Internal Audit and Financial Performance in Mbale District Local Governments

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Dedication

This study is dedicated to my wife Nabuloli Philis, my daughter Kristy Precious Nangoli and my family for their love, support, patience and understanding during my protracted absence to pursue this noble cause.

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I would like to express my sincere gratitude and appreciation to the following individuals and institutions for their contributions to the successful completion of this study:

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List of acronyms

MDLG	Mbale district Local government
UGX	Uganda shilling
IA	Internal Audit
ICPAU	Institute of certified public accountants of Uganda
IFAC	International federation of Accountants
IAS	International accounting standards
IFRS	International Financial reporting standards
IPSAS	International public sector accounting standard
IIA	International institute of Auditors
SPSS	Statistical package for social sciences
OECD	Organization of Economic Development
COSO	Committee of sponsoring Organisations
PFMA	Public Finance and management Act

Abstract

The study was set up to examine the effect of internal audit on financial performance in Mbale district Local Governments case study Mbale.This study was guided by "Theory of Performance" by Don Elger (2011). The study had three specific objectives notably; to find out the effect of financial reporting on financial performance in Mbale District Local Government, to establish the effect of risk detection on the financial performance of Mbale District Local Government, and to examine the effect of audit inspection on financial performance in Mbale District Local Government. The study employed a cross sectional research design that adopted both the qualitative and quantitative methods. The study population was 213 and sample size was 132 based on Krejcie and Morgan (1970) table for determining the sample size.

The findings show that auditing activities are important in ensuring that there is improved financial performance in the district. The findings further reflect that financial reporting has a strong significant relationship with financial performance. The study findings also held that risk detection is important in helping to identify the risks, the causes and what corrective measures that management can undertake to avoid reoccurring of such incidents. The study outcomes further indicated that audit inspection is significant in deterring fraud, mischarge of expenditure and wasteful expenditure in the district.

Therefore internal auditing should be encouraged at the district in order to enhance effective utilization of resources in order to further financial performance. Furthermore emphasis should be placed on those preventive measures to mitigate the risks and losses caused by risks like fraud and other forms of financial mismanagement. A risk-management strategy and well-drafted economic-crime prevention policies should be put in place to provide a vital platform for the district to prevent and detect financial risks, whilst adequate staff training is required. Management can as well setup a confidential whistle – blowing process as these provide some of the more successful means for the detection of risks.

The study therefore recommends that there is need for all departments to provide reports on all the activities undertaken in a particular period of time. Such reports should cover dimensions such as financial reports, strategy implementation reports, variance reports, internal controls in place. This enforces effective accountability of the Local Governments to the relevant stakeholders thus leading to transparency in allocation of finance and finally improving financial performance in the district.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This study examines the effect of internal audit and financial performance in Mbale District Local Governments. Therefore this chapter presents background to the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the Study, justification of the study and conceptual framework.

1.1 Background to the Study

Reynolds (2000) contends that IA serves as an important link in the organization and financial reporting processes. Goodwin-Stewart and Kent (2006) argue that IA helps in monitoring the organization’s risk profile and identifying areas to improve risk management and help improve organisational efficiency and effectiveness through constructive criticism by the auditors. Similarly, Institute of Internal Auditors (2010:1) contends that organisations that effectively use internal auditing are better able to identify business risks, process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvements.

The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advance of civilization brought about the necessity of one man being entrusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent. Historians believe that formal record-keeping systems were first instituted by organized businesses and governments in the Near East to allay their concerns about correctly accounting for receipts and disbursements and collecting taxes. The need for and indications of audits can be traced back to public finance systems in Babylonia, Greece, the Roman Empire, the City States of Italy. All of which developed a detailed system of checks and counterchecks. The Bible also contains examples of internal controls such as the dangers of dual custody of assets, the need for competent and honest employees, restricted access, and segregation of duties (O'Reilly et al., 1998). Historically then, the emergence of double-entry bookkeeping in circa can be directly traced to the critical need for exercising stewardship and control. Throughout European history, for instance, fraud cases — such as the South Sea bubble of the 18th century, and the tulip scandal — provided the justification for exercising more control over managers.

In due course, the internal audit function became responsible for careful collection and interpretive reporting of selected business facts to enable management to keep track of significant business developments, activities, and results from diverse and voluminous transactions.

In sum, the collective effect of growing transaction complexity and volume, the owner/manager's ("principals") remoteness from the source of transactions and potential bias of reporting parties ("agents"), technical (accounting) expertise required to review and summarize business activities in a meaningful way, need for organizational status to ensure independence and objectivity, as well as the procedural discipline necessary for being the "eyes and ears" of management all contributed to the creation of an internal audit department within business organizations. Starting as an internal business function primarily focused on protection against payroll fraud, loss of cash, and other assets, internal audit's scope was quickly extended to the verification of almost all financial transactions, and still later, gradually moved from an "audit for management" emphasis to an "audit of management" approach. (Reeve, 1986)

Despite Mbale District having internal audit office in place together with internal control systems, it has been on a losing end on its performance which can be evidenced by the number of dilapidated roads in the city, poor urban planning, failure to account for funds, failure of street lights, poor collection and disposal of garbage and poor provision of services like clean water. Therefore the study examines and draws insights into finding the relationship between internal auditing and performance of Mbale district.

1.2 Statement of the problem

The local governments (amendment) act, 2010 and Public finance management and accountability act (PFMA 2015) of Uganda sets out stringent and crucial measures to reduce cases of financial mismanagement, corruption, and miss use of expenditure. Additionally the management of Mbale district local government has set up an internal auditing department with qualified personnel with an aim of ensuring that the functions and operations of the district adhere to the established policies and procedures.

The Daily Monitor of December, 28, 2010, with headline, 'Mbale residents demand report on corruption investigations' The Daily monitor January 24, 2003, heading, 'flog the corrupt, Mbale voters say'. This shows the discontent of the citizens in Mbale and therefore opting for mob justice. In the Audit General's (AG) report for Financial year 2013/2014 It was however, observed that UGX 11,144,880 remained unaccounted for at the time of audit. As well the report accuses the district for not accounting for funds disbursed as per Regulation 43 (2) of the Local Governments Financial and Accounting Regulations, 2007 to a tune of UGX 21,502,500. Further findings indicate that Mbale district had contracts to the tunes of UGX.10,443,301,039 and UGX.441,120,950 but had not been captured in the PPMS system.

In the report submitted by Mbale local government to Uganda road fund, it was noted that receipts and expenditure in accountability reports submitted to were not in agreement with the designated agency's books of accounts/Cash book. Further details indicate that from the 467,352,170 disbursed for the 4 quarters, only 418,875,275 has been accurately accounted for while the 48,476,896 was no accurately accounted for. This Inaccuracy of reports may lead to poor decision making (Uganda Road Fund 2010/2011)

It is therefore against this background that the study is undertaken to establish whether internal auditing contributes to financial performance in Mbale District Local Government.

1.3 Objectives of the Study

This included; major and specific objective as detailed below

1.3.1 General objective

The general objective of the study was to examine the contributions of internal auditing to the financial performance in Mbale District Local Government.

1.3.2 Specific of objectives

i. To find out the relationship between financial reporting and financial performance in Mbale District Local Government

ii. To establish the relationship between risk detection and the financial performance in Mbale District Local Government.
iii. To examine the relationship between audit inspection on financial performance in Mbale District Local Government

1.4 Research Questions

i. What is the effect of financial reporting on financial performance in Mbale District Local Government?
ii. What is the effect of risk detection on the financial performance in Mbale District Local Government?
iii. What is the effect of audit inspection on the financial performance in Mbale District Local Government?

1.5 Scope of the Study

The scope of this study included content scope, geographical and time scope as detailed below.

1.5.1 Content scope

The content scope of the study focused on internal audit on financial performance in Mbale District Local Government. The content scope also focused on the three specific objectives which the study is set to achieve which includes; to find out the effect of financial reporting on financial performance in Mbale District Local Government; to establish the effect of risk detection on the financial performance in Mbale District Local Government and to examine the effect of audit inspection on the financial performance in Mbale District Local Government.

1.5.2 Geographical scope

The study was conducted in Mbale District Local Government. The District was Ideal for the study because of the so many scandals previously faced with the district even with the existence of full internal audit department.

1.5.3 Time scope

The study covered a time frame of 6 years from 2009 to 2015. The study mainly focused on this period duration because in this past period Mbale District Local Government has been marred with scandals that have led to poor implementation of government programmes and services. Therefore the study set out to establish the audit measures that have been undertaken by the district to avert occurrence of cases of financial mismanagement

1.6 Significance of the Study

Organisations may use the information in this study to find out the effect of audit on financial performance in Mbale District Local Government. This can be used as a basis to improve on the internal auditing in the organization to realize better financial performance.

Managers may use findings of this study to establish the effect of risk detection on the financial performance in Mbale District Local Government. This can be used as a basis to improve on the risk detection mechanisms to secure public finances in the district levels.

The study would help other researchers who may wish to carry out studies on the issues related to this topic. Therefore the study could help to add new body of knowledge for future use.

1.7 Justification of the Study

Internal auditing (IA) has become an indispensable control mechanism in both public and private organizations (Aaron Cohen and Gabriel Sayag, 2010: 296). Unegbu and Kida (2011:306) indicate that, the internal audit effectiveness is an indispensable issue because it creates improvement in the government sectors. A program can be seen as effective if its outcome goes along with its objectives (Ahmad et al, 2009: 784; Ussahawanitchakit and Intakhan, 2011: 9).

Cora ma, et al (2006); Omar and Abu Bakar (2012); and Radu (2012) argue that organisations with IA are effective and efficient in detecting fraud, financial mismanagement, and therefore enforce compliance within the organisations. Therefore, there is need for the internal audit to be effective so as to create improvement in the government parastatals (Unegbu and Kida, 2011: 304). Hence, internal audit needs to be effective particularly at Local Government in order to assist in meeting Local Government objectives particularly in Uganda. Yet no academic studies have been conducted on the effectiveness of IA in the local government especially in Mbale District Local Government. It is therefore against this background that this study seeks to examine the contribution of internal audit in financial performance in Mbale District Local Government.

1.8 Definition of key terms

Financial Performance is variously defined and in this study, it is confined to how financial resources are controlled and utilized through efficient budget management and accountability to achieve organization goals. Performance is how competent, efficient, integrity and honesty the organizational members are at utilizing the existing resources and procedures to carry out tasks, duties and responsibilities and operations to achieve organizational goals, (Arvery and Murphy, 1998).

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 (IIA).

Financial reporting involves the disclosure of financial information to management, public and all stakeholders (Users) about how an entity is performing over a specific period of time. Financial reports are usually issued on a quarterly and annual basis.

Inspection refers to cautious efforts by auditors or an independent party to exam or review of activities undertaken by management.

The term '**government policy**' can be used to describe any course of action which intends to change a certain situation. Think of policies as a starting point for government to take a course of action that makes a real life change.

Fraud refers to act or course of deception, an intentional concealment, omission, or perversion of truth, to (1) gain unlawful or unfair advantage and or induce another to part with some valuable item or surrender a legal right, or (3) inflict injury in some manner.

1.9 Conceptual Framework

Independent Variable

Internal Auditing

- Financial reporting
- Risk detection
- Inspection

Dependent Variable

Financial Performance

- No Mischarge
- Mitigated Fraud
- High output
- High quality

Intervening Variables

- Government policies (financial regulations)
- Funding
- The public opinion

Source: Udu (2006) as adopted and modified by the Researcher.

Figure 1: showing how independent variable relates with the dependent variable

Internal performs its function by way of financial reporting, rick detection and inspection and monitoring other controls in view of the existing policies, existing laws of the country. When financial reporting is done regularly, financial performance is improved because it will reflect how an institution has used resources to achieve results. Risk detection as an important function of internal auditing helps to identify risks and cases of financial mismanagement. Therefore when risk detection is done regularly, mischarges and fraud will be reduced and thus improving output and quality of work. While if inspection is improved, cost of doing business will reduce, quality will improve and output will increase and therefore improving financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature review is often used to describe the process of finding previous work from a range of sources (Melville and Goddard, 1996:18). This study therefore presents the available literature review about the study variables, literature was reviewed from various sources such as reports, textbooks, internet, journals among others and was presented in the order of theoretical review and actual literature review which was presented according to objectives of the study which was: to find out the effect of financial reporting on financial performance in Mbale District Local Government; to establish the effect of risk detection on the financial performance in Mbale District Local Government and to examine the effect of audit inspection on the financial performance in Mbale District Local Government.

2.1 Theoretical Review

This study was guided by "Theory of Performance" by Don Elger. (2011)Theory of Performance develops and relates six foundational concepts to form a framework that can be used to explain performance as well as performance improvements. To perform is to produce valued results. A performer can be an individual or a group of people engaging in a collaborative effort. Developing performance is a journey, and level of performance describes location in the journey. Current level of performance depends holistically on 6 components: context, level of knowledge, levels of skills, level of identity, personal factors, and fixed factors. Three axioms are proposed for effective performance improvements. These involve a performer's mindset, immersion in an enriching environment, and engagement in reflective practice.

Theory of Performance looks at performance, as the adage goes, is a "journey not a destination." The location in the journey is labeled as "level of performance." Each level characterizes the effectiveness or quality of a performance. Therefore as a manager advances his level of performances, he is able to organize people and resources more effectively and to get higher quality results in a shorter time.

The performance of a system, for example a home entertainment system, depends on the components of the system and on the interactions between these components. Similarly, level of performance of an individual or an organization depends on the components such as level of Identity; that is a discipline; they take on the shared identity of the professional community while elevating their own uniqueness. As an organization matures, it develops its mission, its way of doing business, and its uniqueness. Another component is the level of skills that is specific actions that are used by individuals, groups, or organizations in multiple types of performances; the level of knowledge which involves facts, information, concepts, theories, or principles acquired by a person or group through experience or education. Context of Performance this component includes variables associated with the situation that the individual or organization performs in. Personal factors; this component looks at variables associated with the personal situation of an individual for instance abilities to learn and unlearn. Fixed factors; this component includes variables unique to an individual that cannot be altered for instance introvert or extrovert (Don Elger2011).

Other related theoretical reviews include; The Sarbanes-Oxley Act of 2002 (SOX) which requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process. Morris (2011) asserts that software vendors that market enterprise resource planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of “built-in” controls that mirror a firm’s infrastructure. They emphasize these features in their marketing literature, asserting that these systems help firms improve the effectiveness of their internal controls as required by SOX.

Also VanScotter, Motowidlo, and Cross, (2000) argue that organizations need highly performing individuals in order to meet their goals, to deliver the products and services they specialized in, and finally to achieve competitive advantage. Performance is also important for the individual. Accomplishing tasks and performing at a high level can be a source of satisfaction, with feelings of mastery and pride. Low performance and not achieving the goals might be experienced as dissatisfying or even as a personal failure. Moreover, performance if it is recognized by others within the organization is often rewarded by financial and other benefits. Performance is a major although not the only prerequisite for future career development and success in the labor market. Although there might be exceptions, high performers get promoted more easily within an organization and generally have better career opportunities than low performers.

Furthermore Sociotechnical systems theory (Trist and Bamforth, 1951) talks about job design approaches which specify workplace factors that enhance performance. Sociotechnical systems theory describes work systems as composed of social and technical subsystems and suggests that performance improvement can only follow from the joint optimization of both subsystems. In more detail, sociotechnical systems theory suggests a number of job design principles such as the compatibility between the design process and its objectives, a minimal specification of tasks, methods, and task allocations, and the control of problems and unforeseen events as near as to their origins as possible (Clegg, 2000). As Parker and Turner pointed out, sociotechnical systems theory is more concerned with group performance than with individual performance. However, one can assume that work situations designed on the basis of this approach have also positive effects on individual performance.

2.2 Review of the main concepts of the study

2.2.1 Internal audit

Chapman and Anderson (2002) refers internal audit to mean 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.

Recent case studies on internal audit in Belgium illustrate the importance of the control environment when studying internal auditing practices. Sarenand De Belde (2006) assumed that when an organization pursues integrity and clear ethical values reflected in a formal code of conduct/ethics, the internal audit function takes a greater importance. Internal control systems can not only contribute to managerial effectiveness but are also important duties of corporate board of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control.

A focus on integrity and ethical values was the principal contribution of internal control – integrated framework published by COSO on fraudulent financial reporting. To trigger independence and integrity of Auditors and Accountants, the Accountancy profession globally has a document called the code of Ethics issued by the International Federation of Accountants (IFAC). In the case of Uganda, there is a code of conduct issued by the Institute of Chartered Accountants of Uganda (ICPAU). This code contains some ethical standards which members are expected to comply. Performance refers to the ability to operate efficiently, profitability, survive growth and react to the environmental opportunities and threats (Mawanda 2008). Thus, performance is measured by how efficient an organization is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, institution or process. Hitt, et al (1996) believes that many firms low performance is the result of poorly performing assets and ineffective audit department.

However, appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Verschor (1999) however, mentioned other financial measures and include value of long term investment, financial soundness, and use of corporate assets. He also talks of non-financial performance measures and include; innovation, ability to attract, develop and keep talented people, quality of management, quality of products or services and community and environmental responsibility. Hitt, el al (1996) and Mawanda (2008) mention accounting based performance using three indicators; Return on Assets (ROA), Return On Equity (ROE), and Return On

Sales (ROS). Each measure was computed by dividing net income by total assets, total common (ordinary) equity, and total net sales, respectively.

Whittington and Pany (2001) Note that internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executive management to maintain control over the variety of activities and functions that are performed in an organization. This can be done by use of various internal control devices that include; use of budgetary techniques, production standards, employee training, among others. Morris, J. J. (2011), contends that enterprise resource planning systems provide a mechanism to deliver fast, accurate financial reporting with in-built controls that are designed to ensure the accuracy and reliability of the financial information being reported to owners.

Bakibinga (2001) believes that corporate law requires a divorce between ownership and managements of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the result of their stewardship for the resources entrusted to them through a medium called financial statement. Accountability can be political, social or financial accountability. According to Hayes, et al (2005), reporting is one way through which managers make accountability for resources entrusted to them.

According to the traditional view of dividends policy, when companies declare dividends in the financial statements, the demand for stocks of those companies increases. This is in agreement with Walter (1963) who affirms that prospective investors look at financial information in determining how efficient and well performing company is. Thus they equate the ability of the company to declare dividends in their financial reports to its performance. While performances of public entities like Local government are presumed to be performing if they are able to provide efficient public goods like roads, schools, and health services.

Auditing plays an important role in monitoring checking management in their pursuit to maximize shareholder wealth or maximize public benefit. They do this by initiating checks and balances, compliance to policies and procedures in the organization.

2.2.2 Financial reporting

Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors and the government. Such statements include Statement of comprehensive income, statement of financial position, statement of cash flows, notes to the statements.

The process of financial reporting is guided by the generally accepted accounting principles (GAAP) and the internal public sector accounting standards for public entities. These form the basis for making and presenting of financial statements. Due to increasing globalization, the international accountancy profession has come up with various standards for uniformity in presentation and disclosure of financial data. Some of these standards include International accounting standards (IAS), internal financial reporting standards (IFRS), and international auditing standards (IAS).

The relevance of accounting information can be evaluated through various measures such as its impact on stock prices, on the accuracy of analyst forecasts, the cost of finance, analyst following, and investment strategies. First, with respect to stock prices, it appears that quality financial statements map into how investors assess a firm's stock market value. For instance, there is evidence that quality financial reports by listed companies are useful to investors' in their assessment of a firm's stock market value. (Cormier et al., 2009; Horton and Sarafeim, 2010).

There is some evidence that a switch from domestic standards to IFRS has a modest positive impact on market liquidity and the cost of equity capital, most likely resulting from the reduction in information asymmetry between investors and managers following the implementation of IFRS (Daske et al., 2008; Bruggermann et al., 2009). However, firms that voluntarily adopt IFRS ahead of the mandated year of adoption experience a stronger improvement in the liquidity of their stock and in their cost of capital than firms that only adopt IFRS at the required date. Therefore, it is unlikely that IFRS adoption in itself drives the improvement in the information set that is available to investors: other regulatory or institutional changes probably take precedence.

As postulated by I. M Pandeg (2005:141) investment decisions or analysis has to do with an efficient allocation of capital. It involves decision to commit the firm's funds to the long-term assets. Such decisions are of considerable importance to the firm since they tend to determine its value size by influencing its growths, profitability and risk Investment decision of a firm is one which is expected to produce benefits to the firm over a long period of time and it can pass both tangible and intangible assets (porter field J. T. S 1995:170)

Accounting plays a significant role within the concept of generating and communicating wealth of companies (Meyer 2007). The relevance and reliability are the key characteristics of financial information used in making valuation decisions. Relevant information is such that “influences the economic decisions of users by helping them evaluate past, present and future events” (Hellstron 2005). From the investors’ perspective, relevant information is information which contributes to their equity investment decisions. It must be noted that market value relevance as defined above is only one of the possible interpretations of value relevant (Francis et al 2002). Accounting value relevance is a concept that has admitted a number of definitions and measures. Lev (1989) asserted that relevance of accounting was characterized by the quality of the accounting information. According to Gee-Jung (2009) the accounting information has an ability to capture or summarize information that affects equity value.

2.2.3 Risk detection

Risk is the possibility that a particular event will not turn out as expected, while risk detection is the ability to envisage a risk before it occurs.

Adeleke (1996) in this respect stresses that “the degree of assurance of detecting errors would normally be higher than that of deterring fraud, since fraud is normally accompanied by acts specially designed to conceal its existence. More so, a clearer nature of fraud could be understood when viewed in the light of the various acts or activities considered to be fraudulent. Besides the definition given earlier, Achibong (1993) also stressed that the international guidelines consider an act fraudulent if it takes the following forms:

- Manipulation, falsification or alternation of records or documents;
- Misappropriation of assets;
- Suppression or omission of transaction record or document;

- Recording transactions without substance;
- Misappropriation of accounting policies; if it is material and deceitful.

The role of auditors has not been well defined from inception (Alleyneand Howard 2005). Porter (1997) reviews the historical development of the auditors' duty to detect and report fraud over the centuries. Her study shows that there is an evolution of auditing practices and shift in auditing paradigm through a number of stages.

Porter study reveals that the primary objective of an audit in the pre-1920's phase was to uncover fraud and material miss statements in transactions. However, by the 1930's, the primary objective of an audit had changed to verification of accounts. This is most likely due to the increase in size and volume of companies' transactions which in turn made it unlikely that auditors could examine all transactions. During this period, the auditing profession began to claim that the responsibilities of fraud and error detection rested with the management. In addition, management should also have implemented appropriate internal control systems to prevent fraud in their companies.

In the 1960's, the media and public were generally unhappy that auditors were refusing to accept the duties of fraud detection. The usefulness of an audit was frequently called into question as they generally failed to uncover fraud. However, despite the criticism, auditors continued to minimize the importance of their role in detecting fraud by stressing that such duty rested with the management. Due to the advancement of technology in the 80's, the complexity and volume of incidents of fraud have posed severe problems for businesses. Porter (1997) asserts that, even though the case law has determined that in some circumstances auditors have a duty to detect fraud, the courts have attempted to maintain the auditors' duties within reasonable limits. In contrast, Boynton et al (2005) argue that since the fall of Enron, auditing standards have been revamped to re-emphasize the auditors' responsibilities to detect fraud. Their assertion is based on ISA 315 'Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement' and ISA 240 'The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statement (Revised)'.

ISA 315 requires auditors to evaluate the effectiveness of an entity's risk management framework in preventing misstatements, whether through fraud or otherwise, in the course of an audit. Boynton et al (2005) stresses that this requirement was not previously necessary. They further explain that such an evaluation was only required previously when they chose to place reliance on that frame work and to reduce the extent of the audit investigation. In addition, all staff members engaged on an audit are required to communicate their findings with each other, to prevent situations where staff members, working independently on their own sections of the audit, have failed to appreciate the significance of apparently minor irregularities that, if combined, take on a more sinister meaning.

Additionally, Boynton et al (2005) claim that auditors are required to be more proactive in searching for fraud during the course of an audit under ISA 240 (Revised). Their duties now include considering incentives and an opportunity presented to potential fraudsters, as well as rationalizations that the fraudulent act is justified. Auditors are also expected to inquire more closely into reasons behind such matters as, for example, errors in accounting estimates, unusual transactions that appear to lack business rationale, and a reluctance to correct immaterial errors discovered by the audit.

Extensive studies have been conducted in many countries into the perception of financial report users of auditors' responsibilities in fraud prevention and detection [For example, Epstein and Geiger (1994) in the US; Humphrey et al (1993) in the UK; Leung and Chau, (2001) in Hong Kong; Dixon et al (2006) in Egypt; Fadzly and Ahmad (2004) in Malaysia]. These studies found that many financial report users believe that the detection of irregularities is a primary audit objective and that the auditors have a responsibility for detecting all irregularities. This is a misconception and shows the existence of an audit expectation gap between auditors and financial report users with respect to the actual duties of auditors.

2.2.4 Audit inspection

Inspection is literally defined as the act of looking at something closely in order to learn more about it, establish the intrinsic features, characters, behaviors of that phenomenon. While ISO 8402 defines Verification as confirmation by examination and provision of objective evidence that specified requirements have been fulfilled.

To obtain maximum benefit from inspection and verification exercise, Weygandt, Kieso, and Kimmel 2000 suggests the following methods.

1. The inspection should be made periodically or on a surprise basis
2. The inspection should be done by an employee who is independent of the personnel responsible for the information.
3. Discrepancies and exceptions should be reported to a management level that can take appropriate corrective action

Findings into the study show that audit inspection is conducted by auditors some of which are periodical and others are considered surprise (ad-hoc). Inspections are done in areas where management perceives an inherent risk for instance cash, inventory and assets management

2.2.5 Financial performance

“Performance is what the organization hires one to do, and do well” Thus, performance is not defined by the action itself but by judgmental and evaluative processes of performance appraisal. Moreover, only actions which can only be scaled, measured, are considered to constitute performance (Campbell et al., 1993).

Firms with better systems of management continue to attain organizational objectives and goals than those that do not have(Organization of Economic Development OECD, 2004; Nkundabanyanga, Ntayi, Ahianzu and Ssejjaka, 2014). Bradley (2004); Adams and Mehran (2003), argues that organizations with better systems and procedures are important for firms’ performance. Better policies and procedures have been recognized as a significant factor in improving financial performance of organizations (Nkundabanyanga et al, 2014). More so, Gompers et al. (2003) argues that if an organization pays attention in having and following systems, then it is in position to generate better returns to its shareholders. Experiential studies from elsewhere support this view that improved organizational governance result into better organizational performance (MacAvoy and Millstein, 2003). Dittmar and Mahrt-Smith (2007) also noted that better managed firms generate almost double returns than poorly managed ones. According to Jensen (1986); La Porta et al. (2002), shareholders noted that with improved corporate governance, organizations resources are put to good use instead of being misappropriated by the managers of the firm. Furthermore, Kyereboah-Coleman and Biekpe (2006) observed also that poorly governed firms have more sustainability issues than better managed ones.

OECD believes that good corporate governance has a direct association with the firm's performance. Selvaggi and Upton (2008) examined the correlation between good corporate governance and organizational performance and found a strong relationship between good corporate governance and superior company performance. Black et al. (2003) and Brown et al. (2004) note that improved and high performance is associated with better corporate governance and are more lucrative than poorly governed ones. Sanda et al. (2005) while investigating corporate governance and firm performance in Nigeria found out that corporate governance is a strong predictor of firm performance. Kyereboah-Coleman (2007) also found that corporate governance highly influences firm performance.

2.3 Actual Review of related Literature

2.3.1 Financial reporting and financial performance

Financial reports are an essential source of information for the decision making process of economic agents. Investors decide to purchase stocks by analyzing a firm's financial reports. Fields, Lys and Vicent (2001) stated that accounting reports are needed because capital markets are not strong form efficient. Even in international capital movements, financial reports are crucial (Bradshaw et al., 2004 and Gelos and Wey 2005). Creditors decide whether to lend or not and establish contractual terms, namely interest rates, considering accounting figures. Thus accounting quality is of great concern. Bharath, Sunder and Sunder

(2008) argued that poor accounting quality makes it harder to estimate a firm's ability to repay debt and pay dividends. By contrast, higher accounting quality reduces financial information asymmetry by increasing investment efficiency and by earnings more representative of future cash flows. Reporting a firm's performance in the capital markets, Christie and Zimmerman (1994) indicated that an accounting choice is efficient when it maxmises the firm's value and that this efficiency varies industries and years.

Financial reporting involves providing reports and statements that are used to determine the financial performance of the organization. Such statements include statement of comprehensive income and expenditure, statement of financial position, cash flow statement, statement of changes in equity, and notes to the financial statements. There is however a widespread recognition of the greater need in the Government Institution to supplement statement with other, often Non-financial measures of performance that enhance accountability, informal execution of policy, budgetary planning and monitoring. This is deemed to improve quality, monitor effective use of resources to ensure fair distribution and access to services. (Tom, Bill, and McKendric, 2002)

Audit reports are the primary tools used to ensure that the funds are flowing in a proper manner and being used for the intended purpose. Audits provide useful post-factor accountability; by exposing technical financial management problems. It is believed that when managers are accountable for the feedback given to them, they feel obliged to improve performance. Nowhere is perceived accountability more important than upward feedback, a process that has not been shown to lead to overwhelmingly favorable results in terms of attitudes as well as performance improvement (Atwater et al, 2000).

According to Philippine Government Internal Audit Manual (2008: 44), Management requires information to make effective decisions. However, information alone is not enough; it must be the right information, in an understandable format, which is timely enough to be useful. Information systems produce reports containing operational, management, and compliance-related information to operate and control an organisation. This information should reveal the organisation's progress towards meeting goals and objectives. Management also needs information that it uses to evaluate the efficiency of operations and to ensure that the organisation follows applicable laws and regulations.

According to Committee of sponsoring organisations COSO (2004:157), every organisation must capture pertinent information; financial and non-financial, relating to external and internal events. Relevant information must be delivered to people who need it in a form and timeframe that enables them to carry out their responsibilities and make decisions. Recognizing the emerging importance of information and communication, COSO has included it as a separate component. Stringer et al. (2002:65) identified the following as benefits from relevant, timely and effective internal and external communication: improved communication about expectations, responsibilities and objectives of an organisation and enhanced decision making. Basing on COSO (2004:157) assertion on information and communication, there is need for identification of pertinent information and to capture, communicate within timeframe to enable internal auditors to carry out their responsibilities.

Shehu (2004) notes that better practice entities view financial management and reporting as a continuous process that encompasses budget allocations through to the preparation of monthly financial reports and annual financial statements. Financial management practices in these entities is characterized by the following practices: the preparation of accrual monthly financial reports, including keeping the Chief Executive/Board informed of any significant changes in accounting policies and treatments; monthly reporting to the Chief Executive/Board includes an analysis of the financial position and the projected financial outcome at yearend; this analysis include recommendations designed to address any significant variations from budget and a detailed budget review, at least half yearly, providing entities with the opportunity to revise their internal budget based on year to date actual performance.

In Uganda all local government councils and administrative units are required to produce financial statements/report (Section 86 LGA, and Regulation 68, LGFAR 2007). Local governments are required to produce monthly, quarterly and annual financial statements. The reporting requirements are mandatory and are intended to enforce accountability of the local government to the relevant stakeholders including the Public, Central Government, Parliament, among others (The Local Governments Financial and Accounting Manual, 2007:178).

According to The Local Governments Financial and Accounting Manual (2007:178), Head of Finance shall produce the following financial statements at the end of each month and forward them to the Executive Committee through the Chief Executive not later than 15th of the following month: a trial balance; a consolidated statement of income and expenditure for all recurrent and development revenues and expenditures of the Council. This statement should include year to date performance in comparison to the Budget; and a Balance Sheet at the end of the month. The financial statements must be supported by Bank reconciliation statements and supporting copies of bank statements for the department, descriptive monthly progress report and key departmental output performance report (The Local Governments Financial and Accounting Manual, 2007), Accounting Policies followed in the preparation of Financial Statements Schedules of imprests and advances; Schedule of debtors and creditors; and Schedules of fixed assets.

Internal auditing has become an unavoidable control mechanism in both public and private sectors in the globe (Cohen and Sayag, 2010: 296). Sumritsakun and Ussahawanitchakit, (2009:19) assert that, it is the right time to seriously consider the issue of an internal audit particularly at local government in order to contribute toward their improvement. Internal auditing function is an important function that has been shown to add value by detecting errors (Carcello, Herman, and Neal 2005:299). Reynolds (2000: 115) notes that internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers in the world. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart and Kent 2006: 81).

According to the Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) internal auditing is "an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization". By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael etc., 1996), which is directly linked to the organizational structure and the general rules of the business (Cai,1997).

The literature review on financial reporting and financial performance confirms with findings of the study that reflects a strong relationship between the two variables.

According to Pauw et al.(2009:147), the primary performance reports produced are statements comparing the budgeted income and expenditure with actual income and expenditure on the modified cash basis. Fixed or moveable assets are neither recorded as such in the accounting systems, nor reported in the statement of financial position. Fixed assets are however reported in the disclosure notes to the annual financial statements. This means that financial performance is currently being measured in terms of the public sector's ability to spend the cash appropriated in the budget. However, this is problematic since this does not provide the public sector institutions with the information required to make an assessment on the efficient and economical use of resources. Information presented in cash basis reports are at risk of not being comparable to previous years. Capital payments made are written off in the same year, and even though the asset might be in use in future reporting periods, the statement of financial performance will not recognize this. This highlights Van der Hoek‟ s (2005:36) concern that the information is not useful in assessing performance, since the use of assets in a year in which they are not paid for is not counted as an input resource, and when they are paid for they could be over counted.

2.3.2 Risk detection and financial performance

According to Selim and McNamee (1999b) define risk as "a concept used to express uncertainty about events and/or their outcomes that could have a material effect on the goals and objectives of the organization". In the modern enterprise with the extremely fluid international environment new risks are created (Sarens and De Beelde, 2006). More recently, Bekiaris (2003) considered risk as the report of an entity in uncertain changes.

The key activity with respect to risk is to manage it. Selim and McNamee (1999a) argues that this starts with a risk assessment where the organization attempts to estimate the probable consequences of threats and opportunities (risk identification, measurement and prioritization), followed by risk management, where decisions need to be made about how to manage the perceived consequences of that risk.

Risk is a possibility that managers experience adverse consequences from decisions made in face of uncertainty interfering with achievement of objectives or not successfully exploit opportunities that become available Lindolf 1998 (as sited in Dalgeisha and Cooper 2005, and Wayne 2000). According to Country Financial Accountability Assessment (2003), Financial Management risk is the probability that public financial management systems will not provide appropriate management of all public funds. Risk is inherent in the decisions that organizations take to manage business and in the business processes established to assist in establishment of objectives (Institute of Chartered Accountants, 2000). Risk covers all aspects of organizational activities and is included in all management levels (Tcchankov, 2002). Risk management is a fundamental element of cooperate governance which demands that boards respond to new challenges, by putting in place measures to systematically and thoroughly identify, analyze and control risks (Dalgeisha and cooper, 2005).

According to Barret(2001) risk management is referred to as a process designed to reduce the risk of an event in terms of its likelihood of occurrence and, or its consequences to an acceptable level. It is a disciplined approach to the identification, analysis and mitigation of risks, which could prevent or inhibit an organization from achieving its objectives (ANAO Report no.1, 1997). Risk is a continuous process that depends directly on the changes in the internal and external changes of the organization. It involves management of potential opportunities and possible threats to the achievement of objectives.

Barret (2001) assertsthat risk detection is a responsibility of Chief Executive and the board but requires involvement of everyone in the organization. This calls for commitment from senior management to integrate the risk management framework into the business activities and in all function under the jurisdiction and control of other officers clearly linking risks to the objectives Parker, 2002 (as sighted in Dalgeisha, 2005). This can be done by having effective communication and reporting on organization's risk management policies at all levels, development of risk training courses, involvement of staff in responding to early warning systems and establishing reporting channels for control breaches and creation of a positive risk management culture (Carey, 2002).

In Uganda, The Local Governments Financial and Accounting Manual (2007) asserts that the Head of Finance is responsible for advising on risk management and effective systems of internal control. This role is carried out in collaboration with the Internal Audit function. These arrangements need to ensure compliance with all applicable legislation and regulations, and other relevant statements of best practice, and ensure that public funds are properly safeguarded and used economically, efficiently, and effectively in accordance with the statutory and other provisions that govern their use.

2.3.3 Audit inspection and financial performance

Approaches to inspection and assessment of local authorities are being developed across Government in the light of the decentralization and localism agenda. Key principles include independence from the service providers and accountability for the most vulnerable. The benefits of inspection must outweigh the costs, including those of the inspected body. Those local service inspectorates that remain must provide credible judgments for the public and have a clearly defined purpose which focuses on public protection (UK Local Government report 2003). The sharing of information by inspectorates can help identify where service failures in one part of an authority are linked to broader questions about the authority's capacity to manage its overall corporate responsibilities effectively (UK Local Government report, 2003).

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds, 2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart and Kent, 2006). The aim of internal audit is to improve organisational efficiency and effectiveness through constructive criticism. IA has four main components: (1) verification of written records; (2) analysis of policy; (3) evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organisation's policies; and (4) reporting recommendations for improvements to management (Eden and Moriah 1996).

Internal auditing is a critical component of an organisation's management and a foundation for its safe and sound operations (KaragiorgosDrogalas, et al 2009). Internal audits are designed to evaluate the effectiveness of an operation's internal controls by first gathering information about how a unit operates, identifying points at which errors or inefficiencies are possible, and identifying system controls designed to prevent or detect such occurrences. Then, they test the application and performance of those controls to assess how well they work (Krishna et al2011).

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

According to Institute of Internal Auditors (2010:1), organisations that effectively use internal auditing are better able to identify business risks and process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement. Fadzil et al (2005) argues that an effective audit inspection unequivocally correlates with organisational success in meeting its objectives. Gupta (2001) on the other hand asserts that “Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization. The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities.

Auditing is a cornerstone of good public sector governance (Goodson and Brown (2012:7). By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organisations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption.

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Goodson et al. (2012:5) notes that an effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their public sector entity accountable. Auditors perform an especially important function in those aspects of governance that are crucial for promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption. Therefore, it is crucial that audit activities are configured appropriately and have a broad mandate to achieve these objectives. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary.

Goodwin and Kent (2006: 81) argue that internal auditors play a key role in monitoring how an entity manages and uses assets provided to provide returns to the shareholders. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management.

2.4 Conclusion

Internal auditing plays a critical role in the financial performance of an organisation. When effectively implemented, operated, and managed, it is important elements in helping an organisation achieve its objectives. Fadzil et al (2005) argues that an effective internal audit function unequivocally correlates with organisational success in meeting its objectives. The Institute of Internal Auditors (2010:1) asserts that organisations that effectively use internal auditing are better able to identify business risks and process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement. Therefore internal audit is part of the internal control system put in place by management of an Organisation to ensure adherence to stipulated work procedure and as aid to management (Unegbu and Obi, 2007:7). It is therefore worthy of attention because internal auditors are important, even crucial, in an economy that relies upon independently produced information.

CHAPTER THREE

METHODOLOGY

3. Introduction

Methodology can be described as the framework associated with a particular set of paradigmatic assumptions that can be used to conduct research (O'Leary, 2004). The systematic, theoretical analysis of the methods applied in the field while conducting this study is presented in this chapter. This chapter consists of research design, study population, determination of the sample size, sample techniques and procedures, data collection methods, data collection instruments, validity and reliability, procedures of data collection, data analysis and measurements of variables.

3.1 Research Design

The study employed a cross sectional research design. This is used to sort out the existence and magnitude of causal effects of one or more independent variables upon a dependent variable of interest at a given point in time. It was preferred because of the multiple uses of the data and information gathered. The design took both qualitative and quantitative approaches. Qualitative data was descriptive in nature because the study sought descriptive analysis of information, while quantitative used numerically coded data. Qualitative design involved collecting data which was concerned with describing meaning, rather than with drawing statistical inferences example case studies and interviews. Quantitative methods are those that focus on numbers and frequencies rather than on meaning and experience such as data from questionnaires. This provided information which was statistically analysed. The researcher employed the case study strategy because it allows an in depth investigation and the findings were used to generalize for the entire population.

3.2 Area of the Study

The study was in Mbale District Local Government. Mbale district local government is located in Eastern part of Uganda. Mbale district consists of 1 Municipality with 3 divisions, 1 county with 19 Sub Counties, 126 parishes and 869 villages. It is bordered by Sironko District to the north, Bududa District to the north-east, Manafwa District to the south-east, Tororo District to the south, Butaleja District to the south-west and Bududa District to the west while Pallisa and Kumi districts lie to the north-west of Mbale.

3.3 Study Population

According to Welman and Kruger (2002), a "population is the study object, which may be individuals, group, organisations, human products and events, or the conditions to which they are exposed". MbaleDistrict local Government has a staff establishment of 266 staff with filled staff posts of 213. Therefore the study considered the 213 filled posts as the study population.

Table 3.1: Study Population

Department	Filled posts
Management and administration	29
Works and technical services	9
Natural resources	13
Education	5
Finance and planning	17
Production	31
Community based services	19
Health	9
Sub county staff	81
Total	**213**

Source: Primary Data

For this study the targeted population was based on filled staff positions of Mbale District Local Government of both male and female. However a representative sample was selected from the 213 staff since it was not possible to cover the entire District staff.

3.4 Sample Procedures

Sample procedures are approaches employed or that have are developed to ensure that a sample adequately represents the target population and that the sample chosen is representative of the population. Sampling procedures can be probability or non-probability.

3.4.1 Sample size

The selection of the targeted sample wasbased on a Krejcie and Morgan (1970) table for determining sample size where a population of 213 staff was translated into a sample size of 132 respondents (See Appendix for Krejcie and Morgan table for determining Sample Size).

Table 3.2 : Determination of the sample size

Department	**Filled posts**
Management and administration	18
Works and technical services	6
Natural resources	8
Education	3
Finance and planning	11
Production	19
Community based services	12
Health	5
Sub county staff	50
Total	**213**

3.4.2 Sampling techniques

According to Sekaran (2003:264), sampling is the process of choosing the research units of the target population, which are used in the study. Random sampling was used in order to give equal chance of participation to population sample of the study.

3.5 Data collection methods and instruments

3.5.1 Data collection methods

Data collection methods or techniques employed for gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions or hypotheses, and evaluate outcomes. This study employed questionnaires, and interviews to collect the relevant data.

3.5.1.1 Questionnaire

A questionnaire is a data collection method where a research instrument with structured closed ended questions and open ended question is sent out to respondents to give their opinion by ticking the most applicable responses that applies. The questionnaire was preferred as the main source for data collection in this study because it collects large volumes of data, and also eliminates ambiguous data that may be difficult to analyse. The questionnaire was dropped to the selected respondents who were given (5-10 days) to select the most applicable opinion.

3.5.1.2 Interviews

This is a method of data collection where an interviewer interfaces with the interviewee to collect specific information to the research phenomena. This method was as well chosen because the researcher was able to interface with the respondents, get firsthand information, and also offers the ability to read reaction from the respondents.

3.5.2 Data Collection Instruments

Data collection instruments are tools employed by a researcher to obtain the intrinsic characteristics of a phenomenon.

There are many data collection methods and instruments such as; questionnaires, documentary review, interviews, interview guide and observation. However this study only used the questionnaires and the interview guide to collect the required and relevant data for the study.

3.5.2.1 Questionnaire

The questionnaire used in the study consisted of two sections. The first section required respondents to provide their background information, bio-data, and education data, work related data. While the second section consisted of twenty six (26) closed ended research questions rated according to Likert scale specific to the research. Also included in the second section were open ended questions where the respondents were required to provide their opinions.

3.5.2.2 Interview Guide

Interview guide was developed with open ended questions. This was administered by the interviewer through face to face discussion with the interviewee (respondent). The information obtained was analyzed and some of excerpts of the information gathered were provided in the research report.

3.6 Quality Control Methods

This refers to the way how the researcher measured the validity and reliability of instruments. The researcher carried out a content validity test to test how effective the tool is in collection of the relevant data and also a reliability test to establish how effective the will that information that which we need.

3.6.1 Validity

Validity examines whether the research instrument truly measures that which it was intended to measure or how truthful the research results are. To ensure greater chances of data validity, questionnaire items was reviewed with the research supervisor for expert advice. Furthermore to test its reliability, the researcher sent copies of the research instrument to experts who understand the topic under research for expert opinion. Below are the findings and feedback of the expert opinions. The validity test established using the content valid index (CVI). The CVI is given by the formula below

$$\left\{ \frac{\textbf{Items declared valid}}{\textbf{Total number of items of an instrument}} \quad \textbf{X 100} \right\}$$

Table 3.3: Validity test

Expert	**Total number of items**	**Items declared valid**	**Rating out of 100**
Panel A	36	26	72.2%
Panel B	36	30	83.3%
Panel C	36	28	77.8%
Panel D	36	28	77.8%
Average	**36**	**28**	**77.8%**

Source : primary data

A high Cronbach's coefficient Alpha above 0.72 is considered to indicate high reliability hence acceptable for social research (Mugenda and Mugenda, 1999). The Cronbanch's Alpha reliability Coefficient (α) was calculated by running a statistical test using Statistical Package for Social Scientists (SPSS). Therefore, for this study, the measurements in the instrument were found to be 0.**778%**, the instrument was considered reliable to use.

3.6.2 Reliability

Pak(2008) and Joppe (2000) defines reliability as: "The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable". Reliability (Internal consistency and stability) of the instruments was tested using Cronbach's Alpha (α) coefficients (Cronbach, 1946). The researcher tested the inter-item consistency reliability to ensure that there is the consistency of respondents' answers to all items in the measure.

Table 3.4: Reliability test

Variable	α
Financial reporting	0.6924
Auditing	0.7986
Inspection	0.6283
Risk detection	0.7438
Total	**0.7216**

Source : primary data

The table above shows five sections of the questionnaire that was used to collect data for the study. Data collected for each section was subjected to cronbanch's coefficient alpha reliability test to examine the degree of dependability of the data. The overall reliability was found to be **0.7216**, (Mugenda and Mugenda, 1999) asserts that cronbanch's coefficient alpha results which are above 0.72 are fit enough to be relied on for the study, since **0.7216** is above **0.72**, the collected data is fit to be relied on.

3.7 Data Management and processing

After successful retrieval of filled –in questionnaires and conducting of interviews, raw data was entered into a statistical package known as Statistical Package for Social Scientists

(SPSS) and variables were analyzed. Outcomes were presented as percentages using tables as a primary analysis.

3.8 Data Analysis

3.8.1 Quantitative data analysis

Quantitative is data expressing a certain quantity, amount or range. Usually, there are measurement units associated with the data. Quantitative data was obtained from the questionnaires with closed ended questions. The information gathered was coded, entered and cleaned using a Statistical Package for Social Scientists (SPSS) version 16.Descriptive statistics such as Frequency, percentages and relationships were used to determine relationships between variables. SPSS was used for analysis because of its capability to handle large data.

3.8.2 Qualitative data analysis

Qualitative Data refers to data that approximates or characterizes but does not measure the attributes, characteristics, properties of a phenomenon. Qualitative data was obtained from the interview guide and open ended questions in the questionnaire. This data was arranged into different themes according to study objectives. Some of the information as provided in the questionnaire was italised directly to facilitate quantitative data while some were quoted to strengthen the interpretation of findings

3.9 Ethical Considerations

The study was conducted with appropriate scrutiny by the research supervisor so as to qualify it ethically. Permission was obtained from Mbale District authorities prior to the collection of data. The researcher promised confidentiality and identity of individuals not to be revealed.

3.10 Limitations of the study

Misrepresentation of the research, the thinking that one is a spy. This was overcome by clearly explaining that the research is purely academic and also the researcher presented the introduction letter from the institution to remove away this thinking.

Poor response or respondents' failure to respond in time may be another problem in that the researcher expects. Respondents might forget to answer back the questions or not providing answers in time to allow enough time for data analysis. To minimize this limitation, the researcher reassured the respondents that utmost confidentiality shall be observed in the use of the data which was collected.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents data analysis, interpretation and discussion of findings in line with study objectives but starting with descriptive results about the selected sample. A total of 120 respondents from departments participated in the study. The data was analyzed using SPSS version 16, narrative text were used to describe data in the frequency tables, graphs and charts.

4.1 Response rate

Out of 132 questionnaires were distributed to the respondents. Only 120 respondents returned fully filled instrument. This formed a response rate of 90.9%. Therefore the researcher went on to analyse data since 90.9% is above average and generally reflects a high response rate. This was regarded adequate in line with literature by Mugenda and Mugenda (1999) which recommends 70% as a good response rate when quantitative data is collected.

4.2 Background information of respondents

This consisted of gender or respondents, age bracket, level of education of respondents and employee tenure in the organization. Findings are presented below.

Table 4.1: Gender of respondents

Gender	Frequency	Percent	Cumulative Percent
Male	74	61.7	61.7
Female	46	38.3	100.0
Total	120	100.0	

Source: Primary data

From table 4 above,61.7% of respondents were male while 38.3% were female who participated in the study. This implies that both sexes play a role in the operations of the district.

Table 4.2: Age bracket of the respondents

Age bracket	Frequency	Percent	Cumulative Percent
20 years and below	1	0.8	.8
21-30years	24	20.0	20.8
31-40 years	49	41.8	61.7
41-50years	42	35.0	96.7
51 years and above	4	3.3	100.0
Total	120	100.0	

Source: Primary data

Finding as stated in table 5 above, reveal that less than 1% of respondents were below 20 years, 20% were between 21-30 years, 40.8% were between 31-40 years, 35% were between 41-50 years while 3.3% were 50 years and above. The dominant age highlighted above is energetic, innovative, skillful and therefore if put to proper user by the district they can significantly improve financial performance of Mbale district.

Table 4.3: Level of education of respondents

Level of education	Frequency	Percent	Cumulative Percent
Certificate	5	4.2	4.2
Diploma	21	17.5	21.7
Bachelor	66	55.0	76.7
Masters	26	21.7	98.3
PHD	2	1.7	100.0
Total	120	100.0	

Source: Primary data

The results in Table 6 above shows that the biggest proportion 55% of the study respondents were educated up to bachelor's degree level, 21.7% had attained masters. This means that the study respondents were adequately educated and they could therefore be relied on to provide reliable responses to the study concerning the topic under investigation. This also means that the respondents can be involved in making policies tailored towards improving financial performance of the district.

Table 4.4: Employee tenure in the organization

Employee tenure	Frequency	Percent	Cumulative Percent
1 year and blow	6	5.0	5.0
2-4years	38	31.7	36.7
5-7years	44	36.7	73.3
8-10years	28	23.3	96.7
11years and above	4	3.3	100.0
Total	**120**	**100.0**	

Source: Primary data

As regards the level of experience, 5% of the study respondents had working experience of less than 1 year, 31.7% had worked for a period of between 2 to 4years, 36.7% had worked between 5-7years, 23.3% had worked for 8-10 years while only 3.3% had worked for a period of more than 11years and above. The results indicate that the study respondents were experienced understand the operations of the district, the direction of transactions, the policies and therefore errors can be reduced and therefore mischarge of transactions is reduced.

4.3 Financial reporting and financial performance

Finding about financial reporting and financial performance are presented and analysed below;

Table 4.5: Financial reporting is done by internal Auditing in Mbale district

	Frequency	Percent	Cumulative Percent
Strongly Agree	69	57.5	57.5
Agree	43	35.8	93.3
Not sure	8	6.7	100.0
Total	120	100.0	

Source: Primary data

A total of 57.5% of respondents strongly agreed that financial reporting is done by internal Auditing in Mbale district, while 35.8% agreed. This finding is in support of Local Governments Financial and Accounting Manual (2007:179) which stress that the Head of Finance shall produce the following financial statements at the end of each Quarter and forward them to the Executive Committee through the Chief Executive not later than 15th of the month following the end of the Quarter. The Head of a department shall produce the following financial statements at the end of each Quarter and forward them to Head of Finance not later than 7th of the month following the Quarter; financial statement for all recurrent and development revenues and expenditures of the departments; Bank reconciliation statements and supporting copies of bank statements for the department;

Descriptive Quarterly progress report and key departmental output performance report. This enables management to review areas of wasteful expenditure and therefore this improves on the financial performance of Mbale district Local government.

Table 4.6: The district provides financial reports quarterly

	Frequency	Percent	Cumulative Percent
Strongly Agree	73	60.8	60.8
Agree	38	31.7	92.5
Not sure	9	7.5	100.0
Total	120	100.0	

Source: Primary data

Finding shows that 60.8% of respondents strongly agreed that the district provides financial reports quarterly, 31.7% agreed. This finding is in agreement with Local Governments Financial and Accounting Manual (2007, p. 178) which stipulates that Local governments are required to produce monthly, quarterly and annual financial statements. The reporting requirements are mandatory and are intended to enforce accountability of the local government to the relevant stakeholders including the Public, Central Government, Parliament, among others. This further agrees with responses obtained from the interview guide as noted by one of the respondents.

> The district provides financial statements every quarter on the operations of the district

These reports form a basis of planning and therefore improving on financial performance.

Table 4.7: Financial statements provided can be used to determine the financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	65	54.2	54.2
Agree	49	40.8	95.0
Not sure	6	5.0	100.0
Total	120	100.0	

Source: Primary data

Finding revealed that 54.2% of respondents strongly agreed that financial statements provided can be used to determine the financial performance, 40.8% agreed. The statements provided include variance reports, statement of financial performance, statement of financial position, and other financial reports as noted by one of the respondents. These findings agree with the numerous advantages of providing quality information as cited: Financial Reporting reduces formation risk and liquidity (Lambert et al., 2007), prevents managers from using discretionary power for their own benefit and helps them make efficient investment decisions (Chen et al., 2011). Specifically, one of the main benefits of better Financial Reporting is based on the minimisation of asymmetric information problems that arise from conflicting agency (Rajgopal and Venkatachalam, 2011). Companies that report higher quality financial information give to the various markets agents better information on it, allowing them to act in the market with better conditions and a higher level of information (Jo and Kim, 2007).There this means the quality of information provided by the district will determine the level of investment they can attract, government financing and its rating on utilization of resources by OAG and Accountant General.

Table 4.8: The audit reports are used as tools to ensure that funds are used as planned

	Frequency	Percent	Cumulative Percent
Strongly Agree	48	40.0	40.0
Agree	54	45.0	85.0
Not sure	12	10.0	95.0
Disagree	3	2.5	97.5
Strongly disagree	3	2.5	100.0
Total	120	100.0	

Source: Primary data

Furthermore, a total of 40% of respondents strongly agreed that the audit reports are used as tools to ensure that funds are used as planned,45% agreed while Pauw et al.(2009:147) contends that the primary performance reports produced are statements comparing the budgeted income and expenditure with actual income and expenditure on the modified cash basis. This implies that audit reports are primary tools used to ensure that the funds are flowing in a proper manner and being used for the intended purpose. Compliancy to this leads to improved financial performance.

Table 4.9: The information from financial reports is used by the district management to make decisions on financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	67	55.8	55.8
Agree	50	41.7	97.5
Not sure	3	2.5	100.0
Total	120	100.0	

Source: Primary data

A total of 55.8% of respondents strongly agreed that the information from financial reports is used by the district management to make decisions on financial performance, while 41.7% agreed. This finding agrees with Fields, Lys and Vicent (2001) who established that financial reports are an essential source of information for the decision making process of economic agents. Investors decide to purchase stocks by analyzing a firm's financial reports. Accounting reports are needed because capital markets are not strong form efficient. Also according to one of the respondents there departmental budget was increase by a more than 60% on review of the financial information provided. This implies that financial reports are useful to make decisions on financial performance. Such decisions include cost reduction, budget adjustment, acquisition of assets, disposal or maintenance of an old asset.

Table 4.10: The district captures pertinent information; financial and non-financial, relating to external and internal events

	Frequency	Percent	Cumulative Percent
Strongly Agree	55	45.8	45.8
Agree	44	36.7	82.5
Not sure	9	7.5	90.0
Disagree	5	4.2	94.2
Strongly disagree	7	5.8	100.0
Total	120	100.0	

Source: Primary data

The study found that 45.8% of respondents strongly agreed that the district captures pertinent information thus financial and non-financial, relating to external and internal events while 36.7% agreed. Non-financial information includes Human resource information of the district. This helps the district to plan for human resource development, human resource retention and financial implication. Some of the respondents agreed that they have benefited through trainings arising from past reports made by internal auditors on training.

Table 4.11: Financial reporting has improved financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	71	59.2	59.2
Agree	40	33.3	92.5
Not sure	5	4.2	96.7
Disagree	2	1.7	98.3
Strongly disagree	2	1.7	100.0
Total	120	100.0	

Source: Primary data

A total of 59.2% of respondents strongly agreed that financial reporting has improved financial performance while 33.3% agreed. This finding is in agreement with Tom, Bill, and McKendric (2002) who noted that the financial reporting involves providing reports and statements that are used to determine the financial performance of the organization. Such statements include statement of comprehensive income and expenditure, statement of financial position, cash flow statement, statement of changes in equity, and notes to the financial statements. There is however a widespread recognition of the greater need in the Government Institution to supplement statement with other, often Non-financial measures of performance that enhance accountability, informal execution of policy, budgetary planning and monitoring. This is deemed to improve quality, monitor effective use of resources to ensure fair distribution and access to services. This finding further concurs with the traditional dividends policy asserts that companies that declare performance have cases of soaring share prices and therefore improved performance. Therefore when the district reports its performance is considered and continuous improvement are tailored towards reducing fraud, transaction errors and thus improving performance.

Table 4.12: Relationship between Financial Reporting and Financial Performance

		Financial reporting	Financial performance
FR	Pearson Correlation	1	.194*
	Sig. (2-tailed)		.033
	N	120	120
FP	Pearson Correlation	.194*	1
	Sig. (2-tailed)	.033	
	N	120	120

*. Correlation is significant at the 0.05 level (2-tailed).

The findings in the table above revealed that there is a weak positive significant relationship between financial reporting and financial performance at (r) = 0.194*, at the level of significant P = 0.033(2-tailed) given by the Pearson correlation. This indicates that an improvement in financial reporting leads to improved, financial performance. The view therefore is that the management of Mbale District Local Government should enhance financial reporting if financial performance is to improve.

4.4 Risk detection and financial performance

Frequency descriptive data presentation and interpretation of data on detection and financial performance are presented in the tables below.

Table 4.13: There is effective risk detection carried out by internal Audit in Mbale district

	Frequency	Percent	Cumulative Percent
Strongly Agree	66	55.0	55.0
Agree	45	37.5	92.5
Not sure	9	7.5	100.0
Total	120	100.0	

Source: Primary data

According to findings, a total of 55% respondents strongly agreed that there is effective risk detection carried out by internal Audit in Mbale district, while 37.5% agreed. Internal audit identifies risks during vouching, observation, reviewing policies. This finding matches with Collier, et al, (1991) who argued that internal Audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk detection, management, control, and governance processes. Respondents in the interview guide assert that auditors normally bring to the attention of senior management any risk identified for action. Therefore such information is synthesized to improve performance of the district and reduce reoccurrence of the risk.

Table 4.14: Every risk identified in the district is reported

	Frequency	Percent	Cumulative Percent
Strongly Agree	56	46.7	46.7
Agree	62	51.7	98.3
Not sure	2	1.7	100.0
Total	120	100.0	

Source: Primary data

Finding revealed that a total of 46.7% respondents strongly agreed that every risk identified in the district is reported, while51.7% agreed. One of the respondents noted;

> I was facing a risk of a possible of cash loss due to a lack of a safe.

He says this was brought to attention of the management through audit reports and a safe was procured. This he asserts reduced the inherent risk of handling cash and thus improving financial performance.

Table 4.15: Internal audit advises on risk management

	Frequency	Percent	Cumulative Percent
Strongly Agree	68	56.7	56.7
Agree	46	38.3	95.0
Not sure	4	3.3	98.3
Disagree	2	1.7	100.0
Total	120	100.0	

Source: Primary data

Research findings in table 17 above concur with assertions by The Local Governments Financial and Accounting Manual (2007) which asserts that the Head of Finance is responsible for advising on risk management and effective systems of internal control. This role is carried out in collaboration with the Internal Audit function. These arrangements need to ensure compliance with all applicable legislation and regulations, and other relevant statements of best practice, and ensure that public funds are properly safeguarded and used economically, efficiently, and effectively in accordance with the statutory and other provisions that govern their use. Furthermore one of the respondents noted that the district would have lost over 800 million Uganda shillings if they had gone ahead with the payments of funds to one of the suppliers. With the advise from the auditors, the payment was halted and after a due diligence survey, it was found out that the company did not have pre-requisite documents to operate in Uganda. This eliminated the possible occurrence of fraud.

Table 4.16: Identified risks are assessed for better financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	52	43.3	43.3
Agree	64	53.3	96.7
Not sure	4	3.3	100.0
Total	120	100.0	

Source: Primary data

Furthermore, a total of 43.3% of respondents strongly agreed that identified risks are assessed for better financial performance, while 53.3% agreed. As noted in the interview guide by one of the respondents, risks that are rated high with a financial implication (Loss) and has a significant impact on the reputation of the district, it’s given immediate attention and remedy. This therefore asserts the direction of auditors from just auditing to audit and assurance.

Table 4.17: Internal audit takes necessary measures to control risks during auditing process

	Frequency	Percent	Cumulative Percent
Strongly Agree	65	54.2	54.2
Agree	48	40.0	94.2
Not sure	7	5.8	100.0
Total	120	100.0	

Source: Primary data

Finding in table 19, indicates that, 54.2% of respondents strongly agreed that internal audit takes necessary measures to control risks during auditing process, 40% agreed. Auditors look at all errors as significant in identification of risks as asserts one of the respondents. This finding can be linked to Goodwin and Kent (2006: 81) who argues that internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management and control. This he said puts management on high attention to ensure that there is no room for errors since they can accumulate to make a significant risk. This says has improved the quality of their reports and thus improving financial performance

Table 4.18: The District maintains a risk profile

	Frequency	Percent	Cumulative Percent
Strongly Agree	67	55.8	55.8
Agree	52	43.3	99.2
Not sure	1	.8	100.0
Total	120	100.0	

Source: Primary data

A total of 55.8% of respondents strongly agreed that the district maintains a risk profile, 43.3% agreed. The risk profile contains information such as; who identified the risk, when was it identified, what is the impact and the risk is rated as either being high, medium or low. This is in line with Goodwin-Stewart and Kent (2006:81) who argued that IA helps in monitoring an organization's risk profile and identifying areas to improve risk management and help improve organisational efficiency and effectiveness through constructive criticism by auditors. Similarly, Institute of Internal Auditors (2010:1) contends that organisations that effectively use internal auditing are better able to identify business risks and process and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement.

Table 4.19: Identified risks are investigated immediately

	Frequency	Percent	Cumulative Percent
Strongly Agree	61	50.8	50.8
Agree	57	47.5	98.3
Not sure	2	1.7	100.0
Total	120	100.0	

Source: Primary data

Findings show that, 50.8% of respondents strongly agreed that identified risks are investigated immediately, 47.5% agreed. Respondents noted that any risk identified is investigated in detail to determine its impact, the cause and what corrective measures are to be undertaken. This they say has enabled the district take note of what actually constitutes a risk and therefore included on the risk profile. This in the long run has enabled them to know areas of major improvements in terms of performance.

Table 4.20: Risk detection has improved financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	57	47.5	47.5
Agree	63	52.5	100.0
Total	120	100.0	

Source: Primary data

The study found that, 47.5% of respondents strongly agreed risk detection has improved financial performance while 52.5% agreed. One of the respondents agreed that risk detection has protected the district from loss of colossal sums of money and this he says has improved financial performance of the district.

Table 4.21: Risk detection and financial performance

		Risk Detection	Financial Performance
RD	Pearson Correlation	1	.193*
	Sig. (2-tailed)		.035
	N	120	120
FP	Pearson Correlation	.193*	1
	Sig. (2-tailed)	.035	
	N	120	120

*. Correlation is significant at the 0.05 level (2-tailed).

The findings in the table above revealed that there is a weak positive significant relationship between risk detection and financial performance at (r) = 0.193*, at the level of significant P = 0.035(2-tailed) given by the Pearson correlation. This indicates that an improvement in risk detection leads to improved, financial performance. The view therefore is that the management of Mbale District Local Government should enhance risk detection if financial performance is to improve.

4.5 Audit inspection and financial performance

Descriptive Statistics on data finding about audit inspection and financial performance is as below;

Table 4.22: Internal Audit inspects all stores deliveries

	Frequency	Percent	Cumulative Percent
Strongly Agree	73	60.8	60.8
Agree	47	39.2	100.0
Total	120	100.0	

Source: Primary data

Findings revealed that, 60.8% strongly agreed that Internal Audit inspects all stores deliveries, 39.2% agreed. Majority of the respondents agreed that this process has improved efficiency of the operations of the district. In fact they say it was a very risk area where the district was losing a lot of funds. This they say improved financial performance of the district.

Table 4.23: Internal audit inspects all requests from the stores

	Frequency	Percent	Cumulative Percent
Strongly Agree	64	53.3	53.3
Agree	48	40.0	93.3
Not sure	4	3.3	96.7
Disagree	4	3.3	100.0
Total	120	100.0	

Source: Primary data

The study revealed that 53.3% of respondents strongly agreed that internal audit inspects all requests from the stores, 40% agreed. This process they say ensures that the funds are charged on the correct vote and that it's going to serve the intended purpose. This in the long run has improved performance of the district.

Table 4.24: Internal audit inspects all issues from the stores

	Frequency	Percent	Cumulative Percent
Strongly Agree	56	46.7	46.7
Agree	61	50.8	97.5
Not sure	3	2.5	100.0
Total	120	100.0	

Source: Primary data

The study found that, 46.7% of respondents strongly agreed that internal audit inspects all issues from the stores, 50.8% agreed. The exercise they say is done to ensure that the stores figures tally with the other corresponding information like the bin cards. This therefore has improved on the quality of reports and thus improving performance of the district.

Table 4.25: Internal auditors inspects works before handover and final payment

	Frequency	Percent	Cumulative Percent
Strongly Agree	68	56.7	56.7
Agree	52	43.3	100.0
Total	120	100.0	

Source: Primary data

From table above, 56.7% of the respondents strongly agreed that internal auditors inspect works before handover and final payment, 43.3% agreed. Inspects of works includes a field inspection of construction works for instance roads, hospitals, schools. Further findings from interview guide, shows auditors do inspections and verification of works prior to commissioning and handing over to the district. This has enabled the district pay for certified work and thus improved cash flows and thus improving financial performance of the district.

Table 4.26: All vouchers are inspected before payments are made

	Frequency	Percent	Cumulative Percent
Strongly Agree	74	61.7	61.7
Agree	46	38.3	100.0
Total	120	100.0	

Source: Primary data

The study revealed that 61.7% of respondents strongly agreed that all vouchers are inspected before payments are made, 38.3% agreed. Inspection of the vouchers includes pre-audit of the payments to ensure compliancy to the contractual obligations, control of authorization. This they say has been a high value adding activity because it has proper planning of resources thus improved cash flow management and thus improving performance.

Table 4.27: Internal Audit performs a regular cash count exercise

	Frequency	Percent	Cumulative Percent
Strongly Agree	69	57.5	57.5
Agree	48	40.0	97.5
Not sure	3	2.5	100.0
Total	120	100.0	

Source: Primary data

57.5% of respondents strongly agreed that auditors normally do cash counts. The objective of the auditors is to establish the availability of cash and that it balances with the books of accounts. The respondents agreed that this activity has helped the district from misappropriation that was arising from cashiers diverting cash for the district to do personal activities. They further noted that this would always cause financial shortages and thus failure or delay to implement district programmes. This has helped in timely implementation of district programmes.

Table 4.28: Internal auditor participates in annual stocktaking exercise

	Frequency	Percent	Cumulative Percent
Strongly Agree	43	35.8	35.8
Agree	53	44.2	80.0
Not sure	11	9.2	89.2
Disagree	9	7.5	96.7
Strongly disagree	4	3.3	100.0
Total	120	100.0	

Source: Primary data

A total of 35.8% of respondents strongly agreed that internal auditors participate in annual stocktaking exercise, 44.2% agreed. This means that internal auditors participate in annual stocktaking exercise through checking the record files of the stock counted and thus confirms the stock balances thus improving quality of the reports and financial performance.

Table 4.29: Internal Audit performs spot checks on current assets

	Frequency	Percent	Cumulative Percent
Strongly Agree	50	41.7	41.7
Agree	43	35.8	77.5
Not sure	17	14.2	91.7
Disagree	8	6.7	98.3
Strongly disagree	2	1.7	100.0
Total	120	100.0	

Source: Primary data

According to that 41.7% of respondents strongly agreed that Internal Audit performs spot checks on current assets, 35.8% agreed. Spot checks are done to test ownership, availability, condition and status of the asset. This therefore implies that only assets belonging to the district are included in the financials. As well one of the respondents agreed that some two vehicles were put recommended for disposal because they were too old and therefore the maintenance costs were higher than the benefits in use.

Table 4.30: There is inspection of assets registers done by internal Auditors

	Frequency	Percent	Cumulative Percent
Strongly Agree	69	57.5	57.5
Agree	47	39.2	96.7
Not sure	4	3.3	100.0
Total	120	100.0	

Source: Primary data

The study established that 57.5% of respondents strongly agreed that there is inspection of assets registers done by internal Auditors, 39.2% agreed. This finding can be linked with Eden and Moriah (1996) who notes that the aim of internal auditing is to improve organisational efficiency and effectiveness through constructive criticism. Further (Goodwin-Stewart and Kent, 2006) notes four main components of IA: (1) verification of written records; (2) analysis of policy; (3) evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organisation's policies; and (4) reporting recommendations for improvements to management. This they say has ensured only eligible assets are included on the register and thus improved on the quality of the reports and thus improving performance of district.

Table 4.31: Audit inspection has improved financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	72	60.0	60.0
Agree	48	40.0	100.0
Total	120	100.0	

Source: Primary data

The study revealed that 60% of respondents strongly agreed that audit inspection has improved financial performance, and 40% agreed. These findings agree with Whittington and Pany (2001) who reported that an internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory and other assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management. This means that audit inspection has helped to prevent intending fraudsters and thus improve financial performance.

4.6 Financial performance

Presentations, interpretations on frequency statistics on financial performance is presented and analysed below;

Table 4.32: There is improved financial performance in Mbale district

	Frequency	Percent	Cumulative Percent
Strongly Agree	58	48.3	48.3
Agree	62	51.7	100.0
Total	120	100.0	

Source: Primary data

From the table above, 48.3% of respondents strongly agreed that there is improved financial performance in Mbale district, 51.7% agreed, none was not sure, no one disagreed while no one strongly disagreed. This implies that there is improved financial performance, few or no case of fraud and other forms of corruption is being detected or experienced in district and finances are used for the purpose meant for as confirmed by the auditors.

Table 4.33: Internal audit has improved financial performance in the district

	Frequency	Percent	Cumulative Percent
Strongly Agree	58	48.3	48.3
Agree	62	51.7	100.0
Total	120	100.0	

Source: Primary data

Finding revealed that, 48.3% of respondents strongly agreed that internal audit has improved financial performance in the district, 51.7% agreed. As stipulated in the Local Governments

Internal Audit Manual, 2007, is vested with responsibility of ensuring that internal controls are effective. This agrees with the findings in the interview guide that performance has improved in areas where internal audit has kept a keen eye.

Table 4.34: I am pleased with the work of internal audit on financial performance

	Frequency	Percent	Cumulative Percent
Strongly Agree	57	47.5	47.5
Agree	63	52.5	100.0
Total	120	100.0	

Source: Primary data

Furthermore, a total of 47.5% of respondents strongly agreed that they are pleased with the work of internal audit on financial performance, 52.5% agreed. The findings agree Whittington and Pany (2001) assert that an internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory and other assets and cooperates harmoniously with other departments. These activities are pertinent in improving financial performance of the district.

Table 4.35: There is improved financial reporting in the district

	Frequency	Percent	Cumulative Percent
Strongly Agree	59	49.2	49.2
Agree	61	50.8	100.0
Total	120	100.0	

Source: Primary data

The study found that 49.2% of respondents strongly agreed that there is improved financial reporting in the district, 50.8% agreed while there were no responses on not sure, disagreed and strongly disagreed. This implies that there is transparency on financial reporting and usage in Mbale District.

Table 4.36: Risk detection has improved financial performance in Mbale district

	Frequency	Percent	Cumulative Percent
Strongly Agree	53	44.2	44.2
Agree	61	50.8	95.0
Not sure	6	5.0	100.0
Total	120	100.0	

Source: Primary data

A total of 44.2% of respondents strongly agreed that risk detection has improved financial performance in Mbale district, 50.8% agreed, 5.0% were not sure, no one disagreed while no one strongly disagreed. Other findings in the interview agree that risk detection has been paramount in identifying any risks and mitigating measures undertaken to reduce the effect or even avoid it. This means that risk detection is one of the elements which can help to improve financial performance in organization.

Table 4.37: There is better audit inspection that improved financial performance in the district

	Frequency	Percent	Cumulative Percent
Strongly Agree	47	39.2	39.2
Agree	66	55.0	94.2
Not sure	7	5.8	100.0
Total	120	100.0	

Source: Primary data

The study found that, 39.2% of respondents strongly agreed that there is better audit inspection that improved financial performance in the district, 55% agreed, 5.8% were not sure, while there was no response in favour of disagreed and strongly disagreed. This could be because there is better audit inspector in the district to conduct the activities effectively for the betterment of financial performance.

Respondents were asked to identify the other factors regarding how financial performance is managed in Mbale District Local Government apart from those identified by the researcher in the questionnaire. Below are some of the items identified.

Table 4.38: Audit Inspection and financial performance

		Audit Inspection	Financial Performance
AI	Pearson Correlation	1	.186*
	Sig. (2-tailed)		.041
	N	120	120
FP	Pearson Correlation	.186*	1
	Sig. (2-tailed)	.041	
	N	120	120

*. Correlation is significant at the 0.05 level (2-tailed).

The findings in the table above revealed that there is a weak positive significant relationship between audit inspection and financial performance at (r) = 0.194*, at the level of significant P = 0.033(2-tailed) given by the Pearson correlation. This indicates that an improvement in audit inspection leads to improved, financial performance. The view therefore is that the management of Mbale District Local Government should enhance audit inspection if financial performance is to improve.

4.7 Conclusion

Conclusively, this chapter was basically about presentation, interpretation, analysis and discussion of findings of primary data.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5. Introduction

This chapter presents discussions of findings, summary of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.1 Summary findings

The topic of the study was internal auditing and financial performance in Mbale District Local Government, The purpose of the study was to examine the contribution of internal auditing to the financial performance in Mbale District Local Government. The study had three specific objectives notably; to find out the effect of financial reporting on financial performance in Mbale District Local Government; to establish the effect of risk detection on the financial performance in Mbale District Local Government; and to examine the effect of audit inspection on financial performance in Mbale District Local Government. Literature review was done and the study employed a cross sectional research design as tools of analysis. The design took both qualitative and quantitative designs. Qualitative data was descriptive in nature because the study sought descriptive analysis of information, while quantitative used numerically coded data. Data collected from and analyzed using SPSS version 16.

5.1.1 Financial reporting on financial performance

Summary of major findings of the study shows that 60.8% of respondents strongly agreed that the district provides financial reports quarterly, 31.7% agreed. The study confirmed that the district observes what the Local Governments Financial and Accounting Manual (2007) asserts Local Governments Financial and Accounting Manual requires staffs to produce monthly, quarterly and annual financial statements. Also a total of 57.5% of respondents strongly agreed that financial reporting is done by finance officers in district, 35.8% agreed. In the same objective the study established that 59.2% of respondents strongly agreed that financial reporting has improved financial performance, 33.3% agreed. Finally finding indicated that 55.8% of respondents strongly agreed that the information from financial reports is used by the district management to make decisions on financial performance, 41.7% agreed. This therefore implies that financial reports are an essential source of information for the decision making process.

5.1.2 Risk detection and financial performance

In the second objective the study found that 55% respondents strongly agreed that there is effective risk detection carried out by internal Audit in Mbale district, 37.5% agreed; a total of 56.7% strongly agreed that internal audit advises on risk management, 38.3% agreed; 54.2% strongly agreed that internal audit takes necessary measures to control risks during auditing process, 40% agreed while a total of 55.8% respondents strongly agreed that the district maintains a risk profile, 43.3% agreed. Internal auditors therefore play a key role in monitoring a company’s risk profile and identifying areas to improve risk management and control.

5.1.3 Audit inspection and financial performance

Finally, the study revealed that 61.7% of respondents strongly agreed that all vouchers are inspected before payments are made, 38.3% agreed; 60% strongly agreed that audit inspection has improved financial performance, 40% agreed; a total of 57.5% strongly agreed that Internal Audit performs a regular cash count exercise, 40% agreed while 57.5% strongly agreed that there is inspection of assets registers done by internal Auditors, 39.2% agreed. Therefore the aim of internal auditing is to improve organisational efficiency and effectiveness through constructive criticism. Goodwin-Stewart and Kent (2006) summarized components IA into four: (1) verification of written records; (2) analysis of policy; (3) evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organisation's policies; and (4) reporting recommendations for improvements to management.

5.2 Conclusions

Based on the findings of the study, the study concludes that Mbale staff district provide financial reports quarterly as stipulated Governments Financial and Accounting Manual (2007) which requires staff to produce monthly, quarterly and annual financial statements. These reporting requirements are mandatory and are intended to enforce accountability of the local government to the relevant stakeholders like the Public, Central Government, Parliament, among others.

The internal Auditors in district carries out risk detection and advises on risk management, takes necessary measures to control risks during auditing process and maintains a risk profile.

Internal auditors therefore play a key role in monitoring a company's risk profile and identifying areas to improve risk management and control.

The study also established that vouchers are inspected before payments are made and thus audit inspection has improved financial performance through Auditors performing regular cash count exercise and inspection of assets registers. Therefore this study implies that internal auditing has helped to improve on organisational efficiency and effectiveness through constructive criticism, monitoring, risk detection in early stage and inspection of all financial activities for effective accountability of public funds in order to improve financial performance.

5.3 Recommendations

Research Findings show that Mbale district local government provide financial and consider it as an important aspects of their periodic exercises and activities as stipulated in Governments Financial and Accounting Manual (2007). Further findings show that the district is interested in minimizing its risk and internal controls such as Audit inspection are in place to check fraud, misstatement, mischarge of transaction. These measures are geared towards improving financial performance.

Based on the above findings, the study recommends that;

That there is need for all departments to provide reports on all the activities undertaken in a particular period of time at the district. Such reports should cover dimensions such as financial reports, strategy implementation reports, variance reports, internal controls in place.

Internal auditing should be encouraged at the district in order to enhance effective utilization of resources in order to improve financial performance. Furthermore emphasis should be placed on those preventive measures to mitigate the risks and losses caused by risks like fraud and other forms of financial mismanagement.

A risk-management strategy and well-drafted economic-crime prevention policies should be put in place to provide a vital platform for the district to prevent and detect financial risks, whilst adequate staff training is required. Management can as well setup a confidential whistle – blowing process as these provide some of the more successful means for the detection of risks.

The district may also undertake a research to obtain or understand areas where they have inherent risks and strong measures and policies are made to address such risks.

Management should consider training the district staff in short term courses say Uganda Management Institute or any institute within Uganda or outside Uganda with Capacity to train on various aspects such as risk detection mechanism, fraud prevention. Such measures are important to build capacity in the staff and improve efficiency in the utilization of resources.

5.4 Suggestions for further Research

The scope of this study was narrowed to internal auditing and financial performance in Mbale District Local Government. The study therefore recommends that future research should have a wider geographical coverage and widen its content scope to cover the effect of internal auditing in government agencies in Uganda.

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Appendix I

KREJCIE, ROBERT AND MORGAN TABLE

FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.

Estimation of sample size in research using Krejcie and Morgan is a commonly employed method. Krejcie and Morgan (1970) used the following formula to determine sampling size:

S = X2NP (1-P)/ d2 (N-1) + X2P(1-P)

S = required sample size

X2 = the table value of chi-square for one degree of freedom at the desired confidence level

N = the population size

P = the population proportion (assumed to be .50 since this would provide the maximum sample size)

d = the degree of accuracy expressed as a proportion (.05)

Based on Krejcie and Morgan's (1970) table for determining sample size, for a given population of 231, a sample size of 132 would be needed to represent a cross section of the population.

Appendix II

Descriptive Statistics on financial reporting and financial performance

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
There is financial reporting done by internal Auditing	120	1.00	3.00	1.4917	.62168
The district provides financial reports quarterly	120	1.00	3.00	1.4667	.63422
Financial statements provided can be used to determine the financial performance	120	1.00	3.00	1.5083	.59403
The audit reports are used as tools to ensure that funds as planned	120	1.00	5.00	1.8250	.89501
The information from financial reports is used to make decisions on financial performance	120	1.00	3.00	1.4667	.54900
The organization captures pertinent information; financial and non-financial, relating to external and internal events	120	1.00	5.00	1.8750	1.10433
Financial reporting has improved financial performance	120	1.00	5.00	1.5333	.79846
Valid N (listwise)	120				

Descriptive Statistics on risk detection and financial performance

	N	Minimum	Maximum	Mean	Std. Deviation
There is effective risk detection carried out by internal Audit in Mbale district	120	1.00	3.00	1.5250	.63461
Every risk identified in the district is reported	120	1.00	3.00	1.5500	.53216
Internal audit advises on risk management	120	1.00	4.00	1.5000	.64820
Identified risks are assessed for better financial performance	120	1.00	3.00	1.6000	.55610
Internal audit takes necessary measures to control risks during auditing process.	120	1.00	3.00	1.5167	.60784
The District maintains a risk profile	120	1.00	3.00	1.4500	.51613
Identified risks are investigated immediately	120	1.00	3.00	1.5083	.53446
Risk detection has improved financial performance	120	1.00	2.00	1.5250	.50147
Valid N (listwise)	120				

Descriptive Statistics on data finding about audit inspection and financial performance

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Audit inspects all stores deliveries	120	1.00	2.00	1.3917	.49017
Internal audit inspects all requests from the stores	120	1.00	4.00	1.5667	.71870
Internal audit inspects all issues from the stores	120	1.00	3.00	1.5583	.54689
Internal inspects works before handover and final payment	120	1.00	2.00	1.4333	.49761
All vouchers are inspected before payments are made	120	1.00	2.00	1.3833	.48824
Internal Audit performs a regular cash count exercise	120	1.00	3.00	1.4500	.54772
Internal participates in annual stocktaking exercise	120	1.00	5.00	1.9833	1.02886
Internal Audit performs spot checks on current assets	120	1.00	5.00	1.9083	.98728
There inspection of assets register done by internal Auditors	120	1.00	3.00	1.4583	.56354
Audit inspection has improved financial performance	120	1.00	2.00	1.4000	.49195

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Audit inspects all stores deliveries	120	1.00	2.00	1.3917	.49017
Internal audit inspects all requests from the stores	120	1.00	4.00	1.5667	.71870
Internal audit inspects all issues from the stores	120	1.00	3.00	1.5583	.54689
Internal inspects works before handover and final payment	120	1.00	2.00	1.4333	.49761
All vouchers are inspected before payments are made	120	1.00	2.00	1.3833	.48824
Internal Audit performs a regular cash count exercise	120	1.00	3.00	1.4500	.54772
Internal participates in annual stocktaking exercise	120	1.00	5.00	1.9833	1.02886
Internal Audit performs spot checks on current assets	120	1.00	5.00	1.9083	.98728
There inspection of assets register done by internal Auditors	120	1.00	3.00	1.4583	.56354
Audit inspection has improved financial performance	120	1.00	2.00	1.4000	.49195
Valid N (listwise)	120				

Appendix III

Questionnaire

Dear Respondent;

My name is Nangolison Benego a student of Uganda Martyrs University carrying out research on “Internal Audit and Financial Performance in Mbale District Local Government”. You have been selected to participate in this study due to the importance of your information in the study. Therefore, I do request you to participate in this study by completing this questionnaire honestly. Your response will be kept anonymous and shall be treated with confidentiality. All information collected will be used only for academic purposes.

Thank you

Nangolison Benego

Researcher.

Section A: Background information of respondents

Please tick what is appropriate

1. What is your gender?

Gender	**Response**
Male	
Female	

2. Age bracket of the respondents

Age bracket	**Response**
20 years and below	
21-30 years	
31-40 years	
41-50years	
51years and above	

3. What is your highest level of education?

Level of education	**Response**
Certificate level	
Diploma level	
Bachelor’s degree	
Master’s degree	
PhD	

Other (Specify)……………………………………………………………………...

4. For how long have you served in the Mbale District?

Employee tenure	**Response**
1 year and below	
2-4 years	
5-7 years	
8-10 years	
11 years and above	

Section B: Internal auditing and financial performance

Strongly disagree	Disagree	Not sure	Agree	Strongly agree
5	4	3	2	1

Please use the above scale to tick in the box your appropriate view to which you agree or disagree with the following statements below;

Section C: Financial reporting and financial performance

		5	4	3	2	1
1	There is financial reporting done by internal Auditing in Mbale district					
2	The district provides financial reports quarterly					
3	Financial statements provided can be used to determine the financial performance					
4	The audit reports are used as tools to ensure that funds as planned					
5	The information from financial reports is used by the district management to make decisions on financial performance					
6	The district captures pertinent information; financial and non-financial, relating to external and internal events					
7	I am happy with the financial reporting done district					
8	Financial reporting has improved financial performance					

In your opinion, what do you think are the other factors regarding how financial reporting is carried out in Mbale District Local Government? Please specify;

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Section D: Risk detection and financial performance

		5	4	3	2	1
1	There is effective risk detection carried out by internal Audit in Mbale district					
2	Every risk identified in the district is reported					
3	Internal audit advises on risk management					
4	Identified risks are assessed for better financial performance					
5	Internal audit takes necessary measures to control risks during auditing process.					
6	The District maintains a risk profile					
7	Identified risks are investigated immediately					
8	Risk detection has improved financial performance					

In your opinion, what do you think are the other factors regarding how risk detection is carried out in Mbale District Local Government? Please specify;

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Section E: Audit inspection and financial performance

		5	4	3	2	1
1	Internal Audit inspects all stores deliveries					
2	Internal audit inspects all requests from the stores					
3	Internal audit inspects all issues from the stores					
4	Internal inspects works before handover and final payment					
5	All vouchers before payments are made					
6	Internal Audit performs a regular cash count exercise					
7	Internal participates in annual stocktaking exercise					
8	Internal Audit performs spot checks on current assets					
9	There inspection of assets register done by internal Auditors					
10	Audit inspection has improved financial performance					

In your opinion, what do you think are the other factors regarding how audit inspection is carried out in Mbale District Local Government? Please specify;

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Section F: Financial performance

		5	4	3	2	1
1	There is improved financial performance in Mbale district					
2	Internal audit has improved financial performance in the district					
3	I am pleased with the work of internal audit on financial performance					
4	There is improved financial reporting in the district					
5	Risk detection has improved financial performance in Mbale district					
6	There is better audit inspections that improve financial performance					

In your opinion, what do you think are the other factors regarding how financial performance is managed in Mbale District Local Government? Please specify;

…………………………………………………………………………………………………

……………………………………………………………………………………………………..

Thank you for your time and response

Appendix IV

Interview guide for employees

i. Do you think the district has internal audit policies in place?
ii. How is internal audit carried out in the Mbale district?
iii. Has internal auditing practices supported you in measuring the level of financial performance in the district?
iv. How is financial reporting done in the district?
v. Are there any financial reports at the district?
vi. Is there strong and effective risk detection in the district?
vii. Do you think the risk detection measures are strictly followed by all personnel concerned?
viii. Does the internal audit have progressive reports on risk detection?
ix. Do you think risk detection measures are useful to the district's financial performance?
x. Are there occurrences of audit inspection in the district?
xi. Are discrepancies observed through Inspection reported?
xii. Are district Officers who commit fraud reported?
xiii. Have you had times when there are complaints on the financial performance of the district?
xiv. Do you know of any report on the financial performance provided by the district? If yes, what are the findings?

Thank you for your cooperation.