

**INTERNAL AUDIT FUNCTION AND PERFORMANCE OF NOT FOR
PROFIT ORGANIZATIONS IN UGANDA**

**A CASE STUDY OF BAYLOR COLLEGE OF MEDICINE CHILDREN'S
FOUNDATION UGANDA**

BY

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2014-M101-10002



UGANDA MARTYRS UNIVERSITY

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**A Postgraduate dissertation presented to the Faculty of Business Administration
And Management in partial fulfilment of the Requirements for the Award
Of the Degree of Masters of Business Administration of
Uganda Martyrs University**

DECEMBER 2016

DEDICATION

To my siblings: Leah, Debbie, Georgina, Victor, Ivan, Godfrey, and Kigozi Steven.

To my aunties and uncles: Lucy, Agnes, Senga Nalumansi, Uncle Tony, and Uncle Thomas Ssemujju.

To my late grandmother Lakeeri Nalule Kigozi, for setting the pace onto which this research is grounded.

To my lovely parents Dr. Edward and Tessie Khiddu-Makubuya in appreciation for their unending support to ensure that I reach this stage in life and in my academic career. I owe you everything.

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LIST OF ACRONYMS AND ABBREVIATIONS

- IIA-** Institute of Internal Auditors
- IA-** Internal Audit/ Internal Auditing
- IAF-** Internal Audit Function
- NPOs-** Not for Profit Organizations
- CIA-** Chartered Institute of Internal Auditors

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ABSTRACT

The study sought to investigate the relationship between Internal Audit Function and Performance of Not-for-profit organizations in Uganda, taking Baylor College of Medicine Children's Foundation Uganda as case study. The study was undertaken with a purpose of examining the relationship between risk evaluation, review of the economy, efficiency and effectiveness of operations and compliance review as the independent constructs and performance as the dependent construct.

The study utilized a case study design and a total of 36 respondents. Respondents included managers and supervisors of the departments of internal audit, finance, strategic planning and monitoring and evaluation, medical, health systems strengthening, research, capacity building and training, IT, nutrition, laboratory, administration, HR and operations. Data was collected using semi-structured interviews and self-administered questionnaires. Qualitative content analysis, descriptive statistics, Pearson's correlation coefficients and multiple regression analysis were used for data analysis.

Using descriptive statistics, a mean of 3.86 and a standard deviation of 0.81 were found between risk evaluation and performance, a mean of 3.71 and a standard deviation of 0.80 between review of the economy, efficiency and effectiveness of operations and performance and a mean of 3.83 and standard deviation of 0.81 between compliance review and performance. The study also found a Pearson's correlation coefficient of $r = +0.4216^{**}$ between risk evaluation and performance, $r = +0.56^{**}$ between review of the economy, efficiency and effectiveness of operations and performance, $r = +0.3034^{**}$ between compliance review and performance.

The study concluded that there is a positive relationship between internal audit function and performance such as growth of outreach sites across the country, increase in the number of employees, clients, asset base and health professional training programmes.

The study recommends that the budgetary allocations of the IAF should be increased in terms of number of staff, their training and welfare.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This study was intended to make a contribution to the business sector in general. The study focused on internal audit function (IAF) and performance of not-for-profit organizations (NPOs) in Uganda.

In this study, the internal audit function was considered as the independent variable while performance was considered as the dependent variable.

The key writers on internal audit function and performance of not-for-profit organizations include Al-Twaijry (2003; 2004) whose work focuses on internal audit efficiency and effectiveness, Allegrini (2003; 2006; 2007), Arena (2006; 2007; 2009) whose work is on internal auditing and risk assessments, Gramling (1997; 2001; 2004; 2006; 2009; 2010) who focuses on corporate governance, and studies commissioned by the Institute of Internal Auditors (IIA) (1996 – 2015) which provide wide ranging information on the internal audit function.

This study sought to highlight the significance of the internal audit function of NPOs in Uganda. The study was partly motivated by the dearth of sufficient emphasis in the literature on the internal audit function in the not-for profit sector as compared to the for-profit sector. The lack of emphasis on this theme is surprising in view of the growth and contribution of the not-for profit sector in the overall scheme of the development of Uganda.

1.1 Background to the study

Audits have been performed since the fifteenth century (Carmichael et al, o for timely employee involvement beyond that of the Certified Public Accountants to ensure accurate and timely financial records and to prevent fraud (Whittington and Pany, 2001).

The growth in size and complexity of many organizations in recent years has drawn attention to the importance of the internal audit function (Woolf, 1997). The pressure on the need for accountability by the managers of not-for-profit organizations, due to greater emphasis on sound organizational control (Pomeroy, 2010), has increased the prominence of and reliance on the internal audit function (IAF) (Cohen et al., 2010).

Accounting fraud scandals in some of the world's large companies including Worldcom Inc and Enron have increased emphasis on the importance of a viable internal audit function (Eilifsen et al, 2010). Ebaid (2011) argues that an effective internal audit department is an integral part of good corporate governance which plays an important role in assisting management and the board in achieving their objectives. (Anderson et al., 2012b; Prawitt et al., 2009) emphasize that the IAF is a resource to a number of governance stakeholders, such as the audit committee, senior management and external auditors. The same Ebaid further argues that in today's business environment, the IAF has become a major support function for management, the audit committee, the board of directors, the external auditors and other stakeholders. The IAF gives the stakeholders information on a range of important issues which need immediate attention. Since the judgments and decisions of these stakeholders are critical to their organizations, the quality of information they receive from the IAF is of great importance and it is likely that these stakeholders consider the quality of the IAF before relying on IAF information. The quality of information is a fundamental determinant in the use of that information and the resulting quality

of judgments, decisions and actions of a person relying on the information. Internal auditors report to senior management about risk evaluation, and highlight where improvements are required. The internal auditors thus help senior management to demonstrate that they are managing the organization effectively on behalf of its stakeholders.

A number of studies provide emphasis on the importance of the IAF and its ability to contribute towards quality corporate governance, through its oversight role, its improvements to control and monitoring environment and its potential to mitigate fraud risk (Dominic and Martinov-Bennie, 2011). For example, the internal auditor's role of determining whether operating units in the organization follow authorized accounting standards, financial policies and procedures was readily extended to include the determination of whether they follow all of the organization's operating policies, and whether the established policies provide sound and effective control over all operations (Whittington and Pany, 2001).

The present study focused on Baylor College of Medicine Children's Foundation Uganda which is an NPO that is operational in Uganda. Baylor College of Medicine Children's Foundation Uganda is a major provider of family-centered pediatric and adolescent HIV/AIDS services in Uganda. The study set out to discover whether a significant relationship exists between the internal audit function and performance of NPOs, taking Baylor College of Medicine Children's Foundation Uganda as a case study.

1.2 Statement of the problem

The purpose of the internal audit function is to help members of an organization to improve the performance of their activities which in turn improves on the overall performance of the organization (Ali et al, 2012). According to Grant Thornton LLP's Chief Audit Executive (CAE) Survey of more than 400 CAEs from U.S. organizations including NPOs, it was found that not-

for-profit organizations IAFs struggle with new ways to add value (Grant Thornton, 2014). 66% of the CAEs pointed to budget constraints, 41% cited perception issues as an impairment to greater effectiveness while 36% cited talent quality or capacity, as barriers to delivering greater value. Due to these barriers, NPOs internal audit functions struggle in identifying strategic risks and reviewing programme audit areas that would add significant value to their organizations. This results into poor quality services and poor performance by exposing the organization to low market share, low revenue growth and poor fundraising efficiency. The researcher therefore found it necessary to ascertain empirically whether a relationship between the internal audit function and performance of NPOs exists, taking Baylor College of Medicine Children's Foundation Uganda as a case study.

1.3 Objectives of the study

1.3.1 Major objective

The study set out to investigate the relationship, if any between the internal audit function and performance of Baylor College of Medicine Children's Foundation Uganda.

1.3.2 Specific objectives

- a) To determine the relationship between risk evaluation and performance of Not-for-profit organizations.
- b) To investigate the relationship between review of the economy, efficiency and effectiveness of operations and performance of Not-for-profit organizations.
- c) To examine the relationship between compliance review and performance of Not-for-profit organizations.

1.4 Research questions

- a) What is the relationship between risk evaluation and performance of Not-for-profit organizations?
- b) What is the relationship between review of the economy, efficiency and effectiveness of operations and performance of Not-for-profit organizations?
- c) What is the relationship between compliance review and performance of Not-for-profit organizations?

1.5 Scope of the study

1.5.1 Content scope

The key areas of the IAF considered in this study included risk evaluation, review of the economy, efficiency and effectiveness of operations and, compliance review. Performance of NPOs was measured by market share, revenue growth and fundraising efficiency. The dimensions that the study covered were risk review, internal controls, information and communication, review of the economy, efficiency and effectiveness of operations, national and international standards of internal auditing; Non-Governmental Organizations Registration (Amendment) Act 2006, International Standards for the Professional Practice of Internal Auditing, Professional Proficiency and Code of Ethics.

1.5.2 Geographical scope

The study focused on Baylor College of Medicine Children's Foundation Uganda (Baylor-Uganda). Baylor College of Medicine Children's Foundation Uganda's head office is located close to Old Mulago Hill Road in Kampala City. For purposes of the study, the researcher focused on both Baylor-Uganda's head office and offices that are located at Soliz House, Plot 23 Lumumba Avenue in Nakasero Kampala, which house the departments of internal audit,

strategic planning and monitoring and evaluation, laboratory management, capacity building and training, and operations.

1.5.3 Time scope

The study covered the period of operation of Baylor College of Medicine Children's Foundation Uganda of the year 2014. This is the year when the IAF was fully constituted.

1.6 Significance of the study

The study will add to the existing literature specifically the literature on the IAF in NPOs since few studies have been carried out on similar institutions in the Ugandan context. The study findings can also be used as a basis for further research on NPO relationships. This study serves an essential purpose of adding to the stock of knowledge about the interface between IAF and the performance of NPOs.

It is the researcher's hope that the findings of the study shall be important from a practical perspective. The study will presumably serve as a point of reference to NPOs in Uganda in raising awareness of the purpose and importance of the internal audit function. It is anticipated that this research will persuade NPOs to establish an effective internal audit function within their operations.

From a management perspective, the study is expected to highlight the contribution of the internal audit function to performance of NPOs in Uganda. Therefore the findings of this study should really assist NPOs to build mechanisms to ensure that the internal audit function is supported to enhance performance of NPOs.

1.7 Justification of the study

The study comes at a time when NPOs are taking on a prominent role as development and political counter-power. From 1986, the NGO sector has seen growth in Uganda. Currently there are more than 7,000 NPOs that are active in Uganda (Ministry of Internal Affairs, 2010). The role that NPOs play in Uganda necessitates them to establish an internal audit function to ensure adequate mitigation of risks, effective internal controls and compliance with applicable laws and procedures, which will enhance their performance.

1.8 Operational definition of concepts

Audit: Is the examination of the financial report of an organization as presented in the annual report by an individual independent of that organization.

Internal audit: The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit is differentiated from external audit in that its objective is to evaluate and improve the effectiveness of governance, risk management and control processes and it covers all categories of risk, their management and reporting on them.

Internal audit function: Internal audit function is an appraisal activity established or provided as a service to an entity that is designed to add value and improve an organization's operations.

Not-for-Profit Organizations: Not-for-Profit Organizations (NPOs) are organizations that are constituted on a not-for-profit basis, self-governing and established for public benefit.

Performance: Is how effectively and efficiently organizations are achieving their goals in their mission statements.

Fundraising efficiency: Fundraising efficiency refers to the monies raised relative to the monies spent on the fundraising activities.

Review of the economy, efficiency and effectiveness of operations: According to the role of the internal auditor as set out by the IIA member's handbook in 1997, "review of the economy, efficiency and effectiveness of operations" involves the internal auditor assisting the organization to use its resources efficiently and economically.

Risk evaluation: Generally risk evaluation entails identifying hazards, ascertaining the level of risk and developing strategies to mitigate the risk. Under risk evaluation, internal auditors are responsible for analyzing risks. They identify key activities and relevant risk factors and assess their significance.

Compliance: Compliance describes the ability to act according to an order, set of rules or request. Compliance for organizations operates at two levels; compliance with the external rules that are imposed upon an organization as a whole and compliance with internal systems of control that are imposed to achieve compliance with the externally imposed rules.

Compliance review: Internal auditors are tasked with reviewing compliance to ensure that the organization is adhering to rules, regulations, laws, codes of practice, guidelines and principles as they apply individually and collectively to all parts of their organization.

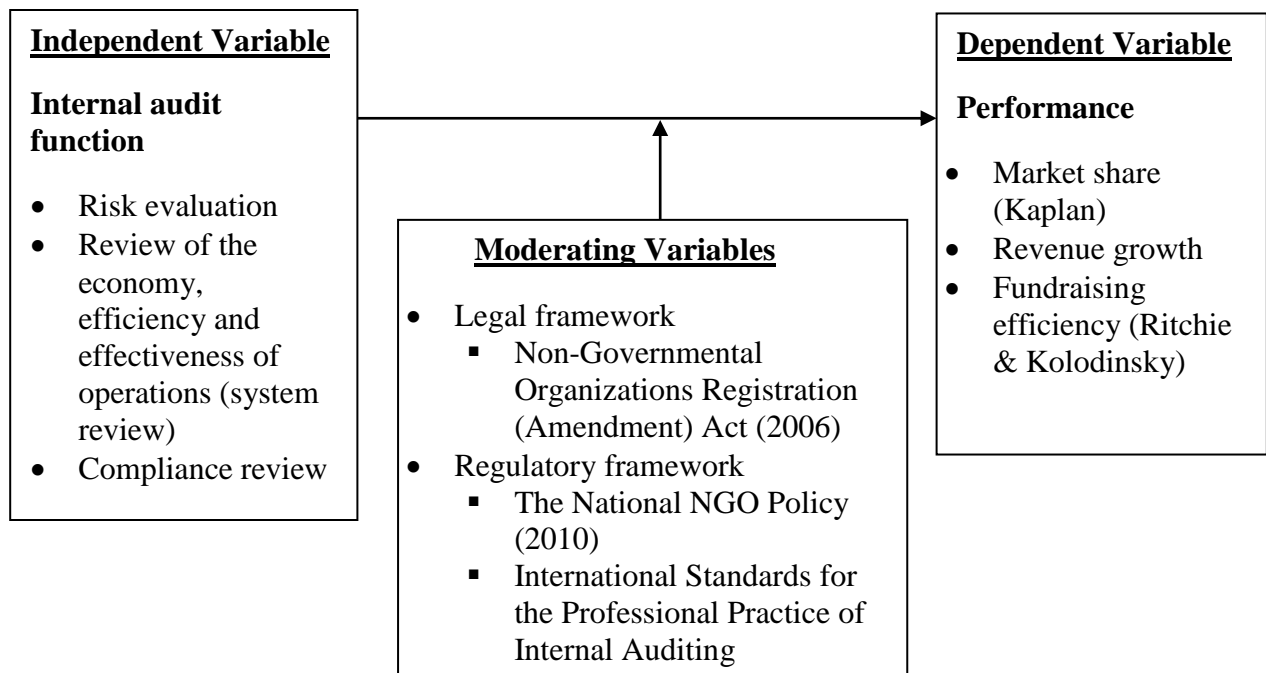
1.9 Conceptual framework

This conceptual framework (set out in Figure 1.1) posits that there is a relationship between the internal audit function and performance of NPOs. The internal audit function serves as the independent variable while performance of NPOs serves as the dependent variable. The internal audit function is measured by risk evaluation, review of the economy, efficiency and

effectiveness of operations, and compliance review (IIA, 2012; Millichamp and Taylor, 2008). Performance of NPOs is measured by market share, revenue growth, and fundraising efficiency (Kaplan, 2001; Ritchie and Kolodinsky, 2003).

However the relationship between internal audit function and performance of NPOs is influenced by moderating variables which are, the legal framework: Non-Governmental Organisations Registration (Amendment) Act (2006), and the regulatory framework which includes: The National NGO Policy (2010) and the International Standards for the Professional Practice of Internal Auditing (Chartered Institute of Internal Auditors, 2012). The Non-Governmental Organisations Registration (Amendment) Act (2006) provides for, among other things, the registration and monitoring of NGOs in Uganda. Only if NGOs adhere to the provisions set out in this Act, shall they be permitted to operate in Uganda. Once an NGO is operational, then it has the possibility of setting up IAF in its establishment which shall assist in achieving its objectives and eventual performance. The National NGO Policy (2010) sets out the overall framework for strengthening partnerships between Government and NGOs in development (Action Aid USA, 2012). The National NGO Policy (2010) among other things was set forth with the objective of providing for legal, policy and procedural changes that will allow NGOs to effectively contribute to national and district development planning in a harmonized manner. International Standards for the Professional Practice of Internal Auditing (Standards) explain the best practice principles which underpin the practice of internal auditing and also provide the framework for performing the broad range of internal audit activities, which when followed, enable NGOs to achieve their objectives.

Figure 1.1: Conceptual framework for the study of internal audit function and performance of NPOs.



Source: Adopted from IIA, (2012), Millichamp and Taylor (2008), Kaplan (2001), Ritchie and Kolodinsky, (2003), Chartered Institute of Internal Auditors (2012) with modifications.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a review of literature concerning the study. This chapter commenced with the theoretical framework of internal audit taking into consideration two theories; agency and contingency, risk evaluation which covered; risk review, internal controls, information and communication, review of the economy, efficiency and effectiveness of operations, compliance review; national and international standards of internal auditing, Non-Governmental Organizations Registration (Amendment) Act (2006), International Standards for the Professional Practice of Internal Auditing, Professional proficiency and Code of Ethics.

Different themes were identified so as to synthesize what is known and not known about internal audit with particular reference to the performance of not-for-profit organizations.

2.1 Theoretical Review

2.1.1 Agency Theory

Agency theory arises from the agency relationship when one or more principals engage another person as their agent (or steward) to perform a service on their behalf (The Institute of Chartered Accountants in England and Wales, 2005). Jensen & Meckling (1976) note that according to agency theory, an organization consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources (Sarens and Abdolmohammadi, 2011). Agency theory focuses on resolving two problems that can occur in agency relationships (Eisenhardt, 1989). The first problem arises when the desires or goals of the principal and agent conflict, and it is difficult for the principal to

verify the agent's behaviour. Secondly is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk.

Agency theory has developed along two lines; positivist and principal-agent (Endaya and Hanefa, 2013; Eisenhardt, 1989):

Positivist researchers have focused on identifying situations in which the principal and agent are likely to have conflicting goals and then describing the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt, 1989). Differing motivations and information asymmetries lead to concern about the reliability of information, which impacts on the level of trust that principals will have in their agents. Governance mechanisms should therefore be put in place to align the interests of agents with those of the principals (The Institute of Chartered Accountants in England and Wales, 2005).

The second line of agency theory is principal-agent, which is concerned with a general theory of the principal-agent relationship. Unlike the positivist agency theory, principal-agent theory looks beyond the principal-agent relationship between owners and managers of large organizations and is applicable to employer-employee, lawyer-client, buyer-supplier, and other agency relationships ((Harris & Raviv, 1978), Eisenhardt, 1989). The principal- agent paradigm involves careful specification of assumptions, which are followed by logical deduction and mathematical proof.

A few strengths have been found in agency theory. Agency theory reestablishes the importance of incentives and self-interest in organizational thinking ((Perrow, 1986), Eisenhardt, 1989).

In agency theory, information is regarded as a commodity; has a cost and can be purchased. This gives an important role to formal information systems such as audit. The implication is that

organizations can invest in information systems such as IAF in order to control agent opportunism.

Perrow (1986) criticized agency theory for being unrealistically one-sided because of its neglect of potential exploitation of workers (Eisenhardt, 1989) and focuses more on how agents may not act in the best interest of the principals thus exploiting the principals. A simple agency model assumes that no

agents are trustworthy (The Institute of Chartered Accountants in England and Wales, 2005). The agency model is criticized on the basis that it ignores that some agents will be trustworthy and will work in their principals' interests regardless of the implementation of audit as a monitoring mechanism. Along the positivist line, agency theory is criticized for focusing almost exclusively on the special case of the principal-agent relationship between owners and managers of large, public corporations ((Berle & Means, 1932) Eisenhardt, 1989).

Agency theory is relevant to this study since it highlights the role of audit and its importance in corporate governance. Due to the likeliness of conflicting goals and interests between the principals and agents, audit serves as a key monitoring mechanism to align the interests of the principals with those of the agents (The Institute of Chartered Accountants in England and Wales, 2005). Audit serves as a solution to principal-agent conflicts. This monitoring function of internal audit plays an important role in reducing information asymmetries between principals and agents. This also ensures that the agents implement the plans and procedures of the principals hence enhancing the performance of organizations (Endaya and Hanefa, 2013).

My study focused on the relationship between internal audit function and performance of NPOs in Uganda. The study strengthened the theory as it advocated for audit as a monitoring

mechanism to enable organizations perform through achieving their objectives. Agency theory was utilized for this study.

2.1.2 Contingency Theory

The contingency approach attempts to establish functional relationships between environmental variables and organizational variables (Lee et. al, 1982). Contingency theorists attempted to identify the important variables assumed to influence organizational performance (Weill and Olson, 1987). Contingency theorists then attempted to operationalize and measure these variables and determine their effects on performance.

Contingency theory is an approach to the study of organizational behaviour in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations. Contingency theory posits that organizational effectiveness is dependent on the combination of the type of technology, environmental volatility, the size of the organization, the features of the organizational structure, and its information system. Cadez and Guiding (2008) identified some factors which impact on management control systems. These are: external environment, technology, structure and size, strategy and national culture. Contingency theory suggests that the demands imposed by technical tasks in the organization encourage the development of strategies to coordinate and control internal activities.

In theory terms, contingency theory is sociological functionalism, explaining the existence of fits between structure and contingencies by their beneficial effects on organizational performance (Woods, 2009; Donaldson, 1996). At the heart of structural contingency theory is the relationship between misfit and performance. This provides the explanation of why organizations adopt the

structures that they do and thereby produce the associations between structural and contingency variables (Donaldson, 1996). Fit occurs where the level of a structural variable (for example, formalization) matches that required by the level of the contingency variable (for example, size) (Donaldson, 1996). Because the level of the required structure is given by the level of the contingency variable, fit is where this matches the level of the actual structure. Following Keller (1994), if both the structural and contingency variables are measured on scales from 1 to 5, and the fit line is that the level of the structural variable equals the level of the contingency variable, then fit exists when both variables are of level 1, both are of level 2 and so on. Misfit is where the actual structure differs from the contingency variable, for example, structure is 3 but contingency is 2, giving a misfit of 1 (that is, $3 - 2$).

There are a number of important assumptions in the contingency approach (Weill & Olson, 1987). Among the assumptions is one that talks about fit. The better the fit among contingency variables (for example, between technology and organizational structure), the better the performance of the organization.

According to Daft (2012), “contingency means: one thing depends on other things” and “Contingency theory means: it depends.” Audit functions are task-oriented and can be loosely structured. The audit functions also can vary considerably, depending on the area of a company under audit and the type of business model. Therefore, auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team’s structure.

The contingency approach to organization theory has been heavily criticized. The over-riding criticism is that the contingency variables account for only a small percentage of the variance in performance (Weill & Olson, 1987). The weak empirical support can be traced back to the ill-

defined concepts of "fit" and "performance" and to the lack of recognition of the possibility of non-rational objectives.

Some studies (Galbraith 1973, 1977) show that as organizations become more complex and face increasing environmental uncertainty, they become more differentiated, which in turn causes an imbalance with the existing organizational integrating mechanisms and a breakdown in the necessary information processing needed for successful performance (Lee et al, 1982). To restore the balance between differentiation and integration, the organization must either reduce its need to process information or increase its capacity to process information.

Blau (1970) proposed that larger organization size promotes structural differentiation and that as the size of an organization increases, the marginal influence of size on differentiation decreases. The more effort necessary for attainment of organizational objectives, the larger the size required. Larger size therefore requires additional means of control (Lee et al, 1982) such as internal audit.

The study focused on the importance of internal audit function to the performance of NPOs and thus to strengthen the application of contingency theory. For this reason, contingency theory was considered in this study.

2.2 Risk evaluation and performance of not-for-profit organizations

Risk evaluation discusses information on risk review, internal controls, and information and communication. Analysis discusses how these affect performance of NPOs.

2.2.1 Risk review

All NPOs face risks. NPOs face risks of material misstatements at the financial-statement level and assertion level (Chartered Professional Accountants Canada, 2015).

Risks of material misstatement at the financial-statement level refer to risks that pervade the financial statements as a whole and may potentially affect many assertions. Risk of material misstatements at the financial-statement level include risks related to fraud, risks related to laws and regulations, risks related to the use of service organizations, and risks associated with related-party relationships and transactions.

Risks at the assertion level include: risk of material misstatement due to fraud at the assertion level, risks related to restricted contributions, risks related to cash contributions, risks related to pledges, risks related to donations in kind, risks related to other revenues, and risks related to expenses. Potential fraud risk factors in NPOs include: opportunity for making unauthorized expenses, incentive for using restricted contributions for other purposes and incentive for overstating donations to maximize matching grant.

The profession of internal audit nevertheless is fundamentally concerned with evaluating an organization's management of risk hence bringing to light the importance of the internal audit function.

IIA explains that internal auditors deal with issues that are fundamentally important to the survival and prosperity of any organization. Internal auditors consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees (Institute of Internal Auditors, 2015). The definition of internal auditing by IIA gives

light on the attention that should be given to the IAF in NPOs and supports the risk evaluation role of IAF towards the performance of organizations.

To evaluate how well risks are being managed the internal auditor assesses the quality of risk management processes, systems of internal control and corporate governance processes, across all parts of an organization and reports directly and independently to the most senior level of management. Internal audit function therefore contributes to the performance of an NPO as the key to an organization's success is effective risk management.

Institute of Internal Auditors (IIA) declares that internal audit helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditors, 2015). IIA stresses the value of internal audit function to an organization.

Various studies have provided support for the importance of the internal audit function and its ability to contribute towards quality corporate governance, through its oversight role, its improvements to the control and monitoring environment and its potential to mitigate the occurrence of fraud (Dominic and Martinov-Bennie, 2011).

According to Millichamp and Taylor (2008), internal auditors examine how organizations manage their risks. They provide the audit committee and the board of directors with information centering on risk identification and evaluation. Under risk management, internal audit's role is to identify potential problem areas and recommend ways of improving risk management and internal control systems.

Stewart and Subramanian (2010) produced a paper to provide a review of the recent literature on internal audit objectivity and independence. The paper by Stewart and Subramanian (2010)

found that internal auditors are also seen as key contributors as assurance providers on risk management processes and systems. In 2006, the IIA commissioned the global Common Body of Knowledge (CBOK) 2006 study, engaging researchers from around the world “to better understand the expanding scope of internal audit practice.” The CBOK study (Burnaby *et al.*, 2007) found that 67% of respondents currently had a role in risk management, thus elucidating that the IAF plays an important role towards the performance of organizations.

A study by Ebaid (2011) concluded that internal auditors in large Italian firms contributed to the risk management process. The internal auditors were involved in customizing the risk management methodology to the firm, carried out consulting services in risk management activities or facilitated control and risk self-assessments. These roles taken up by the internal auditors herein throw more light on their involvement in risk evaluation, which enhances on the performance of an organization.

Dominic and Martinov-Bennie (2011) advanced that the IAF’s role is to provide an independent review of risk processes and ensure that risk mitigating controls are in place. This brings more clarity on the risk evaluation role of IAF in organizations.

Protiviti (2006) profiled fourteen (14) business organizations with particular reference to the internal audit function. Major contributions from the study concluded that:

- a) The internal audit function helped the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and the Corporate Governance processes. The scope of the IAF was to determine whether the company’s procedures with respect to risk

management, internal controls and corporate governance procedures were adequate and function in a way to provide identification and management of risk;

- b) The internal audit team helped management to handle risk comprehensively across the organization. Using enterprise wide audits, the internal audit team looks for risk commonality across the company divisions and selects topics of high interest and relevance;
- c) The internal audit team sets out to understand risks on an integral basis and in comparison with other issues determining which risk should be tackled first. In one organization, the internal audit team has developed a Business risk measurement framework. This framework helps management to identify and thus allocate where limited resources should be spent.

These findings are materially relevant because they explain the role of internal audit as regards risk evaluation.

With respect to risk management, Leung et al. (2003) reveal that a large majority of internal auditors in Australian firms regarded risk management as an important internal audit objective. A study by Allegrini and D'Onza (2003) revealed that, within large Italian companies, internal auditors contributed to the risk management process. Internal auditors were involved in customizing the risk management methodology to the organization, carried out consulting services in risk management activities or facilitated control and risk self assessments. They found that 30 percent of respondents co-operate with external consultants in the risk management process while 37 percent support the risk management process directly in co-operation with line management by providing methodologies or engaging in consultancy services in risk

management activities. This study helped as it emphasized the IAF's roles in risk management which enable an organization achieve its objectives.

Fraser and Henry (2007) undertook a series of interviews with the finance director, the audit committee chair, the head of internal audit and the director of risk management in five large UK organizations, as well as an audit partner from each of the Big-4 audit firms. They found that internal audit tends to play a major role in enterprise risk management, particularly in the embedding of risk. More interestingly, they also found evidence of internal auditors having responsibility for enterprise risk management practices, despite the IIA position paper stating that responsibility of risk management must rest with management. For example, in one organization the internal auditor had been responsible for setting up the system, while in another there were concerns that an internal audit function that was composed predominantly of accountants and at the same time heavily involved in risk management may not identify certain risks. This study expounded on the role of the IAF in risk management which enhances on the performance of organizations.

This study investigated whether the internal audit function team of Baylor College of Medicine Children's Foundation Uganda incorporated a risk review mechanism in their operations.

2.2.2 Internal controls

Internal auditing is concerned with an evaluation of both internal controls as well as the quality of actual performance (Gupta, 1999). Internal audit function includes, among other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control (Gupta, 1999). The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities.

Among the activities of internal audit is evaluating controls and advising managers at all levels (Chartered Institute of Internal Auditors (2012); Institute of Internal Auditors South Africa (2015)). Here, the internal auditors work includes assessing the tone and risk management culture of the organization at one level through to evaluating and reporting on the effectiveness of the implementation of management policies to another.

Internal audit helps to ensure that an organization runs in an orderly manner and is managed better to ensure that strong controls are implemented (Manas'seh, 1990). Simiyu (1997: 61) notes that internal auditing is a managerial control which functions by measuring and evaluating the effectiveness of other controls; IAF is in effect a control over controls. This point helped to elaborate on the attention and importance of internal controls in an organization.

A study by Ebaid (2011) sought to explore the nature and role of internal audit function in Egyptian listed firms and assess its ability to fulfil its role in corporate governance basing on a questionnaire survey mailed to managers of internal audit function in Egyptian listed firms. The study findings revealed that approximately 94 percent of internal audit time was spent on financial audit and internal controls activities while the remaining 6 percent of internal audit time was spent on risk management and consulting activities. This study stressed the importance of IAF's role with regards internal controls in organizations.

A study on Uganda Martyrs University which was undertaken by Mawanda (2008) is quite informative and needs to be mentioned here. Mawanda (2008)'s study on the effects of internal control systems on financial performance in an institution of higher learning namely, Uganda Martyrs University (UMU) highlighted that internal controls included control environment, internal audit and other control activities. The study also highlighted that financial performance

referred to liquidity, accountability and financial reporting measures. Mawanda (2008) concluded that the relationship between internal control systems and financial performance was significant, as internal audit has a significant role in establishing internal controls which impact greatly on the financial performance of the organization. The internal audit department may have to profile competence in light of the expectations of the organization. Mawanda (2008)'s study was centrally relevant to the study as its focus was on the impact of internal controls towards the financial performance of an institution, and was in line with this research study objective.

2.2.3 Information and communication

The information and communication role takes place between the internal auditors and the rest of the organization through audit reports and meetings. Internal audit teams relay information to top management through internal audit reports. The IAF points out exceptions and deficiencies and highlights areas of success to reward the efforts of the business units in improving their processes.

A wide range of meetings that are aimed at exchanging information, are held between the internal audit team and various individuals across organizations including those at management and board level. These meetings facilitate knowledge sharing through communication and they enable the audit team to have a significant amount of interaction to gain optimal understanding of the business operations which enables them to add tangible value.

Internal auditors report to senior management regarding the evaluation of important risks and highlighting where improvements are necessary. The internal auditor thus helps senior management to demonstrate that they are managing the organization effectively on behalf of their stakeholders (Chartered Institute of Internal Auditors, 2012).

The role of internal audit entails examination and evaluation of both financial and non-financial information (Millichamp and Taylor, 2008). This results in a continuous audit of the organization's operations as internal auditors review all aspects of its activities on a rolling basis.

Internal audit plays a role in the implementation of strategies for the achievement of organizational goals (Al-Matari et al, 2014). They concur with Millichamp and Taylor (2008) that internal audit function makes checks to ascertain the reliability and integrity of financial and operational information on which sound business decisions at all levels of management are based whereby such decisions are intended to enhance the performance of NPOs.

Ebaid (2011) concludes that internal audit reports have potential to complement existing governance disclosures, increases stakeholders confidence in governance quality and financial reporting reliability. This involves a review of the policy making process, assessment of the adequacy of guidance given to managers and staff, organizational, personnel and supervisory arrangements within the organization, procedure for accounting for and safeguarding from loss of assets (Gupta, 1999), business interests and income streams, and controls to ensure the appropriateness, timeliness, reliability and integrity of information.

2.3 Review of the economy, efficiency and effectiveness of operations and performance of NPOs

Review of the economy, efficiency and effectiveness of operations is sometimes referred to as "value for money" auditing (Millichamp and Taylor, 2008). The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA, 2015). Through taking up this value addition role, internal auditors help organizations to succeed. This is achieved through

a combination of assurance and consulting work, and details the value-addition role of IAF which improves on the performance of organizations.

According to the new definition of internal audit (IIA, 2015), the internal audit role has been shifted from the traditional oversight function to adding value to the organization through providing a wider spectrum of assurance and consulting activities pertaining to monitoring, evaluating, and improving risk management, control, and governance process. Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, the internal audit function often plays a significant monitoring role (COSO, 2003, p. 4) (Van Peurseem, 2004). This point shines light on how the IAF works to ensure that an organization achieves its objectives through obtaining meaning out of tasks that are carried out.

Internal auditors work closely with line managers to review operations then report their findings (The Institute of Internal Auditors South Africa, 2015). The aim of the IAF lies in the accomplishment of established objectives and goals for operations or programmes (Gupta, 1999).

Internal auditors' goal is to ensure that work is not duplicated, has a minimal impact on business and is performed effectively and efficiently. Internal auditors also help enhance corporate value through providing value-added advice and assurance, analyzing and evaluating the internal controls or risk management system in operating divisions throughout the organization, and managing risk (Mihret and Woldeyohannis, 2008). Internal audit is undergoing a paradigm shift from traditional/compliance audit to value-added internal audit (Mihret and Woldeyohannis, 2008).

Internal audit's concern with economy, efficiency and effectiveness indicates that internal auditing assists management by making visible potential disturbances that could hinder the ability of organizations to achieve their goals (Mihret and Khan, 2013). They further underline that the consulting dimension of internal audit helps enhance economy, efficiency and effectiveness of operations. Internal auditing assists enterprises to manage the risk of failing to meet profit targets and remain profitable despite external risks that may be posed by brisk competitive markets. Internal auditors provide recommendations for improvements in the systems of the value creation activities to the management and operators of the activities through internal audit's focus on the economy, efficiency and effectiveness of operations.

A study by Dominic and Martinov-Bennie (2011) which examined the IAF in Australia, using selected organizations asserted from Chief Audit Executives that there has been a transition in the role of the IAF as just an assurance process to adding value in terms of improvements to business systems and efficiencies. This implies that the internal audit team will help them achieve their goals and objectives. The internal audit team is able to deliver value to that organization by recommending solutions to improve control efficiency in the organization, maximizing the synergies with their internal and external partners, and working closely with external auditors to avoid duplication.

Internal audit teams aim to ensure economic acquisition, efficient use and adequate protection of resources; achievement of programs, plans and objectives and implementation of recommendations for improvements and procedures to prevent waste, fraud and inappropriate behaviour.

The activities of internal audit involve analysing operations and confirming information (Chartered Institute of Internal Auditors, 2012). Internal auditors are tasked with working closely with line managers to review operations then report their findings as achieving objectives and managing valuable organizational resources requires systems, processes and people.

Kaplan (2001) addressed issues of accountability and performance measurement in non-profit organizations in the USA. The Kaplan piece addresses itself to the application of the Balanced Score Card using a multi-dimensional approach to measure the performance of non-profit organizations. It brings more clarity to the quest for measuring the performance of non-profit organizations.

As a way of adding value to an NPO, one of the roles and value of internal audit lies in assisting management in the improvement of internal controls. This arises because an internal auditor's knowledge of the management of risk enables them to act as consultant and catalyst for improvement in an organization's practices (Chartered Institute of Internal Auditors, 2012).

The study investigated whether review of the economy, efficiency and effectiveness of operations has an impact on the performance of NPOs.

2.4 Compliance review and performance of NPOs

The Internal audit profession has its own skills, qualifications, technical standards and codes of practice (Chartered Institute of Internal Auditors, 2012). Internal auditors need to possess a high level of technical internal auditing skills and knowledge. Internal auditors must also be effective communicators, good project managers, analytically strong and they must be good negotiators. Millichamp and Taylor (2008) argue that internal audit is tasked with review of an organization's compliance with applicable laws and regulations.

NPOs operating in Uganda are tasked to adhere with the applicable laws including the Non-Governmental Organizations Registration (Amendment) Act (2006) of Uganda and following the regulatory framework that is the NGO Policy (2010) of Uganda. Also, as the IAF is existent in some NPOs in Uganda, NPOs are also expected to adhere to the technical standards and codes of practice as put forward by the Chartered Institute of Internal Auditors.

2.4.1 National and International Standards of Internal Auditing

Baylor College of Medicine Children's Foundation Uganda is an NPO that is operational in Uganda. This calls for it to adhere to the laws set forth as stipulated by the Constitution of the Republic of Uganda. The National Audit Act 2008 is one of the laws in the Constitution of the Republic of Uganda. The National Audit Act 2008 is that that provides for the Office of the Auditor General to provide for the auditing of accounts of central Government, local Government councils, administrative units; public organizations, private organizations and bodies, among others. The Government of Uganda is among the donors of NPOs, and of Baylor College of Medicine Children's Foundation Uganda.

The Constitution of the Republic of Uganda establishes the office of Auditor General (Article 163). Article 163(3) reads as follows:

- a) Audit and report on the public accounts of Uganda and of all public offices, including the courts, the central and local government administrations, universities and public institutions of like nature and any public corporation or other bodies or organizations established by an Act of Parliament;
- b) Conduct financial and value for money audits in respect of any project involving public funds;

- c) In consultation with the Public Service Commission, employ and discipline his or her own staffs and;
- d) Have power to engage private auditors to assist him or her in the performance of his or her functions.

It was noted that the Constitution does not even mention the audit function with respect to not-for-profit organizations. However, there is the National Audit Act 2008 (Act No. 7 of 2008) on Uganda's statute book. This Act elaborates on the appointment of the Auditor General and the functions of that office.

Section 18 of the National Audit Act 2008 gives the Auditor General power to inquire into, examine, investigate and report, as he or she considers necessary, on the expenditure of public monies disbursed, advanced or guaranteed to a private organization or body in which Government has no controlling interest.

To the extent that Baylor College of Medicine Children's Foundation Uganda receives funding from the Government of Uganda, their accounts are, in principle, subject to audit by the office of Auditor General.

2.4.2 Non-Governmental Organisations Registration (Amendment) Act (2006)

Another aspect of National Standards in Uganda is that an entity is required to register with and be licensed by the Non-Governmental Organizations Registration Board before it can engage in not-for-profit operations in the country. This aspect is provided for in the Non-Governmental Organizations Registration Act (Chapter 113/2000 Laws of Uganda). This Act was amended by the Non-Governmental Organizations Registration (Amendment) Act 2006 (Act No. 25 of 2006).

Necessary regulations have been made under this law to cover some aspects of the operations of Non-Governmental Organizations Registration Regulations, 2009 (Statutory Instrument No. 19 of 2009). Recently Government tabled the Non-Governmental Organizations Bill, 2015 (Bill No. 10 of 2015) intended to effect further amendments in the legal regime governing NGOs in Uganda. It was surprising that that none of these legal instruments addressed themselves to issues of internal audit within the NGOs.

2.4.3 International Standards for the Professional Practice of Internal Auditing

International auditing standards are material and relevant here. It is true that internal auditing is carried out in diverse legal and cultural environments – within organizations that vary in purpose, size, complexity and structures. While local peculiarities may affect the practice of internal audit in each environment, conforming to the IIA’s International Standards for the Professional Practice of Internal Auditing is a fundamental requirement for the proper execution of the responsibilities of internal auditors.

The Chartered Institute of Internal Auditors is the internal audit professional body (Chartered Institute of Internal Auditors, 2012). This professional body oversees and supervises the skills, qualifications and technical standards that are required in and of the internal audit profession. The Chartered Institute of Internal Auditors generated the Institute of Internal Auditors (IIA) Standards that are the profession’s quality benchmark.

The International Standards have been adopted practically universally all over the world. These Standards are designed to set forth and explain the best practices and principles that underpin the practice of internal auditing.

The Combined Code on Corporate Governance (2003) called on audit committees to ensure that internal audit units are equipped to perform in accordance with IIA Standards. Another purpose of the Standards is to delineate basic principles that represent the practice of internal audit, provide a framework for performing and promoting a broad range of value added internal auditing, to establish the basis for the evaluation of internal audit performance, and to foster improved processes and operations within an organization.

2.4.4 Professional proficiency

In accordance with Standard 1210, internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

2.4.5 Code of Ethics

The Code of Ethics lays down the principles of Integrity, Objectivity, Confidentiality and Competency, which internal auditors must abide by in order to promote and uphold the ethical culture within the profession (Chartered Institute of Internal Auditors, 2012).

The gap is that these standards and codes of practice have been put forward by the Chartered Institute of Internal Auditors but Uganda as a country is not legally bound to comply with the standards and codes of practice hence necessitating the researcher to carry out this study.

However, there is no a separate code of conduct applicable to internal audit in Uganda. The Standards for the Professional Practice of Internal Audit provided by IIA are just informal guidance but not mandatory standards for the internal audit function in Uganda. These attributes of internal audit environment in Uganda mean that internal audit practices may vary significantly

among Ugandan firms and, therefore, increase the importance of exploring the nature and role of internal audit function in Ugandan firms.

2.5 CONCLUSION

. The relevance and importance of the literature to this study have been variously indicated. Grant Thornton LLP's Chief Audit Executive (CAE) Survey of more than 400 CAEs from U.S. organizations including NPOs found that programme personnel in NPOs often view the IAF as administrative overhead which is unrelated to the mission of the organization (Grant Thornton, 2014). This makes it challenging for NPO CAEs to review programme areas. Budget constraints were found to be a major factor in IAFs slow pace of technology adoption with 83% of the respondents indicating that they are not using an internal audit-specific tool, which would offer a real opportunity for internal audit to work more efficiently.

A wide range of literature was reviewed with a view of clarifying the relationship between the internal audit function and the performance of NPOs in Uganda. The actual field of internal audit and performance indicators in NPOs in Uganda has not, to date, enjoyed significant focus by researchers. An example is a book on NGOs compiled by Butamanya (2012) titled "Non-Governmental Organizations; Quest for Development" which covers various areas on NGOs but makes no mention of the IAF in NPOs.

My sincere hope is that the completion of this study will throw significant light on the relationship between internal audit and the performance of NPOs in Uganda, thus adding a vital component to the literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter points out the overall research process and presents the methodology that was used in the course of the study. The chapter includes research methods used in obtaining the required information and methods of data analysis. It also covers the research design, area of the study and study population, sampling size, quality control methods, data management and processing, data analysis and presentation, the criteria for the interpretation of the results, ethical considerations and limitations of the study.

3.1 Research design

The research designed that was used was case study design. Case study design was chosen because it provides a detailed, intensive and contextual analysis of a limited number of events, units or conditions, and their relationships (Chakraborty, 2009). Case study design also relies on multiple sources of evidence; and can be used to make generalizations to a theoretical disposition (Blumberg et al, 2014). This study applied both qualitative and quantitative approaches.

3.2 Area of the Study

The research was conducted at Baylor College of Medicine Children's Foundation Uganda's head office at Mulago and offices that are located at Soliz House, Plot 23, Lumumba Avenue in Nakasero Kampala, Uganda. These offices at Soliz House house the departments of internal audit, strategic planning and monitoring and evaluation, laboratory management, capacity building and training, and operations.

3.3 Study Population

A population is a complete collection (or universe) of all the elements (units) that are of interest in a particular investigation (Ochieng, 2009). The research was carried out on staff of internal audit, finance, strategic planning and monitoring and evaluation, medical, health systems strengthening, research, capacity building and training, IT, nutrition, laboratory, administration, HR and operations departments of Baylor College of Medicine Children's Foundation Uganda. These staff are key beneficiaries of the IAF and were vital for the study. Out of all the employees of Baylor College of Medicine Children's Foundation Uganda, a population of 40 employees was considered from which a sample size was drawn. The decision of this population size for the study was supported by some key similar studies with a similar range of population size such as that of Van Peurse (2005) whose study aimed to examine the New Zealand internal auditor role and to conceptualise on the auditor's influence over that role.

3.4 Sampling Procedures

3.4.1 Sample size

Sample size refers to a set of cases a researcher selects from a large pool and generalizes to the population (Neuman, 2011). The researcher obtained a sample size of 36 respondents using the Krejcie and Morgan (1970) table (See Appendix V). These respondents provided data for the self-administered questionnaires and semi-structured interviews. Emphasis was only on those employees stationed at the Head Office, Mulago and Soliz House, Lumumba Avenue. The researcher obtained an in-depth analysis and account of the research problem from the data collection instruments.

3.5 Data collection Methods and Instruments

Ochieng (2009) refers to data collection methods as the means of gathering data that are common to all sciences. Case study method was used to collect data for the study. Case study method was used because it involves using multiple sources and techniques in the data gathering process (Chakraborty, 2009). Primary and secondary data sources were employed in the study. Primary data was collected using interviews and questionnaires. Secondary data was obtained from review of the organization records and reports, and academic journals.

3.5.1 Data collection Instruments

Data collection instruments refer to the different tools or approaches of acquiring data (Blumberg et al, 2014). The study used two types of empirical data; that is, primary and secondary data, to answer the research questions and to achieve the objectives of the study. Primary data is that which is original in character, and secondary data is that which have already gone through the statistical processes (Kothari and Garg, 2014). Primary and secondary data helped to explain the impact of internal audit function on the performance of the not-for-profit organization (Baylor College of Medicine Children's Foundation Uganda). Primary data was collected using interviews and questionnaires. Secondary data was obtained by reviewing the organization's records especially the annual reports and internal audit reports.

i. Key Informant Interviews

Key informant interviews are qualitative in-depth interviews with people who know what is going on in the organization (UCLA Center for Health Policy Research, 2001). Face-to-face interviews were conducted as a technique of key informant interviews using an interview guide (which included both open and closed questions). Key informants included the Head of internal

audit and top-level internal auditors of Baylor College of Medicine Children's Foundation Uganda, who are directly involved in internal audit work. The researcher specifically carried out semi-structured interviews which usually commence with rather specific questions but allow the interviewee to follow his or her own thoughts as the interview progresses (Blumberg et al, 2014). Under semi-structured interviews, the researcher formulated open questions before the interview that were posed to the respondents. Semi-structured interviews are said to allow people to answer more on their own terms than standardized interviews, but still provide a greater structure for comparability over other interview types (May, 2011).

The purpose of this selection was to capture a cross section of information from key informative staff in the internal audit department who are involved in the IAF exercise in the organization. They availed information on processes involved in internal audit, the contribution and the challenges encountered by the IAF. Key informant interviews provided firsthand information and generally gave the researcher a detailed orientation with the respondents. It reduced foreign influences on responses, allowed for collection of seemingly sensitive information, and enabled probing and clarification where information seemed unsatisfactory or inconsistent.

ii. Questionnaires

A questionnaire consists of a number of questions printed in a definite order on a form or set of forms (Kothari and Garg, 2014). (Blumberg et al, 2014; Kothari and Garg, 2014) argue that questionnaires give respondents adequate time to give well thought out answers, are free from the bias of the interviewer as answers are in respondents' own words and are also perceived to be more anonymous compared to other data collection instruments. Therefore, the researcher used self-administered questionnaires to collect data on internal audit function and performance of

NPOs specifically on risk evaluation, review of the economy, efficiency and effectiveness of operations, and compliance review. The researcher distributed some questionnaires among staff on the internal audit team, excluding the head of internal audit and top-level employees of the internal audit team, staff of finance, administration, strategic planning and monitoring and evaluation, capacity building and training, nutrition, research, laboratory, pharmacy, IT, HR, health systems strengthening, medical and operations departments of Baylor College of Medicine Children's Foundation Uganda.

Questionnaires helped the researcher to gather information about expectations from a number of selected respondents within a short time. However, the use of questionnaires was associated with some shortcomings whereby the respondents did not answer all the questions due to time problems.

iii. Review of Records

The organization's mission and vision were reviewed by use of the available organization's documents and reports particularly, the annual reports. The researcher also consulted and examined other documents like publications of international bodies, articles from academic journals, magazines, reports prepared by research scholars and universities (See Appendix III). This helped to clarify and verify the information obtained from the interviews and questionnaires, and also during data analysis.

3.6 Quality Control Methods

Data quality was ensured through reliability and validity, as explained in 3.6.1 and 3.6.2 below.

3.6.1 Reliability

Reliability refers to the stability, accuracy, and precision of measurement (Chakraborty, 2009). A measure is reliable to the degree that it supplies consistent results (Blumberg et al, 2014). To improve reliability, the researcher broadened the sample of measurement questions used by adding similar questions to the data collection instruments (Blumberg et al, 2014).

3.6.2 Validity

Validity is a characteristic of measurement concerned that a test measures what the researcher actually wishes to measure and differences found with a measurement tool reflect true differences among respondents drawn from a population (Blumberg et al, 2014; Siegel, 2004).

To ensure validity, the study utilized two validity techniques which included content validity and expert input. The content validity of a measuring instrument is the extent to which the instrument provides adequate coverage of the investigative questions guiding the study (Blumberg et al, 2014). To evaluate the content validity of an instrument, the researcher narrowed down on the elements which constituted adequate coverage and how well the constituent elements of the instruments were arranged for the purpose of accurately eliciting the data required for the study.

The researcher ensured that the data collection instruments adequately covered the topics that were defined as the relevant dimensions in order for the instrument to have good content validity. The researcher made certain of this by posing questions in the interview guide and questionnaires which covered the objectives that were set in the study. Expert input came from professionals of IAF and supervisors who equipped the researcher with a more grounded understanding of the topic under study.

3.7 Data Management and Processing

Data management is the process of controlling the information generated during the research process (Penn State Universities Library, 2015). Managing the data helped the researcher organize research files and data for easier access and analysis.

The researcher used qualitative and quantitative techniques in analyzing data procured to derive meaningful information and make it more valid to management in decision making process. Thematic analysis was used in analyzing and coding qualitative data. Quantitative data was analyzed using the Statistical Package for Social Sciences (SPSS), version 16.0 software to summarize it into meaningful patterns for analysis. This involved the use of frequency distribution tables to present the data into meaningful information. This helped to give precision to the research, add objectivity, facilitate identification of patterns and relationships, and enable accurate policy response development on internal audit function.

3.8 Data Analysis and Presentation

Data analysis means a search for patterns in data – recurrent behaviours, objects, phases or ideas (Neuman, 2011). Neuman, (2011) further explains that data analysis involves examining, sorting, categorizing, evaluating, comparing, synthesizing, and contemplating the coded data as well as reviewing the raw and recorded data. Both quantitative and qualitative data were collected and analyzed.

3.8.1 Quantitative data

Quantitative data obtained from questionnaires were analyzed in the computer using Statistical Package for Social Sciences (SPSS), version 20. Quantitative data was presented in form of tables.

3.8.2 Qualitative data

Qualitative data were analyzed through qualitative content analysis (Flick, 2010). The procedure of qualitative content analysis included first defining the material by selecting those parts from the data collection instruments which are relevant for answering the research questions. The second step was analyzing the situation of data collection while the third step involved formally characterizing the material. Next, the researcher defined the direction of the analysis for the selected text, and the research question was further differentiated on the basis of theories. Analytic units were then defined. Finally, the researcher conducted actual analyses before final results were interpreted with respect to the research question and questions of validity were posed and answered (Flick, 2010). Qualitative data was presented in form of themes, general ideas and concepts.

3.9 Ethical Considerations

The ethical issues in research are the concerns, dilemmas and conflicts that arise over the proper way to conduct research (Neuman, 2011). As this study required the participation of human respondents, specifically human resource professionals and non professionals, certain ethical issues were addressed. The consideration of these ethical issues was necessary for the purpose of ensuring the privacy as well as the safety of the participants. Ethical issues required the researcher to balance two values: the pursuit of scientific knowledge and the rights of those being studied or of others in society. The researcher considered the following ethical issues while conducting the study.

a) Researcher-Research relationship

- **Scientific misconduct**

The researcher avoided falsification and distortion of the data or the methods of data collection or plagiarism of the work of others. The researcher utilized only the data obtained in the data collection process and did not make any additions.

b) Researcher-Respondent relationship

The researcher obtained an introductory letter to carry out research addressed to Baylor College of Medicine Children's Foundation Uganda. This letter was obtained from the faculty of the researcher's university; Faculty of Business Administration and Management of Uganda Martyrs University once the researcher was cleared by research supervisors to proceed to the data collection phase.

- **Privacy, Anonymity, Consent and Confidentiality**

The researcher protected the information on research participants from public disclosure. The researcher made efforts to violate privacy only to the minimum degree necessary and only for legitimate research purposes. Confidentiality is the ethical protection for those who are studied by holding research data in confidence and secret from the public. The right to confidentiality of the respondents was respected. The confidentiality of the participants was also ensured by not disclosing their names or detailed information in the study. Only relevant details that helped in answering the research questions were included. In order to secure the consent of the selected participants, the researcher relayed all important details of the study, including its aim and purpose, by explaining these important details, the respondents were able to understand the importance of their role in the completion of the research.

3.10 Limitations of the study

The limitation of studying a single entity as a case study was that the researcher was not able to carry out a comparative study with other similar organizations to draw conclusions. The researcher overcame this by carrying out rigorous data collection and analysis so as to obtain dependable information from which to draw conclusions. Case study design is scientifically sound and leads to concrete and verifiable results but has a limitation that because it is focused on one entity, its findings cannot be easily generalized into principles of universal application. To minimize this weakness, the researcher focused on producing generalizable conclusions based on the empirical data.

3.11 Conclusion

The chapter discussed the methodology and the design that were used to collect the data used in the study. The instruments used, the way of presentation analysis and discussions, form the basis on which chapter four was grounded. Even though there were limitations, the methods of data collection, analysis, and interpretation, generally resulted in reliable conclusions. Therefore, in the next chapter, the findings from the field, and records based on objectives and questions were presented and analyzed.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents the study findings, their analysis and interpretation. The study set out to investigate the relationship between the internal audit function and performance of NPOs in Uganda, taking Baylor College of Medicine Children's Foundation Uganda as a case study. Baylor College of Medicine Children's Foundation Uganda is an NPO whose mission is to provide high-quality family-centered paediatric and adolescent health care, education and clinical research worldwide. The specific objectives of the study were:

- a) To assess the relationship between risk evaluation and performance of Baylor College of Medicine Children's Foundation Uganda.
- b) To find out the relationship between review of the economy, efficiency and effectiveness of operations, and performance of Baylor College of Medicine Children's Foundation Uganda.
- c) To explore the relationship between compliance review and performance of Baylor College of Medicine Children's Foundation Uganda.

The study focused on some key stakeholders who work in the departments of internal audit, finance, strategic planning and monitoring and evaluation, medical, health systems strengthening, research, capacity building, IT, nutrition, laboratory, administration, HR and operations. The research adopted case study design. There were 36 respondents for the study. The analysis and interpretations of the findings were organized around the research objectives and research questions while utilizing descriptive statistics, themes, general ideas and concepts. This chapter was presented in three sections: background information of the respondents, findings, analysis and interpretation of the results.

4.1 Bio Data of the respondents

This section presents bio data of the respondents specifically on gender, age group, duration of employment in the organization, academic qualifications and departments in which respondents work.

4.1.1 Gender

This item considered the gender of the respondents. Data that was obtained is presented in Table 4.1.

Table 4.1: Gender of the respondents

Gender	Frequency	Percent (%)
Male	21	58.3
Female	15	41.7
Total	36	100.0

Source: Primary data

Data presented in Table 4.1 shows that majority of the respondents were male as compared to female with 58.3% being male respondents and 41.7% female respondents. However the results indicate that there's a slight difference of six (16.6%) between male and female staff.

This finding implies that for the study, there was a fair balance on perspectives from both males and females thereby providing sufficient information for the study.

4.1.2 Age of the respondents

The researcher considered the age of the respondents and data is presented in Table 4.2.

Table 4.2: Age group of the respondents

Age group	Frequency	Percent (%)
Below 30 years	9	25.0
30-40	20	55.6

41-50	7	19.4
Total	36	100.0

Source: Primary data

Table 4.2 above indicates that the largest number of respondents was between 30-40 years which is 55.6%, followed by respondents who were below 30 years which was 25.0% and respondents between 41-50 years (19.4%). The researcher did not find any staff below 18 years. This highlights that respondents were mature enough to provide responses for the questionnaires. The individuals between the ages of 30-40 years are employees who have acquired some work experience and are sufficiently knowledgeable about the organization's operations, its different functions and performance. The implication here is that the respondents are assumed to be mature enough to work efficiently and effectively, keeping in mind the risks that surround the organization's operations as well as adhering to the applicable laws and regulations.

4.1.3 Duration of employment

The researcher considered how long the respondents had been employed at Baylor College of Medicine Children's Foundation Uganda. Data was presented in Table 4.3.

Table 4.3: Duration of employment of respondents

Duration of employment	Frequency	Percent
Less than 1 year	8	22.22
1-3 years	9	25.0
4-6 years	15	41.67
7-9 years	4	11.11
Total	36	100

Source: Primary data

Table 4.3 shows that majority of the respondents have been employed with Baylor College of Medicine Children's Foundation Uganda for 4-6 years (41.67%) followed by those employed for a duration of between 1-3 years (25.0%). Only 22.2% of the respondents had been employed for

less than 1 year, while 11.11% of the respondents had been employed for a period between 7 to 9 years. The implication here is that majority of the respondents have acquired work experience with Baylor-Uganda, are fairly well versed with the organization’s operations, and provided valid information regarding its performance. This work experience implies that these respondents work efficiently and effectively so as to ensure compliance with applicable laws and regulations, and mindfulness of the risks that surround the operations of Baylor College of Medicine Children’s Foundation Uganda.

4.1.4 Academic qualifications of the respondents

The study also considered the academic qualifications of the respondents. Data was collected and presented in Table 4.4 below;

Table 4.4: Academic qualifications of respondents

Highest Level of Education	Frequency	Percent
Postgraduate	10	27.78
Bachelor's degree	26	72.22
Total	36	100

Source: Primary data

Table 4.4 illustrates that majority of the respondents were Bachelor’s degree holders (72.22%), followed by those with Postgraduate qualifications (27.78%). None of the respondents had their highest academic qualifications as a Diploma. Some respondents were found with postgraduate qualifications such as MBA, ACCA, MPH Epidemiology, Masters in Public Health, MA Social Sector Planning and Management, Masters in Procurement and Supply Chain Management, Masters of Medicine and Msc in Health, Community and Development Social Psychology. This implies that respondents had the necessary academic exposure which enabled them to intelligently respond to the research questions. A Bachelors degree as the highest level of education, gives the respondents the tools with which they can work more efficiently and

effectively, and also be more risk cautious and compliant with the laws and regulations governing the operations of Baylor-Uganda.

4.1.5 Departments of respondents

Table 4.5: Departments of respondents

Department	Frequency	Percent
Internal Audit	4	11.1
Finance	9	25
Strategic planning and M & E	3	8.3
Medical	4	11.1
Health Systems Strengthening	4	11.1
Research	3	8.3
Capacity building and training	1	2.8
IT	1	2.8
Nutrition	1	2.8
Laboratory	1	2.8
Administration	3	8.3
HR	1	2.8
Operations	1	2.8
Total	36	100

Source: Primary data

Table 4.5 shows that the finance department had the majority of respondents with 25% followed by internal audit, medical, health systems strengthening and research with 11.1%. Strategic planning and M and E, research and administration had 8.3% of the respondents. The minority of the respondents were from the departments of capacity building and training, IT, nutrition, laboratory, HR and operations with 2.8%. Inclusion of staff from departments other than audit was critical as these respondents work in departments that are beneficiaries of the IAF and did provide a proper evaluation of the IAF in terms of risk evaluation, review of the economy,

efficiency and effectiveness of operations, and compliance review, with regards performance of Baylor College of Medicine Children’s Foundation review.

4.2 Descriptive Statistics on risk evaluation, review of the economy, efficiency and effectiveness of operations and compliance review:

The table 4.6 below presents descriptives which together with the questionnaire in the appendix sought to establish the perceptions of respondents regarding variables under study. These were measured using; mean, min – max and standard deviation of the responses depending on how the questions for each variable were anchored.

Table 4.6: Descriptive Statistics

Variance	Min	Max	Mean	Std. Deviation
Risk Evaluation	2	5	3.86	0.81
Risk review	2.4	5	4.03	0.776
Internal controls	3	5	4.25	0.65
Information and communication	2.25	5	4.255	0.79
Review of the economy, efficiency and effectiveness of operations	2	5	3.71	0.8
Efficiency	2.25	5	3.59	0.79
Effectiveness of operations	2.67	5	3.87	0.63
Compliance Review	2	5	3.83	0.81
Skills and Qualifications	2.5	5	4.225	0.7
Technical standards	3	5	4.14	0.845
Codes of practice	3	5	4.03	0.69
Performance	2.41	5	3.98	0.66
Market share	2.37	5	3.82	0.72
Revenue growth	1.33	5	3.35	0.95
Fundraising efficiency	1.83	5	3.94	0.86

4.2.1: Risk evaluation

This measure sought to ascertain the impact of risk evaluation on performance in terms of risk review, internal controls, and information and communication. Risk evaluation was measured using a 5-point anchor ranging from strongly disagree (highest negative) to strongly agree (highest positive). Respondents revealed that the IAF carries out its risk evaluation role through risk review (mean = 4.03), internal controls (mean = 4.25) and information and communication (mean = 4.25). The risk evaluation of the IAF was found to contribute to the performance of the organization.

4.2.2: Review of the economy, efficiency and effectiveness of operations

A 5-point Anchor ranging from strongly agree to strongly disagree was used in the measure of review of the economy, efficiency and effectiveness of operations at its components. Review of the economy, efficiency and effectiveness of operations was measured in terms of efficiency and effectiveness of operations. It was found that the IAF ensures efficiency with a mean of 3.59 and effectiveness of operations with a mean value of 3.87.

4.2.3: Compliance review

Compliance review which had skills and qualifications, technical standards and codes of practice as its components was measured using a 5-point anchor ranging from strongly disagree (highest negative) to strongly agree (highest positive).

Respondents agreed that the internal auditors have the required skills and qualifications to perform their work (mean = 4.225). Respondents further revealed that the IAF adheres to technical standards (mean = 4.14) and codes of practice (mean = 4.03), set forth.

4.2.4: Performance

A 5-point anchor ranging from strongly disagree to strongly agree was used in the measure of performance. Revenue growth was not considered sufficient for the NPO (mean = 3.35) as a respondent expressed uncertainty regarding this construct. This indicator could be attributed to budget constraints of the IAF of Baylor-Uganda which are a hindrance to their work in adding significant value to the organization. The findings revealed that Baylor-Uganda is performing in terms of market share (mean = 3.82) and fundraising efficiency (mean = 3.94). On a whole, this reveals that respondents were unsure of the performance of Baylor-Uganda.

4.3 Pearson's Correlation

Correlation analysis was used to analyze the data because it is a technique that evaluates the degree of relationship between two variables. The researcher particularly used Pearson's correlation (Kothari and Garg, 2014).

Table 4.7: Correlation matrix between risk evaluation and performance

		Risk evaluation	Performance
Risk evaluation	Pearson Correlation	1	0.4216**
	Sig. (2-tailed)	.	0.001
	N	36	36
Performance	Pearson Correlation	0.4216**	1
	Sig. (2-tailed)	0.001	.
	N	36	36

** Correlation is significant at the 0.01 level (2-tailed)

Source: Primary Data

Table 4.7 revealed that there was a positive correlation between risk evaluation and performance of NPOs. The test statistics on risk evaluation and performance showed that the correlation was r

= +0.4216**, p <0.001. This value being positive means that there was a significant relationship between risk evaluation and performance at Baylor College of Medicine Children’s Foundation Uganda. This implies that the greater the risk evaluation role, the better the performance of the NPO. This is explained by the fact that risk evaluation mechanisms are put in place to enable an NPO achieve its objectives as set in its mission statement.

Correlation between review of the economy, efficiency and effectiveness of operations and performance

Table 4.8: Correlation matrix between review of the economy, efficiency and effectiveness of operations and performance

		Review of the economy, efficiency and effectiveness of operations	Performance
Review of the economy, efficiency and effectiveness of operations	Pearson Correlation	1	0.56**
	Sig. (2-tailed)	.	0.001
	N	36	36
Performance	Pearson Correlation	0.56**	1
	Sig. (2-tailed)	0.001	.
	N	36	36

** Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

It was observed in Table 4.8 that review of the economy, efficiency and effectiveness of operations has a statistically significant effect upon the performance, since a positive relationship was observed between review of the economy, efficiency and effectiveness of operations and performance of Baylor College of Medicine Children’s Foundation Uganda (r = +0.56**, p

<0.001). This implies that the greater the review of the economy, efficiency and effectiveness of operations, the better the consequent performance.

Correlation between compliance review and performance

Table 4.9: Correlation matrix between Compliance review and Performance

		Compliance Review	Performance
Compliance Review	Pearson correlation	1	0.3034**
	Sig. (2-tailed)	.	0.001
	N	36	36
Performance	Pearson correlation	0.3034**	1
	Sig. (2-tailed)	0.001	.
	N	36	36

** Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

Table 4.9 illustrates that compliance review and performance were positively and significantly related ($r = +0.3034^{**}$, $p < 0.001$). The researcher found that with greater levels of compliance, we expect improved performance of Baylor College of Medicine Children’s Foundation Uganda.

4.4 Regression Analysis

Regression analysis was used to determine the extent to which the predictors which are risk evaluation, review of the economy, efficiency and effectiveness of operations, and compliance review could explain performance of Baylor College of Medicine Children’s Foundation Uganda.

Table 4.10: Multiple Regression Analysis

The study sought to measure the extent to which risk evaluation, review of the economy, efficiency and effectiveness of operations, and compliance review predicted the variance in

performance at Baylor College of Medicine Children’s Foundation Uganda as tabulated in the tables below.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.602 ^a	.363	.303	.346	2.000

a. Predictors: (Constant), Compliance review, Risk evaluation, Review of the economy, efficiency and effectiveness of operations

b. Dependent Variable: Performance

The R² value of 0.363 implies that 36.3% of the variability in performance is accounted for by risk evaluation, review of the economy, efficiency and effectiveness of operations, and compliance review. However, the adjusted R² value which increases only if the added predictor (explanatory value) contributes to explaining the variance in response to performance is 0.303. This implies that 30.3% is an accurate representation of the percentage of variance accounted for. From the above table, we see that the Standard error of the estimate, which is measure of the variability of performance along the prediction line is 0.346 (34.6%). This value is quite small, which implies that the predicted values and the observed values are close to each other. The Durbin-Watson value which examines the assumption of independence is 2.000. This means that the residuals are uncorrelated and hence independent of each other.

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.184	3	.728	6.072	.002 ^a
	Residual	3.836	32	.120		
	Total	6.020	35			

a. Predictors: (Constant), Compliance review, Risk evaluation, Review of the economy, efficiency and effectiveness of operations

b. Dependent Variable: Performance

ANOVA is used to test the overall validity of the model. ANOVA, which is the F-test, is testing for the statistical significance of the multiple regression model at each step. The F-test value obtained in the table is 6.072 and the significance F is 0.002. Since the significance F which is the *p*-value of the test is much smaller than 0.05, we conclude that at least one explanatory variable (predictor) has a significant linear relationship with the dependent variable and the fitted linear model is valid.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.543	0.577		4.408	0
	Risk Evaluation	0.428	0.163	0.475	2.624	0.013
	Review of the economy, efficiency and effectiveness of operations	0.397	0.172	0.538	2.303	0.028
	Compliance review	-0.454	0.231	-0.471	-1.965	0.058

95% Confidence Interval for B		Correlations			Collinearity Statistics	
Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1.368	3.719					
0.096	0.76	0.501	0.421	0.37	0.607	1.647
0.046	0.748	0.442	0.377	0.325	0.364	2.745
-0.924	0.017	0.24	-0.328	-0.277	0.346	2.886

a. Dependent Variable: Performance

Risk evaluation has an unstandardized beta (B) weight of 0.428, review of the economy, efficiency and effectiveness of operations of 0.397, and compliance review of -0.454. The standard error associated with the Beta weights respectively for risk evaluation, review of the economy, efficiency and effectiveness of operations and compliance review is 0.163, 0.172 and 0.231. The standardized coefficients of beta weights for risk evaluation, review of the economy, efficiency and effectiveness of operations, and compliance review are 0.475, 0.538, and -0.471 respectively. These standardized coefficients beta weights help us to interpret the unique contribution of each variable as a predictor of the dependent variable. This implies that compared to the independent variables, compliance review (Beta = -0.471) has the smallest contribution towards performance while risk evaluation (Beta = 0.475) has the largest contribution towards performance. Part correlation of risk evaluation of 0.37 means that independent of the variance shared between risk evaluation, review of the economy, efficiency and effectiveness of operations, and compliance review. Part correlation of review of the economy, efficiency and effectiveness of operations of 0.325 implies that independent of the variance shared between review of the economy, efficiency and effectiveness of operations and the other two independent

variables, is the correlation between review of the economy, efficiency and effectiveness of operations and performance. Tolerance of risk evaluation of 0.607 implies that 60.7% of the variance in risk evaluation is unique. This implies that 60.7% of risk evaluation is not being predicted by the other two independent variables. A tolerance value of 0.364 of review of the economy, efficiency and effectiveness of operations means that 36.4% of the variance in review of the economy, efficiency and effectiveness of operations is unique. This implies that 36.4% of review of the economy, efficiency and effectiveness of operations is not being predicted by risk evaluation and compliance review. The tolerance value of 0.346 of compliance review means that 34.6% of the variance in compliance review is unique. This implies that 34.6% of compliance review is not being predicted by risk evaluation and review of the economy, efficiency and effectiveness of operations. Risk evaluation was found to be the most significant predictor of performance (Beta = 0.475, $P < 0.01$).

Variance Inflation Factor (VIF) Results

Large VIF values are an indicator of multicollinearity. Multicollinearity becomes a problem when the variables are highly correlated in a multiple regression analysis and it is difficult to identify the unique contribution of each independent variable in predicting the dependent variable because the highly correlated variables are predicting the same variance in the dependent variable. The VIF for the three predictors was less than 5 i.e. Risk Evaluation (VIF=1.647), Review of the economy, efficiency and effectiveness of operations (VIF=2.745) and Compliance Review (VIF=2.886), which indicates the inexistence of multicollinearity. This further indicates that the predictor variables were highly uncorrelated (independent) and not similar and thus, multi-collinearity was not a problem in this case.

Collinearity Diagnostics^a

Model	Dimension	Eigen value	Condition Index	Variance Proportions			
				(Constant)	Risk Evaluation	Review of the economy, efficiency and effectiveness of operations	Compliance Review
1	1	3.979	1	0	0	0	0
	2	0.012	18.405	0.39	0.02	0.35	0.01
	3	0.006	25.056	0.32	0.96	0.06	0.02
	4	0.003	36.57	0.29	0.02	0.59	0.97

a. Dependent Variable: Performance

From the above table, the eigen values of risk evaluation (0.012), review of the economy, efficiency and effectiveness of operations (0.006) and compliance review (0.003) are very close to zero and hence an indicator of multicollinearity.

4.4 Risk evaluation and performance of Baylor College of Medicine Children’s Foundation Uganda

The performance of Baylor College of Medicine Children’s Foundation Uganda lies in jeopardy if the internal audit function is not given the importance that it deserves, particularly in the area of risk evaluation. The study found that the internal audit function of Baylor College of Medicine Children's Foundation Uganda plays a central role in the risk evaluation process which is vital to the performance of the organization.

It was revealed that the major objective of the internal audit team is to provide an independent, objective and value-added assurance on three things, among which is risk management. The

interview with the Head of Internal Audit as regards the role and responsibility of that position yielded the following information;

“My role is to provide an independent, objective and value-added assurance on three things which include: risk management, internal control and corporate governance processes.”

Data obtained from the questionnaires also yielded the same finding. When respondents were asked about risk evaluation in the organization, several responses were given. 91.7% of the respondents agreed that the internal audit team identifies potential problem areas and relevant risk factors in the organization. From the interviews, the researcher found that the identification of potential problem areas and relevant risk factors in the organization was done by first ensuring that there is an audit plan.

The interview with the Head of Internal Audit brought up new developments regarding the role of the internal audit function towards the performance of the organization, as the Head was quoted saying;

“I ensure that there’s an audit plan which is risk-based.”

Interviews with the other internal auditors revealed that this risk-based audit plan is 360 degrees in nature in that it covers all key areas of the organization such as human resources, programmes and finance. The internal audit team divides these key areas into auditable units; which auditable units assist the organization in the achievement of its strategic plan. Each strategic objective in the strategic plan is linked to the mission of the organization and all projects are based on the strategic objectives set forth. The first strategic objective is linked to high quality family-centered pediatric and adolescent health care, the second objective to education while the third to clinical research worldwide. From the available auditable units from the risk universe, the IA

team considers the available resources base, including the human resources and financial resources to consider how the IAF can effectively carry out its auditing work. The researcher found that due to the number of IA staff and the available resources base, the IA department considers some available auditable units and leaves out the rest. The auditable units are subject to some nine risk factors whereby those that rank highest in terms of risk are usually given priority. It was found that in the organization's audit plan, there is time that is allocated for both planned and unplanned audits, and there is a tool that is used to consider the amount of time to spend on an audit. The internal audit team uses a tool called EMRAP, which is an enterprise risk management tool that assists in the audit process. EMRAP indicates components of the projects which contribute to its implementation such as fleet management, monitoring and evaluation, among others. EMRAP helps to assess the structure of the project. The findings indicate that the IAF compiles with the audit plan, and sends to senior management for approval. Once the audit plan is approved, it is sent to Board of Directors that passes it. The IAF prepares an audit planning memorandum which is supported by a schedule that lists the programme of the auditors including the auditable units and which one to embark on first. An audit notification is then sent to the audit clients in the organization. The internal auditors start the execution of their duties by first carrying out an introduction of themselves. The internal auditors choose to audit only the high risk areas that have been selected. After execution of the audit work has taken place, an exit meeting is created to release the results of the audit. The audit results contain the causes and solutions of the problems in the organization. A draft is sent to management for a response. When the audit report is issued, it is rated. The findings indicated that the IAF evaluates the adequacy of controls that are set by management. The IAF tests the implementation of controls

and ascertaining whether management is executing them as designed. To achieve this, the internal auditors first carry out a risk profile.

This is firstly through an audit planning memo and an audit notification that is sent to the audit clients of the organization during the process of auditing. Internal auditors then relay information to management through a draft and final report of the audit results (audit report). After execution of the audit work, an exit meeting is created to release the results of the audit. A draft is then sent to management for a response.

The audit report indicates the major problems facing the organization, their causes and solutions.

Respondents to the questionnaires also agreed that the internal audit team recommends ways of improving risk management in the organization. This is after audit has taken place that the recommendations to management are presented in an audit report. The researcher found that at Baylor College of Medicine Children's Foundation Uganda, several meetings are held by the internal audit department with various individuals of the organization.

It was also found that the internal audit team provides recommendations for improvements in the systems operations to management.

It was found that there is a risk management policy that is followed in the organization. Data obtained from questionnaires indicated that there is involvement of staff in utilization of the risk management policy, which is an initiative of the internal audit team.

The study found that the IAF also carries out an advisory role to management regarding the internal controls of the organization. Data obtained from the questionnaires disclosed that

majority of the respondents seconded that the internal audit team evaluates controls and advises managers at all levels. One of the internal auditors during the interviews mentioned that;

“The Internal audit team only evaluates adequacy of the controls that are in place. It’s all about design and adequacy.”

The researcher found that the IAF of Baylor-Uganda, among other things, advised management to increase its outreach sites. Due to this, Baylor-Uganda operates in form of districts. The organization has set up more sites in Eastern and Western Uganda. This has enabled the organization to experience an increase in market share. Gupta (1999) asserts that internal audit’s role is the evaluation of controls and quality of performance. Internal audit is tasked with evaluating controls and advising managers at all levels (Chartered Institute of Internal Auditors, 2012). With the Institute of Internal Auditors (2015), internal auditors consider wider issues for example an organization’s growth.

The researcher also found from the interviews that the internal audit team is tasked with testing the implementation of controls, and checking whether management is implementing these controls as designed.

The risk evaluation role of the internal audit function encompasses an information and communication task. The interviews indicated that the IAF of Baylor College of Medicine Children’s Foundation Uganda often passes on information to management and the rest of the organization. Information is relayed to employees of the organization through different ways. Data from interviews revealed that the internal audit team relays information to senior management through audit reports. Respondents to questionnaires agreed that these audit reports enhance information and communication in the organization. Findings from the study show that

the internal audit team holds records of meetings with various individuals across the organization.

It was pointed out that when audit reports are issued, strengths and weaknesses are identified. This improves on the donors' confidence in Baylor College of Medicine Children's Foundation Uganda, and hence, enabling the organization to secure donor funding. Information relayed through these reports usually highlights key areas that require urgent management attention. The IA team of the organization could focus on areas where resources could be put to better use and which areas or divisions would generate more revenue for the organization. For example, focusing on research publications could earn the company recognition and more grants. This increase in the annual revenue has enabled Baylor-Uganda hire more employees to serve their growing customers. Ebaid (2011) noted that through relaying of information to senior management by audit reports, the IAF points out exceptions and deficiencies and highlights areas of success to reward the efforts of the business units in improving their processes.

It was found that the IA team of the organization advised management to diversify its funding as originally Baylor-Uganda was relying on a specific donor that is Centers for Disease Control and Prevention (CDC). The IA team identified this risk and relayed it to management through audit reports. Currently, there is an increase in the donor funding of Baylor-Uganda because the organization has diversified its sources of funding. (Millichamp and Taylor, 2008) assert that the IA team executes its information and communication role to senior management through audit reports.

4.5 Review of the economy, efficiency and effectiveness of operations and performance of Baylor College of Medicine Children's Foundation Uganda

Review of the economy, efficiency and effectiveness of operations which is also referred to as “value for money” auditing is embedded in internal auditing as defined by the Institute of Internal Auditors (IIA). The researcher discovered that at Baylor College of Medicine Children's Foundation Uganda, its IAF resounds this.

The Head of Internal Audit of Baylor-Uganda particularly indicated among the roles of that position is to provide an independent, objective and value-added assurance on risk management, internal control and corporate governance processes. The majority of responses from the questionnaires indicated that the internal audit team does add value to the organization by ensuring that there is economic acquisition, efficient use and adequate protection of resources at Baylor College of Medicine Children's Foundation Uganda.

The researcher also found from the interviews that the Internal Audit department provides consultancy services and oversight direction to management. Responses from the questionnaires indicated that 50% of the respondents agreed that the internal audit team provides an assurance and monitoring role to the organization. The researcher found that that respondents to the questionnaires highlighted that the internal audit team adds value to the organization by providing recommendations for improvements in the systems of the organization. It was revealed that there has been an increase in the number of employees at Baylor-Uganda. This was particularly purposed to serve the growing clientele that is close to 5000 patients and also due to the growth of outreach sites across the country. Mihret and Khan (2013), mention that internal auditors provide recommendations for improvements in the systems of the value creation

activities to the management and operators of the activities through internal audit's focus on the economy, efficiency and effectiveness of operations.

Data obtained from the interviews highlight that respondents believe that the internal audit team works to ensure that there is minimal duplication of work in the organization. The data also shows that the internal audit team evaluates the effectiveness of control systems in the organization.

4.6 Compliance review and performance of Baylor College of Medicine Children's Foundation Uganda

The researcher found that the IAF of Baylor College of Medicine Children's Foundation Uganda plays a role in ensuring that the organization adheres to and complies with the different laws and regulations under which it is governed.

Data obtained from the questionnaires showed that all the respondents (100%) agreed that Baylor-Uganda is compliant with its laws and regulations as set by its governing body. It was revealed that the organization complies with Government policies in its daily operations. One such example is the National NGO Policy (2010). One of the objectives of Baylor-Uganda as stated in its mission statement is to focus on clinical research worldwide. This echoes with the majority of respondents who noted that there has been an increase in the number of research articles published by the NPO in peer-reviewed journals. According to Millichamp and Taylor (2008), the internal audit function is tasked with review of an organization's compliance with its set laws and regulations.

During one of the interviews, one of the internal auditors mentioned that the internal audit team works in accordance with the International Standards for the Professional Practice of Internal

Auditing. This is confirmed by data obtained from the questionnaires that majority of the respondents agreed that the internal audit department of Baylor College of Medicine Children's Foundation Uganda conforms to and works in accordance with the International Standards. The compliance of the internal audit team to the International Standards was found to extend to the Code of Ethics as put forward by the Institute of Internal Auditors.

It was noted from key informants that Baylor College of Medicine Children's Foundation Uganda has an audit charter which defines the role of IAF. The Head of Internal Audit informed the researcher that there are two forms of reporting that are attributes to that role. The head of Internal Audit administratively reports to the Executive Director, while functionally reports to the Board Audit Committee.

Data obtained from questionnaires revealed that the internal auditors possess the knowledge, skills and other competencies needed to perform their individual responsibilities. It was found that out of the 4 internal auditors, 3 of them had postgraduate qualifications. The researcher discovered that the Head of Internal Audit and the Deputy Head of Internal Audit department are members of professional bodies; Chartered Institute of Internal Auditors and ACCA, and also hold the respective qualifications.

The study revealed that the internal audit function is independent and objective in performing its work. 75% of the respondents also agreed that the internal auditors apply care and skill that is expected of a reasonably prudent and competent internal auditor.

4.7 CONCLUSION

It is clear that the internal audit function enhances the performance of Baylor College of Medicine Children's Foundation Uganda. The IAF covered risk evaluation, review of the

economy, efficiency and effectiveness of operations and compliance review. The organization's enhanced performance was gauged in terms of increase in market share, revenue growth and fundraising efficiency.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The objectives of the study as stated in chapter 1 were basically to ascertain the relationship between risk evaluation; review of the economy, efficiency and effectiveness of operations; compliance review, and performance of Baylor College of Medicine Children's Foundation Uganda.

This chapter presents a summary, conclusions and recommendations arising from the study.

5.1 Summary of Findings

5.1.1 To establish the relationship between risk evaluation and performance of Baylor College of Medicine Children's Foundation Uganda.

A mean of 3.86 and a standard deviation of 0.81 were found between risk evaluation and performance of Baylor-Uganda.

The study then found a Pearson's correlation coefficient $r = +0.4216^{**}$ between risk evaluation and performance. This means that there was a positive correlation between risk evaluation and performance.

The standardized coefficients beta weight for risk evaluation (0.475) implies that risk evaluation contributes 47.5% as a predictor of performance.

Baylor College of Medicine Children's Foundation Uganda has been performing in order to achieve market share, revenue growth and fundraising efficiency.

Baylor College of Medicine Children's Foundation Uganda's performance is reflected in a number of indicators. An example, for the year 2014, the organization expanded in terms of number of outreach sites across the country, number of employees, number of clientele, asset base and number of health professional training programmes. The organization has expanded its operations and now has outreach sites in Eastern and Western Uganda. The clientele at the organization has grown. There is an increasing in the training programmes that are taking place. Also, training of health professionals has increased.

5.1.2 To ascertain the relationship between review of the economy, efficiency and effectiveness of operations and performance of Baylor College of Medicine Children's Foundation Uganda.

A mean of 3.71 and a standard deviation of 0.80 were found to exist between review of the economy, efficiency and effectiveness of operations and performance of Baylor College of Medicine Children's Foundation Uganda.

The study also established a Pearson's correlation coefficient $r = +0.56^{**}$ between review of the economy, efficiency and effectiveness of operations and performance of Baylor College of Medicine Children's Foundation Uganda. This meant that there was a moderate positive correlation between review of the economy, efficiency and effectiveness of operations and performance of Baylor-Uganda.

The standardized coefficients beta weight for review of the economy, efficiency and effectiveness of operations (0.538) implies that review of the economy, efficiency and effectiveness of operations contributes 53.8% as a predictor of performance.

This clearly indicated that the IAF of Baylor College of Medicine Children's Foundation Uganda provides a value-added role in order to help the organization improve its operations.

It was pointed out that at Baylor-Uganda, the internal audit team ensures economic acquisition, efficient use and adequate protection of resources. The internal audit team also evaluates the effectiveness of control systems and works to ensure that there is minimal duplication of work. The IA team plays an assurance and monitoring role and also provides recommendations for improvements in the systems of the NPO.

5.1.3 To examine the relationship between compliance review and performance of Baylor College of Medicine Children's Foundation Uganda.

Between compliance review and performance of Baylor College of Medicine Children's Foundation Uganda, a mean of 3.83 and standard deviation of 0.81 were found to exist.

A Pearson's correlation coefficient of $r = +0.3034^{**}$ was established between compliance review and performance of Baylor College of Medicine Children's Foundation Uganda. This implied a low positive correlation between compliance review and performance.

Baylor College of Medicine Children's Foundation Uganda has made strides to adhere to laws and regulations that govern its operations. The internal audit function of the organization complies with some regulations as set forward by the Institute of Internal Auditor (IIA).

The IAF of the organization is compliant with the International Standards for the Professional Practice of Internal Auditing. Baylor-Uganda also has an audit charter that defines the IA department's role in the organization. Overall, Baylor-Uganda is also compliant with the Non-Governmental Organizations Registration (Amendment) Act (2006). This compliance has

enabled the organization obtain donor funding with the Government of Uganda. Also, Baylor-Uganda works in collaboration with Ministry of Health.

5.2 Conclusions

5.2.1 Risk evaluation and performance of Baylor College of Medicine Children's Foundation Uganda

The study revealed a strong positive correlation between risk evaluation and performance, thus confirming the first research objective. This means that risk evaluation strongly determines performance. With proper risk evaluation mechanisms put in place, NPOs are in position to boost their performance.

The study concluded that Baylor College of Medicine Children's Foundation Uganda should strengthen its IAF in order to improve on the organizational performance.

5.2.2 Review of the economy, efficiency and effectiveness of operations and performance of Baylor College of Medicine Children's Foundation Uganda.

A significant positive correlation existed between review of the economy, efficiency and effectiveness of operations and performance. This implies that review of the economy, efficiency and effectiveness of operations strongly influences performance, and if promoted by the organization, it would improve on performance.

The study concluded that Baylor College of Medicine Children's Foundation Uganda should strengthen its IAF and specifically, review of the economy, efficiency and effectiveness of operations, in order to improve on the organizational performance.

5.2.3 Compliance review and performance of Baylor College of Medicine Children's Foundation Uganda

The study established that there was a positive correlation between compliance review and performance. This means that compliance review influences performance if supported in NPOs.

This suggests that the introduction of IAF particularly through compliance review boosts performance at Baylor College of Medicine Children's Foundation Uganda. The study concluded that Baylor College of Medicine Children's Foundation Uganda should strengthen its IAF in order to improve on the organizational performance.

5.3 Recommendations

The researcher carried out some foundation work on the area of internal audit function in not-for-profit organizations, but feels that more work should be done in this area.

- i. The IAF of Baylor College of Medicine Children's Foundation Uganda should be supported in terms of budgetary allocations. Increased budgetary allocations shall also help the IAF increase the number of auditable units considered and the number of audits carried out.
- ii. More money should be allocated to the IAF. This will enable the organization to tackle staffing issues of the IA department. The researcher recommends an increase in the number of internal auditors. More internal auditors shall enable the department carry out more audits and consider more auditable units, which will lead to improved performance of the organization.
- iii. There is need for more sensitization of staff and management about the role and usefulness of the Internal Audit Function to the organization. This will assist the IAF

to take centre stage and carry out its tasks, which will enhance the performance of Baylor College of Medicine Children's Foundation Uganda.

5.4 Suggestions for Further Research

- ❖ Further in-depth studies should be carried out on how to improve on the communication between the IA team and management in NPOs and profit-making organizations.
- ❖ Studies should be carried out on the Internal Audit Function and Performance of NPOs using the survey method.
- ❖ The findings of the study could be tested on other organizations including not-for-profit organizations and those working for profit.
- ❖ Further research is required on my findings in order for them to be advanced to general principles and possibly later formulated into laws.

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APPENDICES

APPENDIX I: Questionnaire for collecting data on Internal Audit Function and Performance of Not-for-Profit Organizations in Uganda

Dear respondent,

I am Nabaggala Solome Rebecca, a postgraduate student of Uganda Martyrs University (UMU), Faculty of Business Administration and Management pursuing a Masters of Business Administration (MBA). I am carrying out research on the topic, “Internal Audit Function and Performance of Not-for-Profit Organizations in Uganda” taking Baylor College of Medicine Children’s Foundation Uganda (Baylor-Uganda) as case study. You have been identified as a key respondent in this undertaking. The information given will be entirely and purely for **academic purposes** and will be treated with **utmost confidentiality**. Thank you for your participation.

SECTION A: BIO DATA

The following questions relate to your background and experience. Please answer the following questions by filling in the appropriate spaces.

1. What is your gender?

(a) Male (b) Female

2. Please tick your age group.

(a) Below 30 years (b) 30-40 (c) 41-50 (d) Above 50 years

3. How long have you been employed by Baylor College of Medicine Children’s Foundation Uganda?

(a) Less than 1 year (b) 1-3 years (c) 4-6 years (d) 7-9 years

4. What is your academic qualification?

(a) Postgraduate (b) Bachelor’s degree (c) Diploma (d) Others
(specify).....

5. What department do you work for at Baylor College of Medicine Children’s Foundation Uganda?

SECTION B: Performance of Not-for-Profit Organizations

Instructions: Please answer the following questions by choosing from the responses given below and ticking where appropriate.

5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1- Strongly Disagree

Performance of Not-for-Profit Organizations	5	4	3	2	1
a) Market share					
Baylor-Uganda has grown in terms of outreach sites across the country.					
There is an increase in the number of patients at the Centre of Excellence (Mulago).					
HIV/AIDS care and treatment services provided by Baylor-Uganda are accessible by people country wide.					
There is a decrease in the number of research projects at Baylor Uganda.					
There is an increase in the number of research articles published by Baylor-Uganda in peer-reviewed journals.					
Health professional training programmes at Baylor Uganda have increased.					
There is an increase in the organization’s contribution in terms of providing HIV/AIDS services.					
There is an increase in the annual revenue of Baylor-Uganda.					
b) Revenue growth	5	4	3	2	1
There is an increase in the organization’s scope of operations in terms of health services offered.					

There is a decrease in the asset base of Baylor-Uganda.					
There is an increase in the number of employees of Baylor-Uganda.					
The percentage of revenue spent on the provision of HIV/AIDS services has increased.					
There is a decrease in the percentage of revenue spent on health professional training programmes.					
There is a decrease in the organization's income from the previous year.					
c) Fundraising efficiency					
The win rates of proposals of Baylor-Uganda to donors are high.					
Baylor Uganda receives funding for proposal classes for small grants.					
There is an increase in the organization's budget from the previous year.					
There is an increase in the donor funding that Baylor-Uganda receives.					
The funds raised by the organization are used for their intended purpose.					
Staff members of Baylor Uganda participate in the mobilisation of resources for the organization.					

SECTION C: Internal Audit Function

Internal Audit Function	5	4	3	2	1
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d) Risk evaluation					
The internal audit team identifies potential problem areas and relevant risk factors in the organization.					
Risk is understood throughout the organization.					
There is a risk management policy that is followed in the organization.					
There is involvement of staff in utilization of the risk management policy.					
The internal audit team evaluates controls and advises managers at all levels.					
The internal audit team relays information to senior management through audit reports.					
Audit reports enhance information and communication in the organization.					
The internal audit team holds meetings with various individuals across the organization.					
The internal audit team provides recommendations for improvements in the systems operations to management.					
The internal audit team recommends ways of improving risk management in the organization.					
e) Review of the economy, efficiency and effectiveness of operations	5	4	3	2	1
The internal audit team ensures economic acquisition, efficient use and adequate protection of resources.					
The internal audit team does not add value to the organization.					
The internal audit team evaluates the effectiveness of control systems in the organization.					
The internal audit team works to ensure that there is minimal duplication of work in the organization.					
The internal audit team plays an assurance and monitoring role in the organization. The internal audit team adds value and improves on the organization's operations.					
The internal audit team provides recommendations for improvements in					

the systems of the organization.					
f) Compliance review	5	4	3	2	1
Baylor-Uganda is compliant with its own laws and regulations.					
The organization complies with Government policies in its daily operations.					
The internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.					
The internal audit team is independent and objective in performing its work.					
The internal auditors apply the care and skill expected of a reasonably prudent and competent internal auditor.					
The International Standards for the Professional Practice of Internal Auditing (Standards) have been adopted by the internal audit team of the organization.					
The internal audit team complies with the Code of Ethics as put forward by the Institute of Internal Auditors.					

Opinion question

6. Has the risk evaluation role of internal auditors had an impact on Baylor (U)'s performance? If so, how?

.....

.....

Thank you for your kind participation

APPENDIX II: Interview guide

Questions:

1. Could you please tell me your name, about this organization and your role in it?
2. Briefly, could you please tell me what you relate to the term “internal audit” if you think of your professional practice.
3. What do you think is the role of the internal audit function in the risk evaluation process?
4. Do you think the internal audit team adds value to the organization? If so, which roles does the internal audit team take up in order to add value to the organization?
5. Which laws and regulations does the organization and Internal Audit team comply with?
6. Do you think that the internal audit function contributes to the performance of Baylor-Uganda in terms of market share, revenue growth and fundraising efficiency? If so, please elaborate further and explain how.

APPENDIX III: Documents Analyzed

Some of the documents analyzed include:

- Baylor College of Medicine Children’s Foundation-Uganda, Annual Report 2009.
- Baylor College of Medicine Children’s Foundation-Uganda, Annual Report 2013-2014
- Baylor College of Medicine Children’s Foundation-Uganda: A pledge for parity and better Maternal Health Services; Daily Monitor (Kampala) of 8th March 2016, Page 40.
- N. R. Butamanya, Non-Governmental Organizations: Quest for Development (Kampala, 2012)
- Protiviti, Internal Auditing around the World (2006).
- Mawanda S. P, Effects of Internal Control Systems on Financial Performance in an Institution of Higher Learning in Uganda: A case study of Uganda Martyrs University (UMU, 2008).
- National Audit Act 2008 (Act No. 7 of 2008/Uganda).
- Non-Governmental Organizations Registration Act (Chapter 113/2000 Laws of Uganda).
- International Standards for the Professional Practice of Internal Auditing (Institute of internal Auditors)



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17 June 2016

BCM/2016/ADMIN/418

Nabaggala Solome Rebecca
Faculty of BAM
Uganda Martyrs University (UMU)
Nkozi

Dear Rebecca,

RE: INTERNAL AUDIT FUNCTION AND PERFORMANCE OF NPOs IN UGANDA

Reference is made to your request to conduct research titled “Internal Audit Function and Performance of Not for Profit Organizations (NPOs) in Uganda, a case study of Baylor College of Medicine Children’s Foundation Uganda and The AIDS Support Organization” which is in partial fulfillment of the requirements for the award of Degree of Masters of Business Administration (MBA) of Uganda Martyrs University.

The internal audit function if well managed and coordinated, helps organizations to ensure adequate mitigation of risks, effective internal controls and compliance with applicable laws and procedures which enhances their performance.

Since few studies have been done in this area in Uganda, we hope that the results of this study will be informative on how best to harness the outcomes of this function.

You have been granted approval to conduct your study and you will work under the guidance of both the research office and Internal Audit department.

Thank you.

Yours Sincerely,


pp Dr. Adeodata Kekitiinwa
Executive Director

Cc: Head Internal Audit
Ag Research Manager

APPENDIX V: Krejcie and Morgan Table (1970)

TABLE 1
Table for Determining Sample Size from a Given Population

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size.
S is sample size.

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