery.

# Revenue Performance

Aborisade (1988) describes revenue as the total income generated from federal, state and local government. He states further that what makes local government a constitutional matter is the revenue sharing perspectives. Local governments collect their revenues through donations from development partners, government transfers (unconditional grants, conditional grants and equalization grants), local revenue collections from within the district and in some cases borrowing. Central government transfers are the major sources of revenue for LGs (Auditor General, 2016). Unconditional grants are the minimum grants paid to local governments to run decentralized services whereas conditional grants are grants given to local governments to finance programs agreed upon between the central government and the local governments. Equalization grants are grants paid to local governments for giving subsidies or making special provisions for the least developed districts. They are based on the degree to which a local government unit is lagging behind the national average standard for a particular service (Auditor General, 2016). A report by the Auditor General, Financing of Local Governments in Uganda through Central Government Grants and Local Government Revenues published in 2016 showed that LGs have not been up to task in exploiting their potential to generate local revenues. The report indicated that LGs had accumulated revenue shortfalls of UGX 83.6 billion for the years 2012-2015 and this represented 17.6% of projected revenues. According to SEATINI (2017), the low revenue performance is attributed to the following: low rates and exemptions of Local Service Tax, Political Pronouncements against local revenue mobilization, inadequate supervision and monitoring of LLGs by HLGs on revenue generation, non-remittance of revenue from the urban local councils to the district, tendering out of revenue sources leading to losses, inadequate registration and enumeration committees, assessment committees, irregular expenditure at source, inadequate staffing at the local governments, weak enforcement of policies, weak or non-existent local revenue mobilization committees and poor accountability.

Without the required revenues, LGs are not able to fulfill their mandate of service delivery by providing social services such as health, education, water, roads and security (SEATINI, 2017). Failure to collect the required funds affects service delivery tremendously (Balunywa et al 2013). Tabuuza (2013) noted that low revenue collections constrain the planned budgets thus there will not be satisfactory delivery of services to the people. Operations of local governments are stalled. High revenue collection improves the quantity and quality of service delivery (Khemani, 2001)

# Value for Money

ITAD (2010) defined Value for money as a term “generally used to describe an explicit commitment to ensuring the best results possible are obtained from the money spent.” The term has gained much acceptance of late as the government continues to roll out massive infrastructure projects. There are wide calls for greater transparency and accountability in using public funds and also ensuring that benefits from available resources are maximized.

“VFM is about obtaining the maximum benefit over time with the resources available. It is about achieving the right local balance between economy, efficiency and effectiveness, or, spending less, spending well and spending wisely to achieve local priorities...VFM is high when there is an optimum balance between all three elements, when costs are relatively low, productivity is high and successful outcomes have been achieved (Audit Commission, 2010). It involves optimizing resources usage in order to achieve set objectives. The assessment of value for money is concerned with the three Es; economy, efficiency and effectiveness (LGIAM, 2007)

Economy is concerned with ensuring that minimum amount of resources are used to provide a service while at the same time having regard to quality. The costs of inputs should take into account all the direct and indirect costs of providing the service.

Efficiency measures productivity, in other words how much you get out in relation to what is put in. This examines the relationship between inputs and outputs; for example, planned versus actual delivery of milestones by service providers, or benchmarked comparison among programmes working to same or similar outcomes but using different pathways to achieve intended outcomes (that is spending well and not wasting money on reaching a particular level of service).

Effectiveness is a qualitative and quantitative measure of the outcomes. LGs have a number of objectives which they must fulfill. In order for LGs to be considered effective, they must achieve their intended objectives. Quantitative measures the outputs focusing on how much of the good or service has been provided. For example, the kilometers of road to be tarmacked; Qualitative measures of outcomes focus on the quality of the service provided. In practice, both outcomes and outputs are used in the same context.

# Service Delivery

Governments primarily exist to promote the well-being of their citizenry by providing quality goods and services. The quality of the service is dependent on the quality of governance (UN Habitat 2015). Local Governments being closest to the communities are increasingly playing an active role in the delivery of basic public services and in the provision of public infrastructure. The services provided are vital in improving the quality of life and enhancing productivity in communities. Inadequate delivery of services lowers consumer satisfaction and weakens production and this can have implications on the overall macro economy (UN-Habitat, 2015).

MoLG (2013) defined service delivery as the “relationship between policy makers, service providers, and consumers of those services, and encompasses both services and their supporting systems. Service delivery is a mechanism used by an organization to meet the needs and aspirations of the people it is meant to serve.” LGs are able to generate much needed credibility by meeting people’s expectations.

Internationally, the following principles have been identified to guide effective service delivery: availability, dependability, usability, usefulness, credibility, authenticity, responsive and flexible, sustainability and expandability (MoLG, 2015)

The MoLG further identified some elements of service delivery design; conscious strengthening of service standards, uncompromisable quality of service, professionalism and technical adequacy of contracting firms, effective and rigorous supervision of contracts, citizens’ satisfaction with service delivery, transparent and open outsourcing of services, accountable and equitable civil society services, good governance-focused institutional framework for service delivery, adequate mobilization of resources for service delivery, efficient and frugal utilization of resources, inclusive and participatory planning in local governments, socio-economic empowerment of ordinary citizens through national and local programmes. There are several factors that explain the shortcomings of service delivery under decentralization which include: lack of commensurate revenue for service delivery by LGs, shortage of qualified and experienced staff, failures in the accountability relationship, lack of political commitment, bureaucratic administrative processes, corruption and unresolved conflicts (Bogere, 2013). In order to improve financing for service delivery, Bogere (2013) further proposed the following actions: revenue allocation between central and local governments, transparency and accountability, introduction of a direct tax, determination and enforcement of standards for service delivery, establishing criteria for creation of districts and lower local governments, removing moratorium on recruitment of workers at district level, collecting data for planning at local government including revenue sources, changing attitudes of the population, providing incentives for local government staff, increasing predictability of resource availability through the budget, empowering local governments to enforce laws. To solve service delivery problems arising from poor revenue collection systems, LGs need better access to resources. This “requires a combination of access to better tax instruments, an improved vertical and horizontal transfer system, and a willingness of governments to exercise the revenue authority that they have.” (UN Habitat-2015)

# Internal Auditing and Financial Performance

Internal audit practice/activity is bedrock for effective public institutions financial management and it is imperative to ensure effective and efficient operations and the appropriate application of controls. It assesses compliance with underlying financial regulations, directives and measures, appraises the efficiency of adopted internal controls; evaluates the value and usefulness with which resources are utilised; evaluates the dependency and credibility of records maintenance and reporting; examines abnormalities; guarantees that resources are brought together and reported and authenticates inventory records and their identity with physical inventory (INTOSAI, 2001)

Roth (2004) indicates that for the accomplishment of goals and objectives through reliable financial reports which management uses for decisions, there is the need for adept and effective internal controls. Poor or unnecessary internal controls lower productivity and increase the complexity of processing transactions without adding value to the activities. Fadzil et al., (2005) also noted that it is because of the presence of internal auditors that company operations, runs effectively and effectively, which often result in the increase in shareholder wealth. Hermanson and Rittenberg (2003) echoed that effectiveness of internal audit function usually brings about superior organisational performance.

Internal auditing is a backbone of the business accounting as it is the section that records all businesses related to the sector. An efficient internal audit helps develop the work of the company because the financial reports reflect the internal audit department’s quality.

# Conceptual Framework

The conceptual framework has been developed from the review of literature with regard to internal auditing and financial performance of local governments in Uganda. Internal auditing was taken as the independent variable and financial performance as the dependent variable. The intervening variables include: independence, audit committee, regulations, competence and top management support. Financial performance is assessed, basing on service delivery, value for money attainment and revenue performance (Fig. 2.4).

# Fig 2.4: Conceptual frame work

**Independent variable**  **Dependent variable**

|  |
| --- |
| **Internal Auditing**  Effectiveness of internal controls  Compliance with accounting regulations  Safeguards of Council assets |

|  |
| --- |
| **Financial Performance**  Revenue Performance  Value for money  Service delivery |

**Intervening variable**

|  |
| --- |
| * Independence * Audit committee * Regulations * Competence * Management Support |

**Source: Adapted from IIA (2016) and modified by the researcher (2019)**

# CHAPTER THREE

# METHODOLOGY

# Introduction

This chapter discusses the methods that were used in data collection, analysis and presentation. It therefore provides a description of research design, area of study, population data collection method and instruments, validity of the instruments, data analysis, and procedures in addition to the limitations of the study.

# Research design

Dalton and Todor (1979) define research design as the plan and structure of investigation so conceived to obtain answers from research questions. The research design consists of the research approach, research strategy research duration and research classification.

# Research approach

The research approach includes: positivism approach, phenomenological approach and combination approach. This study embraced positivism and phenomenological approaches called combination approach, using hypothesis testing and explaining, both quantitative and qualitative information.

# Research strategy

Research strategy is a general plan of how a researcher goes about answering the research question. Therefore research strategies include: experiment, survey, case study, action research, grounded theory, ethnography and archival research. The researcher employed case study and survey strategies. Surveys allow the collection of a large amount of data from a sizeable population in a highly economical way. The use of standardized self-administered questionnaires allows easy comparison of data. The survey strategy is also perceived as authoritative by people and is relatively easy to explain and understand (Saunders, Lewis and Thornhill, 2007:144). The single case study strategy helped the researcher generate plausible answers to the questions “why?” as well as the “what?” and “how?”

# Research duration

The study was carried out over a three year period between 2015-2018 . Research duration involves determining the time horizon for the research. It is divided into cross-sectional research and longitudinal research. Cross-sectional research involves the study of particular phenomena at a particular time whereas longitudinal research focuses on study of particular phenomena over time. A cross-sectional research design was adopted for this study. This is where data is gathered just once from a cross section of sources for purposes of answering questions (Sekaran, 2003). A cross-sectional survey is the most commonly used research method in social research (Amin, 2005). It can produce data which permits the establishment of casual relationships (Serantakos, 2005). The cross sectional design requires one to use a number of data collection methods and collecting information from a cross section of respondent (Sekaran, 2003). According to Maxwell (2004), a cross sectional study involves measuring different variables in the population of interest at a single point in time. This simultaneous data gathering is often thought of as a snapshot of conditions present at that instant; that is, the data obtained may be influenced by time or climate in which the respondents are and therefore, the situation provided differing results if another time-frame had been chosen. Even then, the merits of this study design outweigh its disadvantages. Amin (2005) noted that cross sectional studies aim at providing a systematic description that is as factual and as accurate as possible. It is relatively inexpensive and does not involve manipulating variables.

# Research classification

Research may be classified as being: exploratory, explanatory, and descriptive. Exploratory research helps the researcher to develop new insights by asking questions and assessing the phenomena in new light. Descriptive research aims at portraying the profile of persons, events or situations accurately (Robson 2002:59). Explanatory research seeks to establish causal relationships between variables. The researcher used explanatory research to find out the relationship between internal auditing and financial performance of LGs in Uganda.

# Study population

Population is referred to as a full set of cases from which a sample is taken (Saunders et al, 2007). The study population refers to the events or things of interest or group of people that the researcher wishes to investigate. (Dooley, 1995) defines a study population as the collection of individual units or respondents to whom the results of a survey are to be generalized. The total number of the study population is 89 according to the Human Resource audit report of 2017. The population is made up of people at the district headquarters, sub-county chiefs, sub-county community development officers in KDLG.

# Sample size

Kothari, (2004) described sample size as the total number of units or items used to represent the characteristics of whole population Sample size must satisfy some requirements such as representativeness, flexibility, efficiency and reliability.

The sample size is 89 respondents. A census was used given the small number of the respondents.

# Sampling methods

Holloway and Wheeler (2010) define sampling as the purposeful selection of an element of the whole population to gain knowledge and information. This study used probability sampling methods.

**Probability sampling**

Probability sampling is when elements in the population have a known chance of being chosen as subjects in the sample (Sekaran and Bougie 2010). All cases have an equal chance of being selected (Saunders et al, 2007).

# Sampling Technique

# Census

Census refers to collecting and analyzing data from every possible case or group member (Saunders et al, 2007). Census sampling was used because it saves time and costs and also results in greater accuracy.

# Table 3.1: Showing category of respondents as well as the Sample size

|  |  |  |  |
| --- | --- | --- | --- |
| **Category of respondents** | **Study population** | **Sample size** | **Sampling technique** |
| Administration | 22 | 22 | Census |
| Accounting & Finance department | 13 | 13 | Census |
| Internal Audit Unit | 03 | 03 | Census |
| Human Resource Unit | 2 | 2 | Census |
| Procurement Unit | 2 | 2 | Census |
| Planning Unit | 2 | 2 | Census |
| Health | 6 | 6 | Census |
| Community | 3 | 3 | Census |
| Education | 4 | 4 | Census |
| Water and Works | 9 | 9 | Census |
| Production and Marketing | 7 | 7 | Census |
| Natural Resources | 6 | 6 | Census |
| Sub-county Chiefs | 5 | 5 | Census |
| Sub-county Community Development Officers | 5 | 5 | Census |
| Total | 89 | 89 |  |

**Source: Human Resource Audit Report (2017)**

# Background information of the respondents

In this section, respondents were asked to provide their background information

# Gender of respondents

Respondents were asked to identify the gender in which they belonged to and responses are presented in table 3.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.2: Gender of respondents | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 39 | 47.6 | 47.6 | 47.6 |
| Female | 43 | 52.4 | 52.4 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 3.2, 47.6% of the respondents were males and 52.4% were female, which means that majority of the respondents were females. This can be interpreted to mean that most of the duties and activities at KDLG are performed by females.

# Highest level of completed academic education

Here the researcher sought to determine the highest level of completed academic education. Responses to the question are summarised in table 3.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.3: Highest level of completed academic education | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Diploma | 12 | 14.6 | 14.6 | 14.6 |
| Bachelor's Degree | 24 | 29.3 | 29.3 | 43.9 |
| Master's Degree | 36 | 43.9 | 43.9 | 87.8 |
| PhD | 7 | 8.5 | 8.5 | 96.3 |
| Others, specify | 3 | 3.7 | 3.7 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 3.3 indicate that 14.6% of the respondents had diploma, 29.3% had a degree of bachelor, 43.9% had a master’s degree, 8.5% had PhD while 3.7% mentioned that they had certificates in different fields and/or UCE. The results also show that all respondents in the local government of Kaliro had attained a recognizable and acceptable level of education and as such found it easy to understand the data collection instruments, hence provided relevant data for the study.

# Number of years worked in KDLG

On this question, the researcher sought to determine the number of years the respondents had been working in KDLG. The responses to the question are obtained in table 3.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.4: Number of years worked in the KDLG | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Less than 2 years | 11 | 13.4 | 13.4 | 13.4 |
| 3-5 Years | 37 | 45.1 | 45.1 | 58.5 |
| 6-10 Years | 17 | 20.7 | 20.7 | 79.3 |
| More than 10 Years | 17 | 20.7 | 20.7 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 3.4, it is indicated that 13.4% had worked in KDLG for a period of less than 2 years, 45.1% had worked for 3-5 years, and 20.7% had worked for 6-10 years while 20.7% had worked for more than 10 years. The results clearly indicate that a

highest total percentage of respondents had worked in KDLG for a reasonable number of years and as such had prior understanding about the internal auditing process and how it influences financial performance; this means they provided reliable and relevant data.

**Data collection procedures**

The researcher obtained a letter from the university (introductory letter from Nkumba University) which was presented to the authority of KDLG for permission to carry out the study.

# Data collection sources

**Primary data**

Primary data is data that is collected by a researcher from first-hand sources. In this study, primary data was collected directly from primary sources with the aim of gathering richness of information from most reliable and informed respondents about the current situation of the study problem.

**Secondary data**

Secondary data is data gathered from studies, surveys, or experiments that have been run by other people or for other research. The current study gathered information from secondary sources because it has a pre-established degree of [validity](https://en.wikipedia.org/wiki/Validity_(logic)) and [reliability](https://en.wikipedia.org/wiki/Reliability_(statistics)) which need not be re-examined by the researcher.

# Data collection methods

The study was conducted by applying survey, documentary review and interviewing methods of data collection.

# Interviews

An interview is a purposeful discussion between two or more people and it helps the researcher gather reliable data about the research questions and objectives (Saunders et al 2007). Saunders et al (2007) divided interviews into structured interviews, semi-structured interviews and unstructured or in-depth interviews. The researcher used structured interviews where respondents were asked standardized questions. Interviewing is the process of asking respondents questions face to face in research in order to achieve the objectives of the research. The purpose of interviewing is to explore the views, experiences, beliefs and/or motivations of individuals on specific matters.

# Documentary review

The researcher used document review method to get relevant information about internal auditing and financial performance of KDLG. The researcher reviewed documents like KDLG’s accounting books such as vote books, cashbooks, bank reconciliation statements, revenue and expenditure abstracts, performance reports, and financial statements among others.

# Data collection instruments

The study mainly employed self-administered questionnaires, documentary review checklist and interview guide.

# Self-administered questionnaires

The researcher used self-administered questionnaires to collect data from the respondents. A questionnaire is a survey instrument in which the researcher conceptualizes and operationalizes variables and questions (Newman 2003). Questionnaires were administered to all valid respondents. Sekaran and Bougie (2010) state that the advantages of personally administered questionnaires are a high response rate, less time required to collect data from large numbers of respondents, less expense and the researcher can clarify any questions from respondents. Personally administered questionnaires also have a number of disadvantages such as limited coverage of geographic regions, limited time available for respondents to respond at their convenience and limited availability of work hours of organisations to be spent on data collection (Ritonga, 2014). Questionnaires were delivered by hand to each respondent and collected later.

# Interview guide

This refers to those questionnaires where interviewers physically meet respondents and ask the questions face to face (Saunders et al, 2007). There is a well-designed document layout of questions in a particular order, making recording down of responses possible and easy. The researcher made appointments with the respondents to be interviewed, asked them questions in the interview guide and recorded their responses. The interview guide contained guiding questions which were used during the interview.

# Document Review Guide

A documentary review guide is a document used for reviewing secondary data (Saunders et al 2007). The researcher used a document review checklist to review books of accounts, financial statements and minutes of meetings.

# Data quality control measures

Data quality control refers to the reliability and validity of the instruments used for collecting data. These two concepts are important in the acceptability of the use of an instrument for research purposes (Amin, 2005). This is to ensure that the data collected is accurate.

The design based on the internal and external validity, while reliability was guided by pretest of the study instrument through cross checking the respondents to find out if they are dependable and consistent with the asked questions as obtained from the research objectives.

# Validity

Cook and Campbell; (1979) define validity as the "best available approximation to the truth or falsity of a given inference, proposition or conclusion”. Validity is described as the extent to which an instrument measures what it purports to measure. Validity is the accuracy and truth of the data and findings.

According to Gray (2004), validity is the degree to which a test measures what is supposed to measure. Amin (2005) further stated that validity is the ability to produce findings that are in agreement with theoretical or conceptual values; in other words, to produce accurate results and to measure what is supposed to be measured. Amin (2005) adds that a valid measure is supposed to produce true results that reflect the true situation in the condition of the environment it is supposed to measure.

In this study, the selected instruments were composed by the researcher in accordance with the research questions. The instruments were thoroughly discussed with the research supervisor; adjustments were made and eventually verified so as to get the required data.

**Internal validity**

Internal validity seeks to establish causal relationship between variables, whereby one condition is believed to lead to another. This can be done through explanation building and elimination of rival explanations. Amin, (2005: 43) points out that a research instrument is valid if it actually measures what is supposed to measure and when the data collected through it actually represents the respondents’ opinions. To ensure that there is internal validity of research instruments used in this study; questions were discussed with the supervisor for the scrutiny, clarity and removal of ambiguity.

**External validity**

External validity defines the domain to which the findings of a study can be generalized. This can be done through use of theory in single case studies and replication in multiple case studies. The research based on the guidelines for the selection of a representative sample as presented by well-established social science and research experts; Krejcie& Morgan (1970:89) as well as Amin, (2005: 43).

# Reliability

Reliability deals with consistency and dependability of measuring instruments. Reliability refers to whether the operations of a study can be replicated by another researcher and the same results are obtained (Onzima, 2013). In order to manage time especially in qualitative studies, Yin recommends developing a respondents’ database. To ensure reliability, the researcher, carried out a pre-test of the instruments on some selected respondents within Kaliro district. The practice guaranteed that the tools to be used, such as the questionnaires were appropriate for the group of respondents and achieve the aim for which they are planned. The pre-test was carried in order to make sure that all mistakes are collected and checked out for clarity in order to acquire the right data. Amin (2005) emphasizes that reliability is the dependability or trust worthiness of research results or the degree to which a measuring instrument consistently measures what is supposed to measure. The researcher usedCronbach’s alpha to test the reliability of the research instrument. Cronbach’s alpha is a measure used to assess the reliability, or internal consistency, of a set of scale or test items.

# Data processing

The data collected was edited, coded and refined before being entered in the computer and processed using Statistical Package for Social Sciences (SPSS) version 25. Both qualitative and quantitative techniques were used for the analysis.

# Data analysis and presentation

Data analysis refers to the computation of certain measures along with searching for the pattern of relationship that exist among data group. Both qualitative and quantitative techniques were used for the analysis which was done using SPSS and multivariate regression analysis. Gujarati (2003) explains that multivariate regression analysis is a statistical technique used for studies predicting that multiple variables may affect a dependent variable. Multivariate regression analysis allows a number of complex relationships among variables to be examined simultaneously and in terms of their joint contribution to explain variations in local government financial performance (Jones and Walker, 2007).

# Ethical considerations

Research ethics refers to the appropriateness of the researcher’s behavior in relation to those who become the subject of the research work or are affected by it. The research was conducted basing on the prevailing ethical considerations. The privacy and confidentiality of personal information obtained in the due course of the research was protected. It was only the researcher had access to the answered questionnaires and also respondents were asked not to put their names, departments on the questionnaire. The collection and analysis of data ensured that the researcher’s objectivity is maintained throughout these processes. To ensure that ethical considerations were maintained and adhered to, anonymity, informed consent and confidentiality were assured to the respondents

**Anonymity**

The researcher ensured that none of the respondents’ name was mentioned anywhere in the report but instead respondents were referred to using letters of alphabet for example client “A or B or AB”.

**Informed consent**

The researcher ensured that he informs his respondents about the purpose of the study and before interviewing the respondents, the researcher asked the respondents whether they have agreed or not to be interviewed and disclose their personal information.

**Confidentiality**

The researcher ensured that other than he and his supervisor, no one else had access to the information obtained during the study and that all data was treated with absolute confidentiality.

# Limitations of the study

The researcher faced the following setbacks during the research:

Limited time for the research: This interrupted the researcher’s study arrangements. It was solved through proper time allocation.

Non response from the participants: Some participants deliberately refused to respond owing to the “sensitivity” of the variables or because they had limited time owing to their busy schedules. The researcher used substitutes with delegated authority who were knowledgeable about the subject matter.

Methodological challenges in view of measuring the variables. It was cumbersome to choose measures to use for the different variables. The researcher had a trade-off between measurability and significance.

Financial constraints: research involves high costs from consultation, typing and printing. The researcher borrowed from family and friends to finance the expenses.

# CHAPTER FOUR

# INTERNAL AUDITING ENHANCES REVENUE PERFORMANCE

# Introduction

This chapter deals with the first objective; how internal auditing enhances revenue performance in KDLG. This chapter aims at discussing how revenue performance has been influenced by internal auditing. Out of the 89 questionnaires distributed, 82 were filled and returned by the respondents representing a 92% response rate which is above the 50% recommended by Kothari (2010).

The public sector does not have boards of directors. Government-wide laws and regulations regulate their business affairs. Certain assets such as buildings and infrastructure may be outside the control of those who occupy them. Moreover government entities rarely if ever collapse due to internal control failures and do not need to report to shareholders.

The average local government has a number of responsibilities (committing funds, recruiting staff, contracting for supplies and services, approving actions, registering transactions and events, deploying resources and controlling, supervising and reporting on implementation of

policies). If these responsibilities are fulfilled properly, effectiveness control over resources, decisions and activities and the achievement of a local government’s objectives is attained.

In an attempt to examine how internal auditing enhances revenue performance in KDLG, respondents were asked the following questions and responses are presented in the following sections and tables.

# Transactions are promptly recorded and classified to provide reliable information

Here the researcher asked respondents whether the transactions are promptly recorded and classified to provide reliable information. The responses are captured in table 4.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.1: Transactions are promptly recorded and classified to provide reliable information | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 4.9 | 4.9 | 4.9 |
| Disagree | 13 | 15.9 | 15.9 | 20.7 |
| Not sure | 5 | 6.1 | 6.1 | 26.8 |
| Agree | 24 | 29.3 | 29.3 | 56.1 |
| Strongly agree | 36 | 43.9 | 43.9 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.1 show that 4.9% strongly disagreed, 15.9% disagreed, 6.1% were not sure, 29.3% agreed while 43.9% strongly agreed. The results showed that there was a combined percentage of 73.2% who generally agreed to the statement, this means that there is proper transaction recording in KDLG. During an interview session, one respondent from expressed that;

*“The accounting department emphasises all personnel to be keen while recording transaction, this process involves identifying and capturing the relevant information not only for transactions but also events. This is made easier with the quality of system generated information which ultimately affects management’s ability to make appropriate decisions in managing and controlling the local district’s activities and responsibilities through reliable financial reports”.*

# Internal audit has ensured that internal controls promote proper segregation of duties

The respondents here were asked whether internal audit has ensured internal controls do promote proper segregation of duties. The responses are summarised in table 4.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.2: Internal audit has ensured that internal controls promote proper segregation of duties | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 23 | 28.0 | 28.0 | 28.0 |
| Disagree | 27 | 32.9 | 32.9 | 61.0 |
| Not sure | 9 | 11.0 | 11.0 | 72.0 |
| Agree | 14 | 17.1 | 17.1 | 89.0 |
| Strongly agree | 9 | 11.0 | 11.0 | 100.0 |
| Total | 82 | 100.0 | fr100.0 |  |

**Source: Primary data (2019)**

The results in table 4.2 show that 28.0% strongly disagreed, 32.9% disagreed, 11.0% were not sure, 17.1% agreed while 11.0% strongly agreed. The results also showed that a combined percentage of 60.9% generally disagreed to the statement; this implies that there is no active segregation of duties. During an interview session, one respondent expressed that;

*“The answer is yes but to some extent because human beings tend to ignore and others there is some laxity. You find a secretary doing the work of an office attendant. Even at the senior level, you find work of a water engineer being done by the engineer in charge of roads.”*

# Internal audit has ensured that internal controls promote existence of cross-checks

The respondents were asked whether the internal audit process has ensured existence of cross-checks in the local government of Kaliro. Results are obtained in table 4.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.3: Internal audit has ensured that internal controls promote existence of cross-checks | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 6 | 7.3 | 7.3 | 7.3 |
| Disagree | 9 | 11.0 | 11.0 | 18.3 |
| Not sure | 11 | 13.4 | 13.4 | 31.7 |
| Agree | 31 | 37.8 | 37.8 | 69.5 |
| Strongly agree | 25 | 30.5 | 30.5 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.3, the results reveal that 7.3% strongly disagreed, 11.0% disagreed, 13.4% were not sure, 37.8% agreed while 30.5% strongly agreed. A combined percentage of 68.3% of the respondents generally agreed, this means that there are cross checks through internal controls. It was indicated that cross checks are emphasised for various purposes one common being evaluating risks and to also encourage efficiency, compliance with laws, regulations and avoiding fraud and abuse. It was revealed that cross checks especially in the finance department are done by senior accounts assistants reviewing monthly bankreconciliations, monthly revenue and expenditure abstracts that are prepared by accounts assistants.

# Internal audit has ensured that internal controls promote more than one person authorisation

Here the researcher sought to establish whether there is more than one person authorisation. The results to the question are summarised in table 4.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.4: Internal audit has ensured that internal controls promote more-than one person authorization | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 12.2 | 12.2 | 12.2 |
| Disagree | 12 | 14.6 | 14.6 | 26.8 |
| Not sure | 8 | 9.8 | 9.8 | 36.6 |
| Agree | 19 | 23.2 | 23.2 | 59.8 |
| Strongly agree | 33 | 40.2 | 40.2 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.4 indicate that 12.2% strongly disagreed, 14.6% disagreed, 9.8% were not sure, 23.2% agreed while 40.2% strongly agreed respectively. The results also indicated that majority of the respondents 63.4% of the respondents generally agreed that internal controls promote more than one person authorization. This can be interpreted to mean that there is more than one person authorisation in the local government. During an interview session, one respondent from administration expressed that;

*“The idea of more than one person authorisation is ability to access and compare financial data by different authorized personnel. This practice also helps in creating an audit trail hence an employee can be easily tracked for not properly establishing and implementing internal controls that can expose the districts’ funds to risks”.*

# Internal audit has ensured that KDLG hires qualified and well trained employees and supervises them such that control processes function properly.

The researcher also asked respondents whether KDLG hires qualified and well trained employees and supervises them to ensure proper functioning of control processes.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.5: Internal audit has ensured that KDLG hires qualified and well-trained employees and supervises them such that control processes function properly | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 19 | 23.2 | 23.2 | 23.2 |
| Disagree | 29 | 35.4 | 35.4 | 58.5 |
| Not sure | 10 | 12.2 | 12.2 | 70.7 |
| Agree | 13 | 15.9 | 15.9 | 86.6 |
| Strongly agree | 11 | 13.4 | 13.4 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.5 indicate that 23.2% of the respondents strongly disagreed, 35.4% disagreed, 12.2% were not sure, 15.9% agreed while 13.4% strongly agreed. Since majority of the respondents 58.6% generally disagreed, it can be interpreted to mean that the personnel who operate the internal controls in the local government don’t have a clear understanding of internal auditing processes. Respondents stated that the KDLG hired personnel who are educated in different fields of finance with relevant practical experience and also have the theoretical background of accounting practice.

# Internal audit ensures that KDLG involves or requests for disbursements are backed by appropriate supporting documents

The researcher sought to find out whether the internal audit process involves requests for disbursements are backed up by appropriate documents. The results are highlighted in table 4.6

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.6: Internal audit ensures that KDLG invoices or requests for disbursements are backed by appropriate supporting documents. | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 14 | 17.1 | 17.1 | 17.1 |
| Agree | 34 | 41.5 | 41.5 | 58.5 |
| Strongly agree | 34 | 41.5 | 41.5 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.6 reveal that 17.1% were not sure, these mentioned that they do not have access to knowing such information. 41.5% of the respondents both agreed and strongly agreed to the statement, since this was the majority, it can be interpreted to mean that all goods and services are receipted. The respondents stated that KDLG has stipulated guidelines which are intended to ensure that cash and cash equivalents are disbursed only upon proper presentation of evidence of authorisation and supporting documentation. It was indicated that this practice is done for all expenditures to ensure that they are properly recorded and accounted for. However not all requests have supporting documents as the internal audit department is always raising audit queries to different accounting officers as some tend to deviate from the required norm. A review of the file containing the payment vouchers showed that some lacked supporting documents like invoices.

# Internal audit checks to ensure that monthly bank reconciliations are prepared and differences are explained

The researcher asked the respondents whether the checks in internal audit process ensure that the prepared reconciliations are prepared and the differences are explained. Results are summarised in table 4.7

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.7: Internal audit checks to ensure that monthly bank reconciliations are prepared and differences are explained | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 21 | 25.6 | 25.6 | 25.6 |
| Disagree | 31 | 37.8 | 37.8 | 63.4 |
| Not sure | 13 | 15.9 | 15.9 | 79.3 |
| Agree | 9 | 11.0 | 11.0 | 90.2 |
| Strongly agree | 8 | 9.8 | 9.8 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.7 indicate that 25.6% of the respondents strongly disagreed, 37.8% disagreed, 15.9% were not sure, 11.0% agreed while 9.8% strongly agreed. Since results reflect that majority 63.4% generally disagreed to the statement. This means that the internal audit department is not consistent in preparing bank reconciliations. It was revealed that the accounts assistants sometimes take long to prepare the bank reconciliations which delays preparation of the quarterly reports by the internal audit department.

# CHAPTER FIVE

# INTERNAL AUDITING ENSURES VALUE FOR MONEY

# Introduction

This chapter deals with the second objective; how internal auditing ensures attainment of value for money in KDLG.

Barry (2017) explains that any action taken by management, the Council, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Enock (2015) asserts that the attitude and actions of the Council and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control.

In an attempt to examine how internal auditing ensures compliance with the Local Governments Act and the Local Governments Financial and Accounting Regulations in KDLG, respondents were asked the following questions and responses are presented in the following sections and tables.

# Internal audit ensures that financial statements are prepared in accordance with IFRS/IPSAS

The respondents were also asked whether internal audit ensures that financial statements are prepared in accordance with IFRS/IPSAS

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.1: Internal audit ensures that financial statements are prepared in accordance with IFRS/IPSAS | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 4.9 | 4.9 | 4.9 |
| Disagree | 7 | 8.5 | 8.5 | 13.4 |
| Not sure | 8 | 9.8 | 9.8 | 23.2 |
| Agree | 18 | 22.0 | 22.0 | 45.1 |
| Strongly agree | 45 | 54.9 | 54.9 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.1 indicate that 4.9% strongly disagreed, 8.5% disagreed, 9.8% were not sure, 22.2% agreed while 54.9% strongly agreed respectively. Since majority of the respondents 76.9% generally agreed, this means that the financial statements are prepared as the standards of the IFRS. The respondents also revealed that the Chief Finance Officer ensures that all financial statements are prepared following established accounting standards that government accountant reviews the prepared financial statements to ensure that they are presented at least annually.

# Internal audit updates staff on changes in laws and regulations

Here the researcher sought to establish whether internal audit updates staff on changes in laws and regulations. The results are summarised in table 5.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.2: Internal audit updates staff on changes in laws and regulations | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 11 | 13.4 | 13.4 | 13.4 |
| Agree | 27 | 32.9 | 32.9 | 46.3 |
| Strongly agree | 44 | 53.7 | 53.7 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.2, it is indicated that 13.4% were not sure, 32.9% agreed while 53.7% strongly agreed. Since majority of the respondents generally agreed, it can be implied to mean that management ensures that communication about new updates in internal audit is made to staff to maintain effectiveness of the internal control structure and the personnel operating the structure. The respondents also indicated that changes in laws and regulations are discussed in the weekly management meetings. The heads of departments are then tasked with ensuring that their line staffs are updated on these changes.

# Internal audit ensures compliance of members of staff with the laid down rules and regulation and also ensure the system is not compromised

The respondents were also asked whether internal audit ensures compliance of members of staff ensures the system. The results are presented in table 5.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.3: Internal audit ensures compliance of members of staff with the laid down rules and regulation and also ensure the system is not compromised. | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 12.2 | 12.2 | 12.2 |
| Disagree | 11 | 13.4 | 13.4 | 25.6 |
| Not sure | 12 | 14.6 | 14.6 | 40.2 |
| Agree | 17 | 20.7 | 20.7 | 61.0 |
| Strongly agree | 32 | 39.0 | 39.0 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.3 showed that 12.2% strongly disagreed, 13.4% disagreed, 14.6% were not sure, 20.7% agreed, while 39.0% strongly agreed. There was a combined percentage of 59.7% generally agreed; this can be interpreted to mean that members in the local government comply with the laid down rules and regulations. It was revealed that for in the accounts department, individuals who can authorize purchase orders are not capable of processing payments, receiving goods or services or keeping the district’s inventory.

# Internal auditor ensures that the district implements relevant aspects of the internal audit manual

The respondents were asked whether the internal auditor ensures that the district implements relevant aspects of the internal manual. Results are summarised in table 5.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.4: The internal auditor ensures that the district implements relevant aspects of the internal audit manual | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 4.9 | 4.9 | 4.9 |
| Disagree | 6 | 7.3 | 7.3 | 12.2 |
| Not sure | 13 | 15.9 | 15.9 | 28.0 |
| Agree | 22 | 26.8 | 26.8 | 54.9 |
| Strongly agree | 37 | 45.1 | 45.1 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.4 show that 4.9% of the respondents strongly disagreed, 7.3% disagreed, 15.9% were not sure, 26.8% agreed while 45.1% strongly agreed. The results also show that majority of the respondents 71.9% generally agreed. This means the public sector has its own unique features on how to implement internal audit. During an interview session, one respondent expressed that;

*“With the purpose of implementing relevant aspects of the internal audit manual, the department head upholds the fundamental business model, also by placing the internal audit function at the appropriate level within the local government”.*

# There is proper accountability of resources in the district

The respondents were also asked whether there is proper accountability of resources in the district. Responses to the question are presented in table 5.5.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.5: There is proper accountability of resources in the district | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 10 | 12.2 | 12.2 | 12.2 |
| Agree | 24 | 29.3 | 29.3 | 41.5 |
| Strongly agree | 48 | 58.5 | 58.5 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results showed in table 5.5, it is indicated that 12.2% were not sure, 29.3% agreed while 58.5% strongly agreed respectively. A combined percentage of 87.3% generally agreed to the statement, this means that the district takes action that ensures commitments are kept and resources are re-allocated to have maximum benefit. It was also indicated KDLG acknowledges that public resources are to be applied for the best possible public benefit, in addition to accountability; KDLG identifies priority areas each financial year and resources are allocated to the areas identified accordingly.

# The district has ensured there is effective and efficient budgeting

The researcher sough to establish whether the district has ensured there is effective and efficient budgeting. Results to the question are summarised in table 5.6

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.6: The district has ensured there is effective and efficient budgeting | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 27 | 32.9 | 32.9 | 32.9 |
| Disagree | 31 | 37.8 | 37.8 | 70.7 |
| Not sure | 9 | 11.0 | 11.0 | 81.7 |
| Agree | 12 | 14.6 | 14.6 | 96.3 |
| Strongly agree | 3 | 3.7 | 3.7 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 5.6, 32.9% strongly disagreed, 37.8% disagreed, 11.0% were not sure, 14.6% agreed while 3.7% strongly agreed. The results indicated that 70.7% of the respondents generally disagreed to the statement; this means that the district does not have an effective and efficient budgeting policy. The respondents also revealed that the budget is sometimes not followed as KDLG constantly suffers revenue shortfalls. Resources then have to be utilised to meet only necessary expenditure and other items are left unattended to.

# Internal auditing has enhanced commitment to integrity in the district

The respondents were also asked whether internal auditing has enhanced commitment to integrity in the district. Results to the question are captured in table 5.7

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.7: Internal auditing has enhanced commitment to integrity in the district | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 31 | 37.8 | 37.8 | 37.8 |
| Disagree | 19 | 23.2 | 23.2 | 61.0 |
| Not sure | 9 | 11.0 | 11.0 | 72.0 |
| Agree | 12 | 14.6 | 14.6 | 86.6 |
| Strongly agree | 11 | 13.4 | 13.4 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 5.7 reveal that 37.8% strongly disagreed, 23.2% disagreed, 11.0% were not sure, 14.6% agreed while 13.4% strongly agreed to the statement. Since majority of the respondents generally disagreed it can be implied to mean that internal auditors in the district are not consistent in exhibiting a professional objectivity in gathering, evaluating, and communicating information about the activities in internal control; During an interview session, one respondent expressed that;

*“The district ensures that all actions first go through approval stipulated in the regulations. For example, there are some instances where approval passed is biased or does not go through the right channels, this leads to misuse of funds allocated for respective projects, all this is attributed to little integrity exhibited by some staff in the different departments. Personal accountability remains the biggest threat to KDLG’s overall integrity”.*

# There is a fully constituted audit committee

Respondents were asked whether there is a fully constituted audit committee, the results are presented in table 5.8

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.8: There is a fully constituted audit committee | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 6 | 7.3 | 7.3 | 7.3 |
| Agree | 25 | 30.5 | 30.5 | 37.8 |
| Strongly agree | 51 | 62.2 | 62.2 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.8 indicate that 7.3% of the respondents were not sure, 30.5% of the respondents agreed while 62.2% strongly agreed. Since majority of the respondents generally agreed to the statement, this means that the district has non-executive directors who view KDLG’s affairs in a detached and independent way. It was also indicated that the audit committee collaborates effectively between the internal auditors and the external auditors. In addition, the functions of the audit committee are quite wide-reaching; therefore, KDLG established an internal audit function in order to help them fulfill their responsibilities

# Internal audit ensures that spending is within budget for the financial year

The respondents were also asked whether internal audit ensures that spending is within budget for the financial year. Results are obtained in table 5.9

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.9: Internal audit ensures that spending is within budget for the financial year | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 14 | 17.1 | 17.1 | 17.1 |
| Disagree | 10 | 12.2 | 12.2 | 29.3 |
| Not sure | 7 | 8.5 | 8.5 | 37.8 |
| Agree | 19 | 23.2 | 23.2 | 61.0 |
| Strongly agree | 32 | 39.0 | 39.0 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.9 indicate that 17.1% of the respondents strongly disagreed, 12.2% disagreed, 8.5% were not sure, 23.2% agreed while 39.0% strongly agreed to the question respectively. This shows that the districts advocates for participation of all its departments in the formulation of the budget. Respondents stated that since each department has a forecast of expected activities to be performed, the district calls for representation of all its departments to ensure proper accountability of public funds/ revenue. Financial resource allocation for services provided by the district is divided in various responsibilities that are performed by various offices in the district and as such it is prudent for all departmental heads to be involved in formulation of the budget in relation to expenditure.

# CHAPTER SIX

# INTERNAL AUDITING AND SERVICE DELIVERY

# Introduction

This chapter deals with the third objective; which ensures how internal auditing ensures service delivery in KDLG.

Many business owners are discovering that their assets are not as well protected as they thought.  Smaller businesses with one or two employees managing all of the finances are particularly susceptible to misappropriation of assets. Often there are no checks and balances to verify that transactions are accurate or appropriate.

Internal control over safeguarding of assets against unauthorized acquisition, use or disposition is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Such internal control can be judged effective if the board of directors and management have reasonable assurance that unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the financial statements is being prevented or detected on a timely basis.

In an attempt to assess the extent to which internal audit ensures service delivery in KDLG, respondents were asked the following questions and responses are presented in the following sections and tables 6.1 through 6.7.

# Internal audit confirms that all equipment KDLG are marked or labeled

The respondents were also asked whether internal audit confirms that all equipment KDLG are marked or labeled. The results to the question are summarised in table 6.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.1: Internal audit confirms that all equipment KDLG are marked or labeled | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 4 | 4.9 | 4.9 | 4.9 |
| Agree | 29 | 35.4 | 35.4 | 40.2 |
| Strongly agree | 49 | 59.8 | 59.8 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The findings in table 6.1 indicate that 4.9% were not sure, 35.4% agreed while 59.8% strongly agreed respectively. The results also showed that a combined percentage of 95.2% generally agreed, this can be implied to mean that the district examines supporting documentation for all equipment. The respondents stated that management always assigns personnel responsible for reviewing original documentation for assets, the district also ensures that the equipment are marked with tags and industrial labels which is important for efficiency, organization, and safety. These labels can identify machines, vehicles, and even tools

# Internal audit confirms that small equipment assigned to specific individuals are kept in secure places when not in use

Here the respondents were asked whether the internal audit confirms that small equipment assigned to specific individuals are kept in secure places when not in use, results are presented in table 6.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.2: Internal audit confirms that small equipment are assigned to specific individuals and are kept in secure places when not in use | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 12 | 14.6 | 14.6 | 14.6 |
| Disagree | 11 | 13.4 | 13.4 | 28.0 |
| Not sure | 10 | 12.2 | 12.2 | 40.2 |
| Agree | 26 | 31.7 | 31.7 | 72.0 |
| Strongly agree | 23 | 28.0 | 28.0 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.2 indicate that 14.6% strongly disagreed, 13.4% disagreed, 12.2% were not sure, 31.7% agreed while 28.0% strongly agreed. The results show that 59.7% of the respondents generally agreed to the statement which means that all equipment is assigned to specific persons who are charged with ensuring that it is secure. During an interview session, one respondent stated that;

*“KDLG assigns a store’s manager; who has the keys to all storage facilities at the district head office; there is nothing that can be accessed without authorisation from these personnel. KDLG also introduced car-cards issued to drivers when they take out the cars. The cards are issued to drivers as confirmation of authorization to use KDLG’s vehicles.”*

# Internal audit confirms that retirement and or disposal of assets is authorized and documented prior to actual disposal

Here the researcher sought to establish whether the internal audit confirms that retirement and or disposal of assets is authorized and documented prior to actual disposal. The results to the question are presented in table 6.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.3: Internal audit confirms that retirement and or disposal of assets is authorized and documented prior to actual disposal | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Agree | 27 | 32.9 | 32.9 | 32.9 |
| Strongly agree | 55 | 67.1 | 67.1 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.3 reveal that 32.9% of the respondents agreed while 67.1% strongly agreed to the statement, since 100.0% of the respondents generally agreed to the statement, it implies that before disposal of assets, they are documented and records kept in a file for future review. The respondents also noted that the depreciated assets are disposed ofas per the provisions of the Public Procurement and Disposal of Public Assets Act and the LGFAR (2007); however such facts about the asset must be documented to justify the purpose of disposing it off. This means that the district management acknowledges the fact that proper accounting of the disposal of an asset is critical to maintaining updated asset register and clean accounting records.

# Internal audit checks to ensure backup and recovery procedures for personal computers and LAN are adequate

The respondents were asked whether internal audit checks to ensure backup and recovery procedures for personal computers and LAN are adequate. The results are presented in table 6.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.4: Internal audit checks to ensure backup and recovery procedures for personal computers and LAN are adequate | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 21 | 25.6 | 25.6 | 25.6 |
| Disagree | 28 | 34.1 | 34.1 | 59.8 |
| Not sure | 4 | 4.9 | 4.9 | 64.6 |
| Agree | 13 | 15.9 | 15.9 | 80.5 |
| Strongly agree | 16 | 19.5 | 19.5 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.4 show that 25.6% strongly disagreed, 34.1% disagreed, 4.9% were not sure, 15.9% agreed while 19.5% strongly agreed. The results also indicate that 59.7% of the respondents generally disagreed to the statement; this means that the information technology department is not consistent in performing system checks which are to be performed per month. The respondents expressed that the district faces a problem of one assigned I.T personnel who is responsible for carrying out all responsibilities, as a results the workload is too much in that not all assigned job description duties, several times the computers crashed or delay to boot, this is due to much data which is not backed up.

# Internal audit safeguards the district’s tangible assets from misuse

The respondents were asked whether the internal audit safeguards the districts tangible assets from misuse. The results to the question are captured in table 6.5

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.5: Internal audit safeguards KDLG’s tangible assets from misuse | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 8.5 | 8.5 | 8.5 |
| Disagree | 6 | 7.3 | 7.3 | 15.9 |
| Not sure | 10 | 12.2 | 12.2 | 28.0 |
| Agree | 22 | 26.8 | 26.8 | 54.9 |
| Strongly agree | 37 | 45.1 | 45.1 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.5, the results indicate that 8.5% strongly disagreed, 7.3% disagreed, 12.2% were not sure, 26.8% agreed while 45.1% strongly agreed respectively. The results showed that there was a combined percentage of 71.9% who generally agreed to the statement, this means that the tangible assets are safely guarded from misuse under internal audit. During an interview session, a respondent mentioned that;

*“We use internal audit to facilitate effective operation by enabling it to respond in an appropriate manner to significant business, operational, financial, compliance and other risks to achieve its objectives. This includes safeguarding of assets and ensuring that liabilities are identified and managed”.*

This means that assets are deployed for their proper purpose and are not vulnerable to misuse.

# Internal audit ensures that there is an up-to-date asset register

The respondents were also asked whether internal audit ensures that there is an up-to-date asset register. Results are summarised in table 6.6

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.6: Internal audit ensures that there is an up-to-date asset register | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 9 | 11.0 | 11.0 | 11.0 |
| Agree | 24 | 29.3 | 29.3 | 40.2 |
| Strongly agree | 49 | 59.8 | 59.8 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.6, 11.0% were not sure, 29.3% agreed while 59.8% strongly agreed respectively. There was a combined percentage of 89.1% of the respondents who generally agreed, this means that the system keeps track of all the fixed assets of the district. The respondents also indicated that the every department maintains an asset register which ensures that there is easy monitoring of assets in regards to the assertions of valuation, completeness, existence. It was noted that the district uses a spreadsheet containing asset details like names, purchase dates, and purchase prices.

# Internal audit ensures that data security precautions for sensitive administrative data on personal computers appear adequate

Respondents were also asked whether the internal audit ensures that data security precautions for sensitive administrative data on personal computers appear adequate. Results are highlighted in table 6.7

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.7: Internal audit ensures that data security precautions for sensitive administrative data on personal computers appear adequate | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 12.2 | 12.2 | 12.2 |
| Disagree | 9 | 11.0 | 11.0 | 23.2 |
| Not sure | 8 | 9.8 | 9.8 | 32.9 |
| Agree | 18 | 22.0 | 22.0 | 54.9 |
| Strongly agree | 37 | 45.1 | 45.1 | 100.0 |
| Total | 82 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.7 show that 12.2% strongly disagreed, 11.0% disagreed, 9.8% were not sure, 22.0% agreed while 45.1% strongly agreed respectively. Since majority of the respondents 67.1%generally agreed. This can mean that there are adequate security precautions for administrative data in KDLG. Respondents stated the computers are password protected from external users; each employee has a pass key access which permits them to view administrative data. Also the district does not allow employees to come to work with their personal computers; this is because district work/ data is not allowed to go beyond the premises of the district administration block.

# Hypotheses of the study

**H0** There is no significant relationship between internal auditing and financial performance of KDLG:

**H1** There is a significant relationship between internal auditing and financial performance of KDLG.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 6.8: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .699a | .489 | .483 | .51620 |
| a. Predictors: (Constant), Internal auditing | | | | |

The results in table 6.8 show the model summary model summary of the regression which yielded an Adjusted R Square of .483. This means that internal auditing at KDLG contributes 48.3% to financial performance; the remaining 51.7% is contributed to other factors that were outside the scope of this current study. Since these factors were outside the scope of the study, they were not explored.

# ANOVA (Analysis of variance)

ANOVA analysis was performed to test the equivalent hypothesis that there is a significant relationship between internal auditing and financial performance of KDLG. The results are summarized in table 6.9

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.9: ANOVAa | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 20.402 | 1 | 20.402 | 76.566 | .000b |
| Residual | 21.317 | 80 | .266 |  |  |
| Total | 41.720 | 81 |  |  |  |
| a. Dependent Variable: Financial performance of local governments | | | | | | |
| b. Predictors: (Constant), Internal audit | | | | | | |

From the ANOVA statistics in table 6.9, the processed data, which is the population parameters, had a significance level of 0.01 which shows that the data is ideal for making conclusion on the population’s parameter as the value of significance (p-value) is less than 0.05. This is an indication that internal auditing significantly facilitates financial performance in KDLG.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.10: Coefficientsa | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 5.963 | .187 |  | 31.849 | .000 |
| Internal auditing | -.399 | .046 | .699 | -8.750 | .000 |
| a. Dependent Variable: Financial performance of local government | | | | | | |

The test revealed that internal auditing has an influence on financial performance of Kaliro district local government, this is because the test yielded a significant relationship between the two study variables, this is shown by the Beta value which is positive presented by (p= .699, P<0.01).

In view of the above tests, it can be concluded that, internal auditing significantly facilitate financial performance in Kaliro District Local Government as it contributes 48.3% as indicated in the model summary, however, this is below average and can be interpreted to mean that KDLG’s internal auditing has not been successful in facilitating financial performance.

# CHAPTER SEVEN

# TOWARDS HARMONISING INTERNAL AUDITING AND FINANCIAL PERFORMANCE

# Introduction

This chapter is towards strengthening internal audit and financial performance in KDLG. Implications are, deduced, from the findings, discussed and interpreted basing on the research Hypotheses of the study.

# Internal auditing enhances revenue performance in KDLG

The study shows that there was a combined percentage of 73.2% who generally agreed to the statement that transactions are promptly recorded and classified to provide reliable information. The results also showed that a combined percentage of 60.9% generally disagreed to the statement that internal audit has ensured that internal controls promote proper segregation of duties; A combined percentage of 68.3% of the respondents generally agreed to the statement that internal audit has ensured that internal controls promote existence of cross-checks; The results also indicated that majority of the respondents 63.4% of the respondents generally agreed to the statement that internal audit has ensured that internal controls promote more-than one person authorization; majority of the respondents 58.6% generally disagreed that internal audit has ensured that KDLG hires qualified and well-trained employees and supervises them such that control processes function properly; in addition, 41.5% of the respondents both agreed and strongly agreed to the statement that Internal audit ensures that KDLG invoices or requests for disbursements are backed by appropriate supporting documents; furthermore, results reflect that majority 63.4% generally disagreed to the statement that internal audit checks to ensure that monthly bank reconciliations are prepared and differences are explained

Internal control is under the Board of Director's responsibility. Internal control's function is, among other things, to ensure the efﬁciency and proﬁtability of operations, the reliability of information, and adhering to rules and regulations. Internal control is a part of day-to-day management and company administration.

The study findings correlate to those of Njagi & Mwangi (2019) which revealed a strong positive correlation between internal audit and revenue collection; an increase in internal audit leads to an increase in revenue collection.

Frank (2001) observes that an essential part of internal control is the Internal Audit, which operates as a separate unit under the CEO and reports its observations to the Board of Directors. The Internal Audit supports the Group's management in directing operations by inspecting and evaluating the efﬁciency of business operations, risk management and internal control, and by producing information and recommendations to enhance efﬁciency. The Internal Audit also inspects the processes of business operations and ﬁnancial reporting. The operations of the Internal Audit are guided by being risk-focused and emphasising the development of business operations.

It is also important to note that a key function of good governance is an internal control system and risk management function that supports government in the achievement of its policy priorities and ministries in pursuit of related objectives. This includes policies and procedures, established by the Centre of Government (CoG) or relevant audit body, as well as mechanisms and tools for implementing internal control systems at the entity level. In addition, an internal control and risk management framework helps to reduce risks of fraud, corruption, waste and abuse, providing a reasonable level of assurance of an entity’s efficiency, performance and compliance with laws, regulations and standards.

The internal control system, its risk management functions and resulting internal controls activities are not ends themselves, but means to achieving objectives and better governance largely by detecting and hindering mismanagement and misuse. Thus, they are also means of achieving integrity in the public sector. Control activities should be balanced and risk-based to avoid being overly burdensome.

# Internal auditing ensures value for money in KDLG

The study results show that majority of the respondents 76.9% generally agreed that internal audit ensures that financial statements are prepared in accordance with IFRS/IPSAS; 2.9% agreed while 53.7% strongly agreed and this was the majority response that internal audit updates staff on changes in laws and regulations; There was a combined percentage of 59.7% generally agreed that internal audit ensures compliance of members of staff with the laid down rules and regulation and also ensure the system is not compromised; The results also show that majority of the respondents 71.9% generally agreed that the internal auditor ensures that the district implements relevant aspects of the internal audit manual; A combined percentage of 87.3% generally agreed to the statement that there is proper accountability of resources in the district; The results indicated that 70.7% of the respondents generally disagreed to the statement that the district has ensured there is effective and efficient budgeting; 30.5% of the respondents agreed and 62.2% strongly agreed; 23.2% agreed and 39.0% strongly agreed to the question respectively that Internal audit ensures that spending is within budget for the financial year

Internal auditing helps to assess the adequacy and effectiveness of an organisation’s value for money arrangements. An internal audit department is a corporate area that ensures that internal policies, procedures and guidelines are adequate and in compliance with top management’s recommendations, human resources’ standards and industry rules. Internal auditors also aim to detect significant operational risks, report them to senior managers and ensure that senior managers establish corrective mechanisms.

Internal audit reviews the extent to which management has established sound internal control systems to enable achievement of set objectives in an efficient manner (Spencer Pickett 2005). Compliance with laws and regulations is a prerequisite to good value for money.

Obrien et.al, (2012) states that an internal auditor reviews an organization's internal controls and processes to ensure that they are adequate, effective and in accordance with laws. (Controls are mechanisms a company's managers put into place to avoid losses due to theft, error or technology breakdowns). Effective internal controls help to combat risks to achievement of value for money. An adequate control details instructions that employees must follow to perform jobs and make decisions. An internal auditor focuses on compliance at two levels adherence to corporate policies and regulatory requirements.

Furthermore, Anderson explains that an internal auditor is finance and accounting specialist who holds a four-year college degree in a business field. An auditor (especially a senior specialist) often may hold a master's or a doctorate degree in audit or finance. Some auditors obtain a professional certification, such as the certified public accountant (CPA) or the certified internal auditor (CIA) designation. An audit specialist focusing on compliance must have good written, verbal and graphic communication skills and knowledge of risk management.

An internal audit manager often may hire a consultant or a university professor to evaluate review processes and provide recommendations for improvement. This typically may occur in situations where a segment or an area under review requires specific knowledge or skills. For example, a mutual fund's audit manager may hire a quantitative finance scholar to help conduct compliance tests on the fund's market and credit risk calculation processes.

The overall governance structure of an organisation, practicing good corporate governance, includes at least an internal audit function, a risk management function and a compliance function. In our opinion, the starting point for setting a corporate governance culture in an organisation is an overall Enterprise Risk Management (ERM) framework. Such a framework facilitates the determination of the risk appetite and risk tolerance of the organisation. Where ERM is practiced, the compliance risk framework should be a sub-framework of the ERM framework. One of the key elements of the relationship between ERM and internal audit is that the ERM process assists with focusing both internal and external audits’ efforts on high risk areas. This study focused on internal audit and not external audit.

# Internal auditing ensures service delivery in KDLG.

The study results show that a combined percentage of 95.2% generally agreed that internal audit confirms that all equipment KDLG are marked or labeled; the results show that 59.7% of the respondents generally agreed to the statement that internal audit confirms that small equipment are assigned to specific individuals and are kept in secure places when not in use; 100.0% of the respondents generally agreed to the statement that Internal audit confirms that retirement and or disposal of assets is authorized and documented prior to actual disposal; The results also indicate that 59.7% of the respondents generally disagreed to the statement that internal audit checks to ensure backup and recovery procedures for personal computers and LANs are adequate; results also indicated that there was a combined percentage of 71.9% who generally agreed to the statement that Internal audit safeguards this corporation’s tangible assets from misuse; There was a combined percentage of 89.1% of the respondents who generally agreed that internal audit ensures that there is service delivery.

Assets are acquired for their service delivery potential. Proper asset management ensures that community service needs are met and that services are delivered in a socially, economically and environmentally responsible manner. The effectiveness and efficiency of public service delivery depends on the availability and access of information held in records. Poor management of information assets has an adverse effect on service delivery as it impedes the development of economic and or administrative reforms aimed at improving service delivery. It also makes virtually impossible for citizens to hold leaders accountable and or prosecute them in cases that involve corruption or fraud (Word Bank 2000). The findings are in support of the view of Bradford (2015) who asserts that internal controls encompass all the methods and procedures that an organization adopts to protect its facilities, assets and property. In a broad sense, internal controls make it possible for an organization to lawfully conduct business operations without interference, loss or interruption. Perhaps most importantly, internal controls act as a deterrent to fraud or abuse, identify evidence of fraud already committed and spot errors in financial information and records.

Dawn (2017) explains that the most basic level of protection for an organization is the physical protection of facilities and assets. This level of protection includes perimeter fences, doors, locks, video surveillance, security checkpoints and limitations on access to certain areas using keys, passwords or biometric access restrictions. These types of physical restrictions are methods of internal control. Such limitations on access provide a layered set of defenses to protect inventory, cash and employees. Internal controls that protect accounting data, information assets, bank accounts and payments can be understood in the same way.

In addition, physical controls already noted are a legitimate component of the internal control system. The centerpiece to all preventative controls is the written policies and procedures that each employee must understand and agree to follow. Wareen (2016) cites examples of internal controls that will be included in written form include segregating the duties of accounting personnel, requiring monthly reconciliation of bank accounts, registration of all vendors, supervisory approval of new vendor accounts, requiring more than one signature for disbursements over a designated amount, establishing a policy for mandating prior management approval of large expenses and separation of duties concerning receipt of payments and credits to accounts receivable. These represent just some of the internal controls that act to prevent or deter fraud.

Saunders (2000) notes that internal controls that can detect the presence of fraud are often referred to as detective controls; This category of internal controls is audit-oriented and would include requiring management review of reconciliations, physical inventories to check against inventory and purchasing records, and internal audit of accounts. According to the Association of Certified Fraud Examiners’ 2012 Report to the Nations, the proper approach to detecting fraud is multifaceted. Adding to conventional internal controls, ACFE suggests setting up an anonymous tip line and increased employee awareness and education. Tips were the source of detection for 40 percent of the cases of occupational fraud and abuse reviewed in the study compared to about 14 percent of the cases discovered by conventional auditing techniques.

Jenkins (2013) asserts that internal controls do not exist just to discover fraud. In an organization where internal controls are enforced and compliance is monitored, many red flag indicators will reveal simple errors and unintentional irregularities that need to be remedied. Corrective controls are internal controls developed to remedy errors that can be systematically corrected. At times this may also involve additional training or employee disciplinary action. Following discovery of major fraud, corrective controls are developed to counter the particular scheme employed by the perpetrator.

# 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 the role of internal auditing in the financial performance of Kaliro District Local Government. 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 KDLG. The study ends by presenting the areas that the researcher considers vital for further studies

# Summary of findings

# Internal auditing ensures revenue performance in KDLG

The results indicate that that there is proper transaction recording in KDLG; it was also found that that the purpose and merits of segregation of duties are under looked by management and overall staff members; It was indicated that cross checks are emphasised for various purposes one common being evaluating risks and to also encourage efficiency, compliance with laws, regulations and avoiding fraud and abuse; in addition, it was revealed that there is more than one person authorisation in the local government; the KDLG hired personnel who are educated in different field of finance to operate the internal control software and also have the theoretical background of accounting practice; The results showed that KDLG has stipulated guidelines which are intended to ensure that cash equivalents are disbursed only upon proper authorisation and later backed by supporting documentation. .

# Internal auditing ensures value for money in KDLG

The findings revealed that revealed that management ensures that all items of income and expense recognised in a government financial period are included in profit or loss; it was showed that communication about new updates in internal audit is made to staff to maintain effectiveness of the internal control structure and the personnel operating the structure; It was revealed that for in the accounts department, individuals who can authorize purchase orders are not capable of processing payments, receiving goods or services or keeping the district’s inventory; It was also indicated KDLG acknowledges that public resources are to be applied for the best possible public benefit, in addition to accountability; it was also indicated that the budget policy encompasses both estimated revenues and expenditures for a specific period of time which is normally a fiscal year. It was also indicated that the audit committee collaborates effectively between the council and the external auditors.

# Internal auditing ensures service delivery in KDLG

The results indicate that that management always assigns personnel responsible for reviewing original documentation for assets, the district also ensures that the equipment are marked with tags and industrial labels; depreciated assets are disposed of, usually at a gain or loss; however such facts about the asset must be documented to justify the purpose of disposing it off; The results expressed that the district faces a problem of one assigned I.T personnel who is responsible for carrying out all responsibilities; The results also indicated that the every asset is recorded in one place in that an owner, accountant, investor or advisor can quickly learn about a certain asset. Results stated the computers are password protected from external users; each employee has a pass key access which permits them to view administrative data.

# Conclusion

The study concludes that internal audit functions have a significant effect on the financial performance of KDLG. Where the internal audit function is emphasised; it can impact positively on financial performance of the district. The study further concludes that KDLG a robust internal auditing system leads to improved financial performance.

From the findings, it was revealed that local governments that had effective and adequate internal controls, complied with relevant laws and regulations and had safeguards over their assets recorded high financial performance. Local Governments face challenges in ensuring the effectiveness of internal auditing due lack of sufficient resources to hire competent staff that will oversee the implementation and monitoring of controls and ensure compliance with laid down rules and regulations. The few who are employed like in the internal audit department are not enough given the volume of work they must look into.

# Recommendations

KDLG should adopt effective internal processes and practices that address key internal auditing for effectiveness of audit quality.

KDLG should consider skills, personal qualities of audit partners and staff, and the training given to audit personnel as the important factors that determine auditor quality.

Internal auditors should continuously update themselves with the changing times and technologies so as to sharpen their skills in internal auditing.

KDLG’s head of the internal audit department should be responsible to the management with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

The Ministry of Local Government through the Ministry of Public Service should look into the idea of rotating internal audit staff in order to minimize the familiarity threats to their integrity arising out of long stay at their work stations.

# Areas of Further Research

Internal auditing and fraud management in local governments in Uganda

Internal auditing and corporate governance in public limited companies in Uganda.

The role of internal audit in budgetary control in the public sector in Uganda.

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# APPENDICES

# Appendix I: Self-Administered Questionnaire

# Purpose of this research

The purpose of this survey is to collect data regarding Internal Auditing and financial performance of Local Governments in case of KDLG.

Your participation will help the researcher to better understand the extent to which Internal Auditing enhances financial performance of local governments in Uganda.

**Extent of anonymity and confidentiality**

No personally identifiable information is being collected from and all information you provide will be combined with other respondents’ data, analyzed and reported in aggregate. Responses will be kept confidentially at all times, and used for academic purpose only.

**SECTION A: PERSONAL PROFILES.**

General Instruction: Please indicate your choice by putting **“√”** mark in the box or supply the required information where, required, please specify and elaborate.

1. Please indicate your gender Male  Female

2. What is your level of position title in your organization? ----------------------------------

3. What is your highest level of completed academic education?

 Diploma Bachelor’s degree Masters’ degree  PHD  Other specify it-------------------

4. How long have you worked in the Kaliro District Local Government?

Less than 2 years3 - 5 years6-10 yearsMore than 10 years

Please tick the one response that best describes your reaction to each statement

**Key: 1 = Strongly Disagree 2 = Disagree 3 = Not Sure 4 = Agree 5 = Strongly Agree**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SECTION B: Internal auditing enhances revenue performance in KDLG.** | **1** | **2** | **3** | **4** | **5** |
| Transactions are promptly recorded and classified to provide reliable information. |  |  |  |  |  |
| Internal audit has ensured that internal controls promote proper segregation of duties |  |  |  |  |  |
| Internal audit has ensured that internal controls promote existence of cross-checks |  |  |  |  |  |
| Internal audit has ensured that internal controls promote more-than one person authorization |  |  |  |  |  |
| Internal audit has ensured that KDLG hires qualified and well-trained employees and supervises them such that control processes function properly |  |  |  |  |  |
| Internal audit ensures that KDLG invoices or requests for disbursements are backed by appropriate supporting documents. |  |  |  |  |  |
| Internal audit checks to ensure that monthly bank reconciliations are prepared and differences are explained |  |  |  |  |  |
| **SECTION C: Internal auditing ensures value for money in KDLG** | 1 | 2 | 3 | 4 | 5 |
| Financial statements are prepared in accordance with IFRS/IPSAS |  |  |  |  |  |
| Staff are updated on changes in laws and regulations |  |  |  |  |  |
| KDLG and its staff comply with the laid down rules and regulations. |  |  |  |  |  |
| KDLG implements relevant aspects of the internal audit manual |  |  |  |  |  |
| There is proper accountability of resources in the district |  |  |  |  |  |
| Effective and efficient budgeting is ensured |  |  |  |  |  |
| Enhanced commitment to integrity in the districts enforced |  |  |  |  |  |
| There is a fully constituted audit committee |  |  |  |  |  |
| Spending is effected within the budget for the financial year. |  |  |  |  |  |
| **SECTION D: Internal auditing ensures service delivery in KDLG** | 1 | 2 | 3 | 4 | 5 |
| All equipment KDLG are marked or labeled. |  |  |  |  |  |
| Small equipment is assigned to specific individuals and are kept in secure places when not in use |  |  |  |  |  |
| Retirement and or disposal of assets is authorized and documented prior to actual disposal |  |  |  |  |  |
| Backup and recovery procedures for personal computers and LAN are adequate |  |  |  |  |  |
| KDLG’s tangible assets are safeguarded from misuse |  |  |  |  |  |
| An up-to-date asset register is ensured |  |  |  |  |  |
| Data security precautions for sensitive administrative data on personal computers is adequate. |  |  |  |  |  |

# Appendix II: Interview Guide

1. How is proper segregation of duties carried out in the organisation?
2. Does management ensure that only qualified and well trained employees are recruited in the organisation?
3. Are all requests for disbursements backed by appropriate supporting documents?
4. Does internal audit ensure that monthly bank reconciliations are prepared and differences explained?
5. How does internal audit ensure that all staff complies with laid down procedures?
6. How does internal audit ensure that all of the organisation’s assets are in safe custody?
7. Are all staff updated on changes in legislation by the internal audit department?
8. In your opinion, does internal audit contribute to the financial performance of your organisation?
9. How does internal audit ensure that recurring errors or mistakes of noncompliance are eliminated or minimized?
10. What do you think can be done to enhance the contribution of internal audit in regards to the financial performance of the organisation?

# Appendix III: Documentary Review Checklist

|  |  |
| --- | --- |
| Document | Status |
| Vote books |  |
| Cash books |  |
| Payment vouchers |  |
| Annual financial reports |  |
| Abstracts |  |
| General Ledger |  |