THE ROLE OF AUDITING TOWARDS EFFECTIVE UTILIZATION OF FUNDS IN FINANCIAL INSTITUTIONS

CASESTUDY: POSTBANK UGANDA LIMITED KAMPALA ROAD BRANCH

BY

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DEDICATION

This piece of work is dedicated to God, my dear parents, family members and all those who have seen me through hard times and encouraged me to do my best.

May God bless the work of your hands.

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DIFINITION OF KEY TERMS

Effective

In relation to the study effective refer to the use of funds adequately to accomplish a purpose. Also known as producing the intended or expected result.

Efficient

It refers to the cheapest use of funds in that they are not extravagantly used. For example awarding contracts to the cheapest supplier

Utilization

This refers to the use of liquid cash to carry out the organization's activities as was planned for in the budget.

Funds

Funds in relation to the study refers to the liquid cash that organizations use in carrying out different activities such as payment of worker's salaries, payment of taxes and purchase of materials

LIST OF ABBREVIATIONS

AKA.	Also known as
BMG.	Business growth manager
PBU.	Post bank Uganda
IAS.	International accounting standard

ABSTRACT

This research has been carried out within Postbank Uganda limited Kampala road branch to establish the role of auditing towards effective utilization of funds within an organization. Almost all literature on auditing by various scholars have expressed that auditing enhances the effective utilization of funds within organizations.

The rampant scandals that have been taking place in the past few years over the world, in various organizations that were constantly audited have led to this study. The existing law requiring listed organizations to be audited and the general public refusal to buy shares in companies without audited financial statements brought this question as a concern." What is the role of auditing towards effective utilization of funds within a financial institution?"

The objectives of this study were; to determine the role of auditing towards effective utilization of finds in financial institutions, to identify existing auditing policies and practices within Postbank and to assess accounting and internal control system within Postbank. Questionnaires were used to collect the information and data were analyzed in the light of literature reviewed.

The following issues were found out by the researcher during her study. The researcher found out that some employees do not clearly understand the role of auditing in their institution, which is so unfortunate. Some even suggested that auditing should not continue in post bank. The researcher discovered that post bank has somehow experienced misappropriation of funds. Having found out the above mentioned issues, the researcher recommended the following to be done. The researcher recommended orientation of employees about the role of auditing in such an institution so that they are able to help the organization prevent uncalled for scandals. She also recommended constant internal checks on the financial statements and internal controls so as to avoid such mistakes of omission of entries in the books of accounts.

To a greater extent findings showed that auditing enhances proper utilization of funds and resources in financial institution due to the fact that a big percentage of the respondents were in support of it. The conclusion reached in support of the various scholars that auditing enhances effective utilization of financial resources within financial institutions.

CHAPTER ONE

GENERAL INTRODUCTION

1.0. Introduction.

There is a great concern over the future of many financial institutions in Uganda as regards resource utilization. Institutions or organizations like banks are established not only to provide safe custody for people's funds but also to render different services to the public, and once the services are rendered inadequately, the public will demand a full share of its rights and even go further to find out the possible causes of the prevailing situation. There are many causes that can be established in such situation but often resource utilization is the major cause. If resources are well utilized in any financial institution then it would be able to render its services adequately. However the above mentioned cannot be fully achieved unless auditing is carried out to check on the proper use of those resources.

Basically this chapter consisted of the background of the study, statement of the problem, broad objectives of the study, specific objectives ,the research questions, scope of the study and that was (geographical, subject and time cope)significance of the study, justification of the study conceptual frame work and definition of key terms

1.1. Background of the study.

Auditing as a specialized function had complex legal, economic and ethical implications. The auditors examined and reportedon financial information relating to organizations in which millions of people had a stake either individually or through the state. However to get an insight of auditing, an understanding of its evolution was essential. Though it was difficult to attempt an exhaustive survey of the history of auditing, some of the milestones in the development of auditing were identified below. Auditing originated almost simultaneously with the development of organized systems of accounting. It became necessary to entrust one man with the property of another, the need for a check on the fairness and honesty of the person entrusted with the finances became necessary. The ancient Egyptians got their fiscal receipts recorded separately by two officials while another official conducted the audit. Later the Greeks appointed checking clerks to scrutinize the accounts of public officials at the expiry of their term of office. They also instituted an elaborate system of checks and counterchecks within in the financial administration. (Vasarhelyi, M., 2015)

Although auditing procedures were relied upon for many years, the formal practice of auditing was in existence for a relatively short period. Auditing is currently at a critical juncture. Specifically, advances in information technology in conjunction with real-time approaches to conducting business are challenging the auditing profession The Industrial Revolution and the resulting explosion in growth of business activity led to widespread adoption of auditing methods. The railroads, in their efforts to report and control costs, production, and operating ratios, were major catalysts in the development of the accounting profession within the United States (Chandler 1977). Specifically, firms became aware of the need for mechanisms of fraud detection and financial accountability, and investors increasingly relied upon financial reports as corporations began to participate in the stock market. Although these issues prompted an expansion in the use of accounting and auditing mechanisms, it was after the stock market crash of 1929 that auditing became an obligatory process in the United States. Many of the audit practices existing during the period that immediately followed were not conducted independently and, instead, simply relied upon information from management personnel. Furthermore, refinements of audit standards generally consisted of reactionary measures that occurred in response to significant negative business events. For example, audit tasks such as physical inspection of inventories and confirmation of receivables were optional until fraudulent activities were uncovered at McKesson & Robbins in (1939). Lanza (1998) argues that low cost solutions for achieving an initial automated audit experience include introductory CAATS that facilitate data extraction, sorting, and analysis procedures. These programs require little training, have no file size limitations, provide detailed audit logs for use as work paper documentation, and allow for the creation of auditor-specified reports that may be applied to current and future data sets. Cangemi (2010) argues that, given the recent advances in business technologies, the continuing emphasis on the backward looking audit is simply an outdated philosophy. Instead, he believes that real-time solutions are needed. As such, firms that successfully experiment with the CAATS described previously should give eventual consideration to more advanced programs which contain functionalities resembling the audit of the future and provide a higher level of assurance. In conjunction with this position, Teeter and Vasarhelyi (2011) explain the optimal alignment of enterprise data and audit procedures. For example, they mention that manual data corresponds to manual auditing methods. They also indicate that organizational data that is not strictly manual may be subject to automated audit procedures on some level. Therefore, the more manual data an entity maintains, the less it might initially benefit from audit automation

From the above background, we see that auditing has greatly contributed to the reduction of fraud risks and ensure proper resource utilization, besides, this is a move to strengthen financial institutions right from their grass root level and more to that , it makes the public feel secure from an expected scandals.

1.2. Statement of the problem.

Auditing existed because it was considered to be a way of checking on the activities of financial institutions and other non-financial institutions which were entrusted with the funds and resources of others. The main purpose of checking was to control and monitor the progress of the people in charge so as to achieve the desired objectives and goals of that particular institution. Many institutions collapsed because taking those control of the activities were not monitored and controlled through auditing their financial statements to ascertain whether they portrayed information that was free from misstatements and therefore fair. However auditing remained an important aspect to the public and the government as a whole. On the other hand auditing was looked at as a conflicting view to the managers. Therefore the problem was to establish the relationship between auditing and effective utilization of funds within a financial institution. In many situations auditors were thought of by management, particularly in the case of small companies as overheads-a necessary evil imposed by statute and unlikely to result in any tangible benefit (Woolf 1997). However auditing was considered by almost all authors of books as the best alternative so far in checking on the activities of managers and the subordinates of any organization. Auditors acted for shareholders and for the society in general, auditors therefore had a special responsibility to provide trusted financial information to these groups. (Asiyo Simiyu 1997). The bank was not different from other institutions in that the managers were hired to take control of the institutions. The rate at which financial scandals were happening in different organizations including banks. I highly believe that checking on the activities of its managers was a crucial factor. The study therefore investigates the role of auditing towards effective utilization of funds in financial institutions with particular reference to post bank Uganda limited Kampala road branch.

1.3. Objectives of the study

1.3.1 The broad objective

To establish the relationship between auditing and effective utilization of financial resources within post bank Kampala road branch.

1.3.2 Specific objectives

- To identify existing auditing policies and practices within Postbank Kampala road branch.
- To assess accounting and internal control system within Postbank.

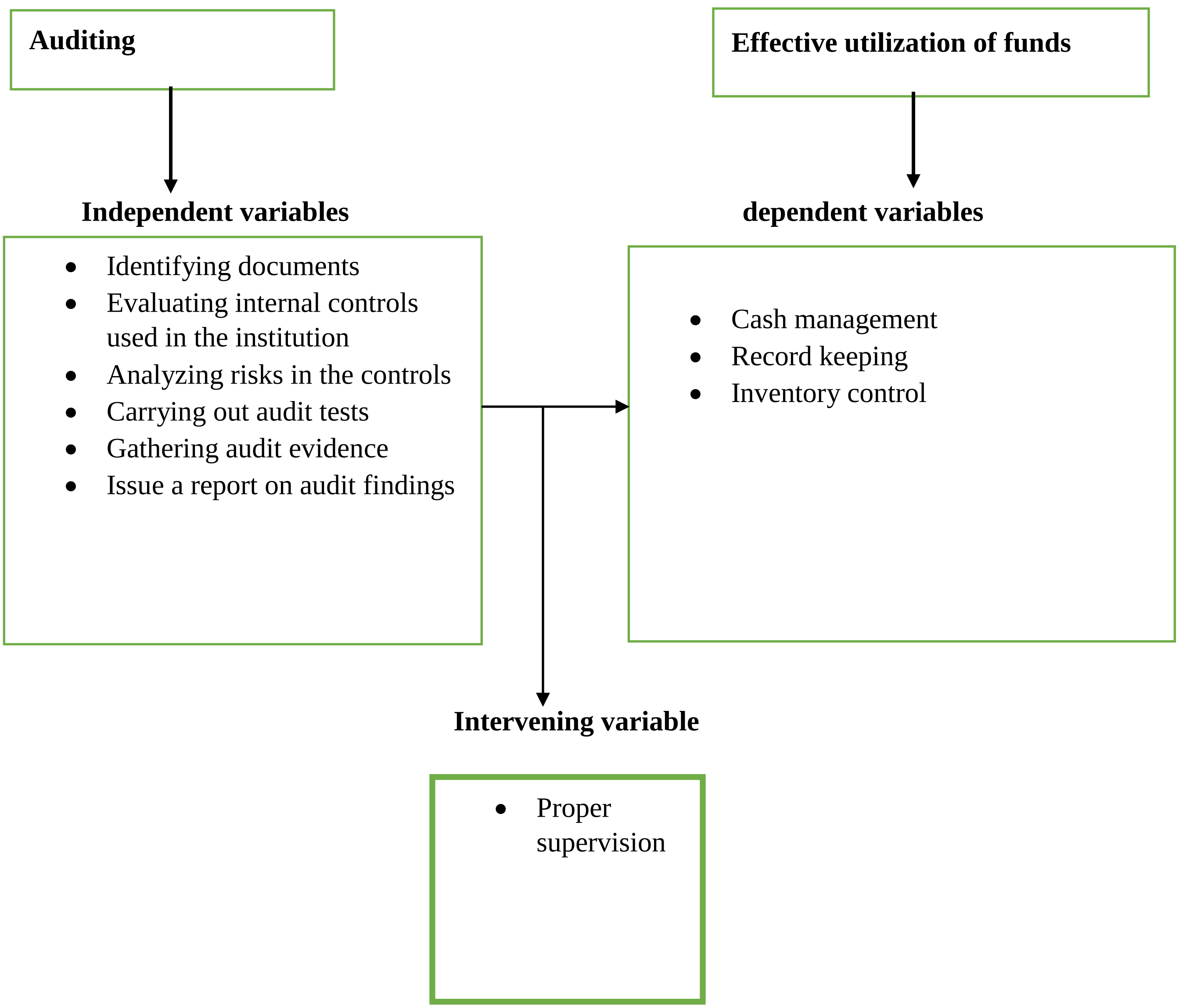
1.4 Research questions

- What is the relationship between auditing and effective utilization of funds within a financial institution?
- What auditing policies and practices does post bank have?
- Which accounting and internal control systems exist within post bank?

1.5 The conceptual framework

The conceptual framework referred to a theoretical structure assumptions, principles and rules that held together the ideals comprising a broad concept.

(Jabareen, Y.,2009)



1.6.1 Geographical scope

This research was carried out in Kampala district, central region and it was limited to post bank Kampala road branch. The people who participated in this research included the branch manager and her subordinates in that financial institution.

1.6.2 Subject scope.

The scope of the study covered auditing and the role it played in the utilization of financial resources in a financial institution**.**

1.6.3 Time scope

The study was focused on the period of one year from 2016to 2017 .This was chosen to provide a comparative study of the role of auditing on the effective utilization of financial resources in a financial institution.

1.7 Significance of the study

This study was intended to bring to the attention of financial institution owners the role of auditing towards effective utilization of funds.

The study will guide policy makers in designing and implementing appropriate auditing strategies required, averting the financial scandals in financial institutions and other organizations. It will give the researcher a new learning experience as she had never been involved in such project before. The knowledge acquired during the research will help the researcher understand how to carry out other researches if problems concerning the same field arose. This research also will help the management of post bank to know whether there is a need to improve on its audit practices or not. Therefore this makes the study a crucial matter to undertake and discover the role of auditing towards effective utilization of financial resources in a financial institution.

Conclusion

This chapter basically introduced the statement of the problem which the researcher was looking forward to address. It also looked at the different objectives of carrying out this study, the research questions and the conceptual framework which showed both dependent and independent variables in this study. Therefore it is always important for the researcher to very much understand this section because it builds foundation for the entire research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The advanced learner's dictionary defined auditing as; an official examination of business and financial records to see if they are true and correct or an official examination of the quality or standard of something. The definition brought out the fact that auditing was applied to various types of aspects of an organization such as information technology, performance, compliance and finance among others. Many sections of the public believed that audited financial statements were totally free from errors and if any fraud occurred then it would be detected by the auditor and its effect properly reflected in the financial statements (Gupta 1998)

2.2 Auditing and its explanations

2.2.1 Advantages of auditing

There are advantages derived from the work of audit both for the company as well as for the third parties as stated by Ngigi (1999)

The shareholders of a limited company are protected through an audit. The audited accounts provide more reliable and exact information to the shareholders about the affairs of the company

Errors and frauds are located at an early date and in future no attempt is made to commit such frauds or one is rather careful not to commit an error or a fraud as the account is subjected to regular audit.

The audit is also useful for prevention of long-term catastrophes as it identifies these situations early enough.

2.3. Types of Audit

Writers on audit provide a number of audit types which include; standard audit, balance sheet audit, internal audit, external audit, continuous audit, procedural audit interim audit, private audit and statutory audit.

2.3.1 External audit

This is the type of audit which is normally carried out by an independent auditor who is not an employee of the organization being audited. The person carrying out the audit is tasked to express his or her opinion on the truth and fairness of the financial statements in representing the organization's state of affairs.

2.3.2 Internal Audit

This is where the audit in an organization is done by an employee of the organization with the purpose of finding out if the internal control system is working properly or not. The report produced by such an auditor is always for management use for improving internal control systems

2.3.4 Continuous Audit

This type of audit involves a detailed examination of the account books at a regular interval of say one or four months during the financial year

2.3.5 Periodic audit

This is the type of auditing which is final or complete. It is usually conducted at the end of financial period .it is an ideal for small businesses whose transactions can be audited in one session.

2.4 Financial auditing

2.4.1Cash management and evaluation of internal control system

Cash management is the stewardship or proper use of an entity's cash resources. It serves as the means to keep an organization functioning by making the best use of cash or liquid resources of the organization, whereas internal control refer to an essential prerequisite for efficient and effective management of any organization

Cash includes currency, coins, balances for checking accounts and items acceptable for deposits in these accounts.

Cash equivalents includes money market funds, treasury bills and commercial papers .to be classified as cash equivalents , these investments must have a maturity date no longer than three months from the date of purchase. Organizations must establish individual policies regarding which short term highly liquid investments are classified as cash equivalents and it should be consistent with the usual motivation for acquiring these investments.

As cash is the most liquid of all assets, a well designed and functioning system of internal controls must surround all cash transactions. Separation of duties is critical. Ideally, those who handle cash should not be involved in or have access to accounting records nor be involved in the reconciliation of cash book balances to bank balances.

Below is an example of an approach to internal control over cash receipts.

- Employee A opens the mail each day and prepares a multi copy listing of all checks including the amount and payer's name.
- Employee B takes the checks, along with one copy of the listing, to the person responsible for depositing the checks in the company's bank account.

- A second copy of the listing is sent to the accounting department where the accounting receipts are entered into the records.

The amount received should be equal to the amount deposited as verified by comparison with the bank generate deposit slip and the amount recorded in the accounting records.

Proper controls for cash disbursements should be designed to prevent any authorized payments and ensure that disbursements are recorded in the proper general ledgers and subsidiary ledger accounts

Important elements of cash disbursement control system include:

- All disbursements, other than very small disbursements from petty cash, should be made by checks. This provides a permanent record of all disbursements.
- All expenditures should be authorized before a check is prepared. For example a vendor invoice for the purchase of inventory should be compared with the purchase order and receiving report to ensure the accuracy of quantity, price, part numbers and more others. It should also involve verification of proper ledger accounts to be debited.
- Checks should be designed only by authorized individuals.

This helps ensure accuracy as well as safeguard cash against safety and proper movement of cash which leads to proper utilization of funds in a financial institution. (David J. Spiceland, James F. Sepe, Mark W. Nelson2009)

2.4.2 Financial statements and issuance of an audit report

Financial statements are prepared before the work of an auditor can take place. The management of an entity has to see that proper book of accounts and proper assets records of the entity are kept, where all transactions are correctly recorded and where all assets details are kept respectively. The accountant is to see that;

- Financial statements are timely prepared at the end of each period.
- All assets records are entered in the asset register including disposals
- All transactions are recorded and kept in the books

After all this has been done, then an auditor may come in to check and express his or her opinion on the true and fair view of the financial statements prepared.

In a financial statement audit, the auditor gathers evidence and provides a high level of assurance that the financial statement follow generally accepted accounting principles or some other appropriate basis of accounting. (Whitting & Pany 2000)

From the above writer, it is evident that for an audit to take place, financial statements must have been prepared already, as this will help an auditor to determine the financial position of the organization which would also confirm whether that organization is using its funds effectively or otherwise.

2.5 Auditing and funds utilization

As stated by **(ISA 200),** the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework.

Most institutions and organizations believe that the best and proper way to establish that funds and other resources have been properly used is by carrying out an audit on the reports made by the managers of these resources. Though audit is done in various aspects of an organization, normally the most important factor is how funds have been used. This is because funds are the driving force behind almost all the activities of an organization.

According to the state audit office of Burkina Faso (internet).by law, the state audit office is charged with;

Auditing all the state services, local government bodies, corporations and all national bodies with a public service mandate in order to ensure that they comply with the laws and instruments which govern their administrative, financial, and accounting operations

Auditing the utilization of public funds and the legality of the operations of administrators, officers, accountants and controllers of funds and materials.

Whereas;

The Romanian court of Audit states that;

The court of audit has authority to audit the establishment, administration and utilization of the financial resources of the state and public sector. It also manages the public assets and patrimony of the state and territorial administrative units. Through its audit, the court of audit assesses compliance with applicable laws and regulations as well as economy, efficiency, and effectiveness in the management of material and financial resources. In order to perform these duties, the court audits the following;

The establishment, management and utilization of public by independent commercial and financial public institutions and independent social insurance entities.

The establishment, utilization, and management of special and treasury funds

The formation and management of the public debt and government guarantees for internal and external loans

The formation and implementation of state budget resources, the state social insurance budget, and the budgets of territorial administrative units, as well as the transfer of funds among these budgets

Beijing Municipal Audit Bureau explains that;

During the audit of its financial revenues and expenditures of district/county government over recent years, the municipal audit department has exposed quite a few cases of discipline violation in which taxes are cut or exempted and financial revenues are retained beyond the limits of power and recover the funds tied-up or embezzled therein.

From the different views, it is evident that auditing is upheld in the utilization of funds because of the various means it provides in seeing that funds are used as desired to achieve the objectives of the government or institution.

Some of the means used include;

To maintain economic and financial order.

All financial institutions are supposed to submit to the regulatory body their audited financial statements each year to ascertain their mode of operation. This enables the regulatory body to maintain the economic status of the country and financial order.

To expose cases of discipline violation.

All regulatory bodies have disciplinary committees specifically for handling matters that could arise from noncompliance. Organizations that do not comply with the regulations are always handled according to the disciplinary actions deemed. For example failure to comply

With the accounting standards

To facilitate implementation of the state policies. For example lending policies where a financial institution is required to keep a certain percentage of its finances with bank of Uganda.

To check the efficiency and effective in the management of financial resources

Management is always held responsible for all the operations carried out. Auditors help in ascertaining whether those operations are efficient enough to provide appropriate evidence to enable an auditor make an opinion in respect of the financial statements.

To recover funds embezzled

Auditing helps in detecting fraud that has been carried out and therefore procedures are followed to recover the embezzled funds.

2.6 Internal controls and utilization of funds

Internal control refer to an essential prerequisite for efficient and effective management of any organization whereas utilization of funds refer to the use of liquid cash to carry out the organization's activities as it is planned for in the budget.

It is thus, a primary responsibility of every management to establish and maintain an adequate system of internal control appropriate to the size and nature of the entity. The scope of internal controls according to the above definition extends beyond accounting controls, thus, operational controls such as quality control, work standards, quantitative controls, budgetary control, periodic reporting, policy appraisals were all part of the internal controls system. In an independent financial audit, an auditor is concerned primarily with the accounting controls, in an operational audit however, the auditor reviews all controls. Internal controls are classified into two broad categories that is; accounting controls and administrative controls.

Accounting controls comprise of primarily the plan of an organization and the methods and procedures that are concerned with the safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of accounting records, and timely preparation of accounting information. Whereas administrative controls include all other managerial controls concerned with the decision making process.

An internal control system can provide only reasonable assurance that the management's objectives in establishing the system are achieved, nevertheless auditors should be aware that any internal control system has certain inherent limitations. Such limitations come as a result of the following reasons;

- Management itself manipulates transactions
- Controls keep pace with changes in conditions
- The potential of human error remain in any system of controls
- Controls have to be cost-effective , therefore some controls were not instituted merely because they were not cost effective

  With this background, an auditors should understand the internal controls because of the following contributions.

As laid down in **(IAS 400)** an auditor is required to understand the internal control because of the following reasons

It enables the auditor to know which audit approach he or she has to use. For example where the internal control is weak from systems based audits to vouching audits together with auditing in depth where such weaknesses were rather pronounced. This means that such an approach enables an auditor to form an opinion on the financial state of the company's affairs

It enables the auditor to know which tests of control to use in checking balances so as to avoid any frauds

It also helps the auditor to understand the timing of her audit so that she or he ensures that the audit plan affords her more time to tackle key areas with weak controls

It also helps an auditor to know areas where to concentrate too much in her audit and in the audits to come in the near future

It enables an auditor to gather more audit evidence in those areas where weaknesses are strongly pronounced

Understanding the internal control helps an auditor to know whether the same weakness existed every year, this was brought to the attention of the shareholders so that a decision could be made

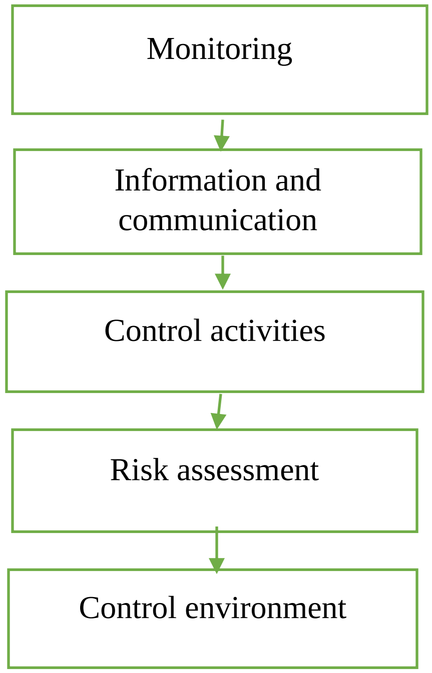
It is therefore very important that auditors understand internal control sufficiently to plan an audit.

2.7 Components of internal controls

ERM (Enterprise Risk Management Initiative) defined internal control as;

A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives. Stated below are the components of an internal control system.

Table 1.



Vincent M, O'Reilly CPA, Patrick J , McDonnell, CPA, Henry R. Jaenicke, PhD., CPA (1998) Twelfth Edition. Montgomery's auditing

2.7.1 Monitoring

Monitoring is the process that assessed the quality of internal control over time to determine that controls were operating as intended and that they were modified as appropriate for changes in conditions.

Internal control systems needed to be monitored, this was AKA monitoring of controls. The focus was not just focused on information flow but with key understanding of the message. The ongoing monitoring focused more on deviations from norms and provided a continual feedback on controls. This was all achieved through investigations which led to system changes for better efficiency of the entity. Information for monitoring was usually got from the following sources;

Internal auditor's report

Internal auditing was an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helped an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Auditors' roles included, monitoring, assessing, and analyzing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Working in partnership with management, internal auditors provide the board, the audit committee, and executive management assured that risks were mitigated and that the organization's corporate governance was strong and effective. And, whenever there was room for improvement, internal auditors made recommendations for enhancing processes, policies, and procedures.

Complaints from customers

Consumer complaints were usually informal complaints directly addressed to a company or public service provider, and most consumers managed to resolve problems with products and services in that way, but it sometimes required persistence.

If the grievance was not addressed in a way that satisfied the consumer, the consumer sometimes registered the complaint with a third party such as the Better Business Bureau, a county. These and similar organizations in other countries assessed for consumer complaints and assisted people with customer service issues, as the government representatives like attorney general. Consumers however rarely filed complaints in the more formal legal sense, which consisted of a formal legal process, and most consumers manage to resolve problems with products and services in this way, but it sometimes requires persistence.

Feedback from operating personnel

Effective and timely feedback was a critical component of a successful performance management program and had be used in conjunction with setting performance goals. If effective feedback was given to employees on their progress towards their goals, employee performance would be improved. People needed to know in a timely manner how they're doing, what was working, and what was not working.

Feedback came from many different sources: managers and supervisors, measurement systems, peers, and customers just to name a few. Employees received information about how they're doing as timely as possible. If improvement needed to be made in their performance, the sooner they found out about it the sooner they corrected the problem. If employees reached or exceeded a goal, the sooner they received positive feedback, the more rewarding it was to them.

Report from regulators

Each financial institutions was required to submit to the regulatory body various reports revealing its financial condition or the results of its operation. After the submission of such reports, a thorough analysis was carried out to ascertain if the operations of such an institution were up to standard. Feedback from such regulatory bodies enabled the managers to make more sound decisions and improve on the status of their institution.

2.7.2 Monitoring responsibilities and duties

In an organization everyone had for monitoring the position a person held. This helped to determine the focus and extent of the responsibilities. Though the level of monitoring were not the same for employees on different levels of management and different departments but all contributed something in that respect.

Major areas of monitoring

Communication

Information was necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtained or generated and used relevant and quality information from both internal and external sources to support the functioning of internal control. Communication was the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication was the means by which information was disseminated throughout the organization, flowing up, down, and across the entity. It enabled personnel to receive a clear message from senior management that controlled responsibilities. External communication was twofold: it enabled inbound communication of relevant external information and provided information to external parties in response to requirements and expectations. (Roberts, J., 2000)

Mission

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The mission enabled employees to know what they were tiring to achieve and keep them focused.

Monitoring results

The monitoring of results led to improved productivity. By comparing the actual results with the targeted it enabled the management to ascertain whether it was hitting the target or there were some variances and therefore the need to improve.

Control activities

Control activities were the policies, procedures, techniques and mechanisms that ensured that management's response to reduce risks identified during the risk assessment process was carried out. In other words control activities were actions taken to minimize risks.

Risks and opportunities

Identifying opportunities was advantageous to the organization. However opportunities came with risks and it was the duty of management to identify those risks by monitoring the operations that were being carried out. Therefore internal control played a big role in an organization for proper and effective utilization of resources.

2.7.3 Information and communication

Communication referred to the exchange of useful information between and among people and organizations to support decisions and coordinate activities. This component encompassed the identification and flow of information within an entity in a way that enabled people to perform their roles and discharge their responsibilities. The accounting system was part of the information system that was most directly relevant to financial reporting objectives. The a counting system consisted of the procedures established, including electronic means to transmit, process, maintain, and access information as well as the document produced as a result of those procedures. All this helped the management to operate the business effectively.

It was important that employees and management received information in a timeframe to help them carry out their responsibilities. Communication also took place with outside parties such as customers, suppliers and regulators. Information can be transmitted verbally or in writing. However written information was preferred in case of important information, documentation and reference.

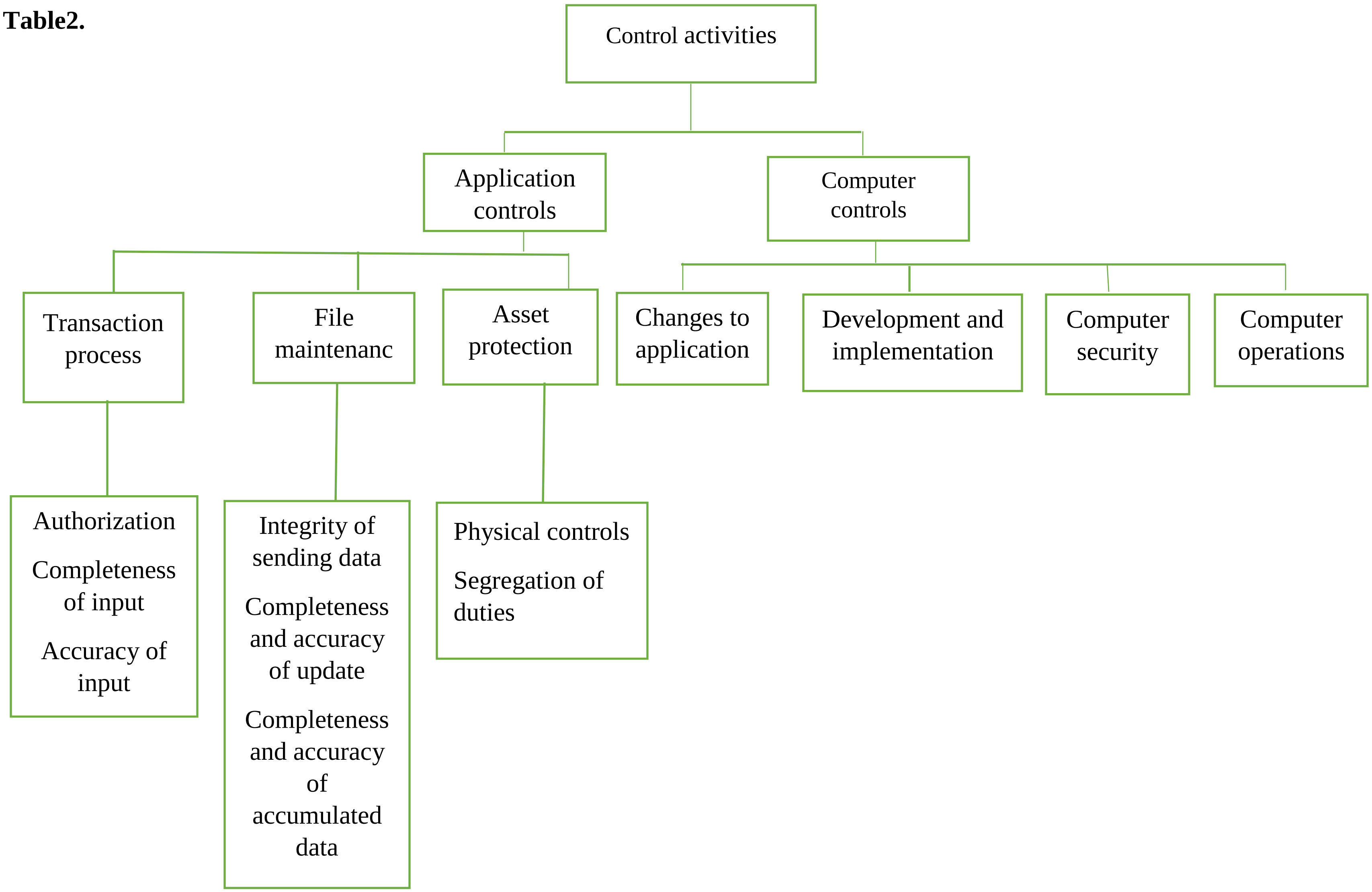
2.7.3 Control activities

Control activities referred to the policies and procedures that helped to ensure that necessary actions are taken to address risks to the achievement of the entity's objectives.

In contrast to the other control components, which usually related to all transactions into which an entity entered, control activities generally were established only for high volume or high risk classes of transactions.

The design of control was influenced by the size, complexity and nature of the business as well as by the nature of internal controls as a whole, particularly its computer environment. Control activities had a number of categories and there were two main categories which consisted of other sub- categories as seen in the diagram below

Table2.



Vincent M, O'Reilly CPA, Patrick J , McDonnell, CPA, Henry R. Jaenicke, PhD., CPA (1998) Twelfth Edition. Montgomery's auditing

As seen from the above diagram, there are various control activities but a few major ones were explained.

Application controls

It referred to activities that were applied directly to transactions, files and data. For example transaction processing controls which were mainly applied to ensure that the entity meets its control objectives related to individual transactions.

Computer controls

In this category of controls the consistence with which programmed procedures process data was one of the benefits of the computer and was made possible in part by computer. Their performance did not vary if the programmed procedures were subjected to adequate computer controls. Also, random errors, which could occur in a manual accounting system were virtually nonexistent in a computerized system.

The New York government defined control activities as;

Tools- manual and automated- that helped prevent or reduce the risks that could impede accomplishment of the organization's objectives and mission.

According to the New York government, most of the control activities were grouped into four categories: Directive, preventive, detective, and corrective control activities. (Internet)

- Directive control activities were designed to guide an organization towards its desired outcome. Most directive control activities took the form of laws, guidelines and regulations.

- Preventive control activities were designed to deter the occurrence of an undesirable event. The development of these control activities included, predicting potential problems before they occurred and implementing ways to avoid them.
- Detective control activities were designed to identify undesirable events that occurred and alert management about what has happened. This enables management to take corrective measures or actions promptly.
- Corrective control activities are processes that kept the focus on undesirable conditions until they were corrected.

2.7.4 Risk assessment and inventory control

Risk assessment referred to the management's process of identifying, analyzing and managing risks that affected the achievement of its objectives .Risks are presented by the external or internal events or circumstances, such as changes in an entities operating environment, new information systems, or new lines of business.

Risks are events that threaten the accomplishment of objectives. In the due course they have an impact on an organization's ability to accomplish its mission which include funds utilization in the organization. It is important for an organization to assess the risks involved in the management of inventory.

Risks assessment is the process of identifying, evaluating and determining how to manage these events at every level within an organization there is both internal and external risks that could prevent the accomplishment of established objectives.

Risks to an organization are split between external and internal. The external sources of risks include; Political risk, economic risk, legislative risk, compliance risk, physical risk, technological risk, market risk and financial risk. From the above stated external risks a few have been explained.

(a) Financial risk

This is the biggest single area affecting most of the organizations and companies and is very wide ranging. It includes

i. **Credit risk.** These are the risks arising from nonpayment of loans due to insolvency of the customers, fraud and unresolved disputes. As a result of most customers not paying back the loans, the organization may not be able to venture into new line of business due to lack of liquid cash

ii. **Foreign exchange risk.** This refers to the risks caused by dealing in foreign currencies. This is as a result of depreciation of the foreign currency which makes the home currency to lose value. Therefore the organization may not be in position to purchase the required inventory level due to reduction in its total cash in cases where the organization imports its stock.

iii. **Interest rate risks**. These were risks to business financing caused by unexpected movements in interest rates.

(b) Technological risks.

Many financial institutions, and not only those involved in high technology operations, face risks from new development technologies. Institutions which fail to spot the potential risks to their existing operations presented by new and emerging technologies find themselves overtaken by competition. In this case if an organization is not able to make its orders online, then it may not be able to control its inventory levels at the right time. Online businesses with the organizations are time saving than manual the ordinary way of ordering for goods from a supplier. The most likely risk for an organization which is not well versed with this system is delayed delivery of goods.

(c) Compliance risks

These are risks arising from non-compliance with laws and regulations. Many financial institutions are capable of ensuring compliance with tax or VAT rules but many still have , judging by the number of cases still coming before the courts and tribunals, inadequate procedures for complying with employment law or health and safety legislation.

The internal sources of risks include; strategic risk, operational risk, governance risk and financial risk.

(a) Operational risks

These are risks caused by underlying flaws in the way operations are carried on, its processes and systems. The failure to correct poor processes affecting customer service has adversely affected many service based institutions including banks. Operational risks include;

- Poor monitoring procedures

  Monitoring is an activity performed internally by individuals acting on behalf of the firm's management. The monitoring activities are established to provide the firm reasonable assurance that the policies and procedures relating to the other elements of quality control are designed appropriately and applied effectively.

- Poor planning processes

Planning is the forecasting of human resource needs in the context of strategic business planning. This enables the financial controller and managers to know what to plan for in terms of acquiring new equipment and replacing an old machine among others. Absence of strategic planning however may bring about overestimation when it comes to budgeting. This creates financial gunnery in the long run which is not desirable for both the institution and the stakeholders.

- Loss of key employees

Key employees are always the backbone of any organization. This team is responsible for making key decisions during the life of the organization. Therefore, losing such important people puts the organization at stake and may end up incurring huge losses in terms of funds

- Lack of key performance indicators

Key performance indicators refer to the rate which determines whether employees are working up to the required standard or below the standards. The rates are always set in line with the organization's objectives. Employees will always be driven to work once such standards are put in place without which they become redundant

(b**) Governance risks**

Risks to the organization can be created by poor or inadequate corporate governance. This includes problems arising from inappropriate board structures, poor communications within the organizations and no support for strong internal controls. Governance risks include;

- Failure to communicate goals and objectives
- Weak or non-existent non-executive directors
- Lack of internal audit function

Risk assessment has got two components and these include; risk identification and is evaluation. Once the risk has been identified, then it should be evaluated.

There are many ways of evaluating the risk but the least complicated is a simple matrix .it can be more elaborated in the following table.

Table 3.

	High likelihood	**Low likelihood**
High impact	Poor procurement management	Loss of computer systems due to software failure
Low impact	Competition from new entrants into the market	Loss of popularity of skateboarding

(A. H. Millichamp and J. R Taylor 2008)

In the real sense management should seek to prevent these risks. However, sometimes management cannot prevent the risk from occurring. In such cases, management should decide whether to accept the risk, where by the management does nothing and hopes for the best, reduce the risk to acceptable levels, here the management raises staff awareness of risk, and strengthens internal control systems or avoid the risk. To have reasonable assurance that the organization will achieve its objectives, management should ensure each risk is assessed and handled properly. (The New York State Government-internet)

2.7.5 Control environment

The control environment comprises of the attitudes, abilities, awareness and actions of the entity's personnel, especially its management as they affect the overall operation and control of the business. In the word of the National Commission on Fraudulent Financial Reporting (Treadway Commission), it is the tone at the top.(Montgomery's auditing twelfth edition pg. 9.3)

An effectively controlled organization lies in the attitude of its management. If the top management believes that control is important others in the organization will sense that and respond by observing the controls established. On the other hand if it is clear to the other members that control is not important an important issue to top management and is given lip service rather than meaningful support. It is most likely that management's control objectives will not be effectively achieved.

The New York State Government explains control environment as;

The attitude towards control and control consciousness established and maintained by the management and the employees of an organization. It is a product of management's philosophy, style and supportive attitude as well as the competence, ethical values, integrity and morale of the organization's people. The organization structure and accountability relationships are key factors in the control system

2.8 Advantages of internal control

(IAS 400) Lists a number of advantages of internal control

It boosts the confidence and gives assurance to third parties in running the organizations operations smoothly. Efficient internal control system gives confidence to different stakeholders, for example customers, tax collectors, potential investors and most especially employees who are sure that their salary is already catered for.

It helps the auditor to obtain reliable evidence. The auditor's objective is to evaluate and test internal controls in the determination of the degree of reliance which he may place on the information contained in the accounting records. Therefore if he obtains reasonable assurance that by means of compliance tests that the internal controls are effective in ensuring the completeness and accuracy of accounting records and the validity of entries therein, he may limit the extent of his substantive testing which eases the audit work.

It strengthens the financial control and prevents errors and frauds by extension. Having a system which ensures proper flow of funds

It boosts efficiency of staff by segregation of duty; it uses qualified staff, and proper use of organizational chart. Segregation of staff helps to avoid duplication of effort to perform tasks one is not entitled to and therefore each employee does what they are good at which promotes efficiency in operations.

It helps the company to have proper and accurate records. Internal control system by daily automatic checks helps in detecting primary errors at young stage thereby avoiding fraudulent transactions.

It minimizes the costs of an audit as it facilitates an audit through minimizing errors and frauds. This shortens the time to be spent on audit work since a few reconciliations have to be done.

It reduces the liability of an auditor for if systems are working properly chances of frauds are very few

It facilitates the growth of the company. The fact that there are no errors and fraudulent transactions in the system definitely gives the organization a chance to grow bigger.

It facilitates accurate decision making processes with accurate information from the controls.

Accurate financial statements from management enables the human resource manager to plan and budget well for the available funds to facilitate the operations of the organization.

It enables the auditor to avail the management quality advice in the management letter which will facilitate the company's operations. The auditor's report is normally based on his findings from the audit work. Good internal control systems will enable the auditor to generate a n unqualified report which shows that the financial statements are free from misstatements.

2.8.1 Limitations of internal controls

An effective internal control system can only ever provide reasonable assurance that an agency's operating systems, financial controls, reporting and other agency processes are working effectively. No matter how well designed and operated internal control systems could not provide absolute assurance that agency objectives had been, and would continue to be, met.

Designing and implementing effective systems of internal control required management to clearly understand agency objectives and its operating environment. Management also needed to recognize the inherent limitations in the design and application of systems that could impact on the ultimate delivery of agency objectives and services.

Effective internal control systems reduced the probability of errors or omissions in agency operations. However, there were limitations in the effectiveness of internal controls. These limitations resulted from system omissions, human factors, resource constraints or lack of system flexibility. Therefore the stated below are some of the limitations of internal controls as laid down by **(financial accountability handbook volume 2 governance)**

A culture that does not reinforce the value of internal controls .There is no internal control system however elaborate, can itself guarantee efficient administration and the completeness and accuracy of the records. It is the staff to appreciate the idea first and then implement it.

- Staff carelessness, poor judgment or lack of knowledge. A well set and developed internal control system requires staff which is competent with integrity of the personnel operating the controls. Without these two the control systems may be override by management.
- staff taking short-cuts instead of following procedures

This was normally done by the staff normally done by to shorten the period of time taken to carry out an activity. For example ignoring verification of a transaction in the system

- internal control processes which did not reflect changed operating conditions, specific agency activities or potential new risks
- Collusion by staff for personal gain or other motives. This is where staff came together to achieve their interests leaving out the main objectives of the organization. For example the personnel authorizing may knowingly allow a fraudulent transaction to take place if he or she is to benefit from it.
- Controls failing to capture or flag unusual transactions. Unusual transactions are normally carried out by fraudsters. Most of the transactions may not have a proper source of the funds while others be in large sums of money. Failure to capture such transactions makes the internal control system become of no any use.
- Controls and processes being viewed as a hindrance in the delivery of agency services so are overridden. Management may not buy the idea of internal control systems because it is sometimes looked at as an obstacle to their personal interests. For example one may want to carry out a full process of a transaction without being verified.

Mana ’she (2000) also stated the limitations of internal controls as;

If rigidly operated beau racy will set in, making it decontrol rather than a control

It may lead to over-reliance on the internal control system by the management and thus reduce its supervision and give room to perpetration of errors and frauds.

2.8.2 Assessing control risks

Arens.loebbecke (1997) defined control risks as;

The measure of the auditor’s expectations that the internal controls would neither prevent material misstatements from occurring nor detect and correct them if they had occurred.

The international standard for the professional practice for internal auditing explained that;

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes were effective is a judgment resulting from the internal auditor’s assessment that:

- Organizational objectives supported and aligned with the organization’s mission;
- Significant risks were identified and assessed;
- Appropriate risk responses were selected that aligned risks with the organization’s risk appetite; and
- Relevant risk information was captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

Gathering audit evidence

(1SA 500) defined audit evidence as all the information used by the auditor in arriving at the conclusions on which the audit opinion is based, and includes all the information contained in the accounting records underlying the financial statements and other information.

This international standard goes on to say that evidence must be sufficient and appropriate and auditors do not have to look at everything.

Sufficient. It refers to the measure of the amount of evidence gathered

Appropriateness. It refers to the measure of the quality of evidence and its fitness for purpose.

(A.H.Millichamp and J. R. Taylor 2008) sets out the following sources of evidence.

1. Auditor derived evidence

This was evidence derived by the auditor as a result of their tests and procedures. They include:

- Compliance tests of control
- Substantive tests of control
- Observation of company procedures inspection of documents

1. Independent third-party evidence

Examples of this source included:

- Bank letters
- Debtor's circularization
- Supplier's statements

2. Representations made by directors and officers of the company.

This type evidence is formal, for example the letter of representation

The standard also states the following as the best techniques for collecting evidence

- Inspection of documents, procedures and tangible assets.
- Observation, this involves seeing for oneself
- Enquiry. This involves asking questions
- Confirmation. It should be in writing, external sources being preferable to internal sources.
- Computation- additions, calculations, reconciliations
- Re-performance. This is testing controls by re- performing them .for example checking the bank reconciliation
- Sample testing

2.9 Tests of control

1. Substantive tests

Substantive testing is an audit procedure that examines the financial statements and supporting documentation to see if they contain errors. These tests were needed as evidence to support the assertion that the financial records of an entity were complete, valid, and accurate.

The nature, timing, and extent of substantive tests appropriate for a particular audit objective and account vary with the type of account. The types of accounts include;

Accounts that were derived from a major class of transactions within a transaction cycle that typically involved high volume of transactions .They were also known as system derived accounts. Examples included cash, inventory and salaries and wedges among others.

Accounts that reflected internal allocations of revenues or expense over time through the accrual. Deferral, or amortization of assets of liabilities. These included accrued receivables and payables.

Accounts that typically reflected a relatively small number of material transactions in an accounting period. Examples included long term investments, land and building and bond payable among others.

There were many substantive tests that an auditor used. The following list is a sampling of the available tests:

- Conducted a bank confirmation to test ending cash balances
- Contacted customers to confirm that accounts receivable balances are correct
- Observe the period-end counting of inventory
- Confirmed the validity of inventory valuation calculations
- Confirmed with experts that the fair values assigned to assets obtained through a business combination are reasonable
- Physically matched fixed assets to fixed asset records
- Contacted suppliers to confirm that accounts payable balances are correct
- Contacted lenders to confirm that loan balances are correct
- Reviewed board of directors minutes to verify the existence of approved dividends

As indicated by the examples, substantive testing include confirmation of account balances with third parties (such as confirming receivables), recalculating calculations made by the client (such as valuing inventory), and observing transactions being performed (such as the physical inventory count).

If substantive testing turned up errors or misstatements, additional audit testing would be required. In addition, a summary of any errors found was included in a management letter that was shared with the client's audit committee.

Substantive testing was conducted by a company's internal audit staff. Doing so provided assurance that internal recordation systems were performed as planned. If not, the systems were improved to eliminate the issues, thereby providing for a cleaner audit when the external auditors conducted their tests at year-end. Internally-conducted substantive testing occurred throughout the year.

Record keeping

Generally Accepted Recordkeeping Principles was a framework for managing records in a way that supported an organization's immediate and future regulatory, legal, risk mitigation, environmental and operational requirements. (Internet)

Minimum record retention periods

Table 4. The table below shows the minimum record retention periods

Deposit confirmation	3 years
General ledger	Permanent
Loans confirmation	3 years
Reconcilements to general ledger	3 years

All institutions by regulations retained all records for at least the minimum time period specified as this enabled the management to use them for reference in the near future for different purposes in the human resource management.

Proper record retaining played a big role when it came to human resource management. Human resource specialist was thus in position to compare data for different periods and then make a strategic decision that would not endanger the institution in unexpected losses or calamity.

This brought about adequate planning for the resources with the available funds and avoided wastage of materials and funds as well.

2.10 Issuing out audit reports and cash management

The audit report is the end product of the audit. The audit report reflected the opinion of the auditor about the financial information contained on the financial statements. This was stated by Peter Ngigi (1999).

Wittington and Pany (1997) on the same point explained that;

The end product of audit of any business entity is a report expressing the auditor's opinion on the client's financial statements.

After checking the financial reports of an institution or an organization, the auditor was required by law to make a report of his findings as well as express his opinion on them and then present it to the management of the organization.

It is through an audit report that an organization gets to know some of the risks and errors that have been made and which could endanger it. If cash had been used to purchase a non performing asset then it may be advised to choose another line of business which is income generating to the organization hence putting the funds to its effective use.

According to Mana 'she (2002), an auditor will express his opinion in two main ways;

- **An unqualified report**

An unqualified opinion is that one which is positive and satisfactory. An unqualified opinion of financial statements was expressed when in the auditor's judgment they gave a true and fair view and had been prepared in accordance with relevant accounting requirements. This judgment entailed whether:

- The financial statements had been prepared using appropriate accounting policies, which had been consistently applied.
- The financial statements had been prepared in accordance with relevant legislation, regulations or applicable accounting standards and that any departures were justified and adequately explained in the financial statements
- Also that there was adequate disclosure of all information relevant to the proper understanding of the financial statements.

A qualified report

A qualified report was that one which was negative and it showed that an auditor was not satisfied.

A qualified opinion is issued when either of the following circumstances exists:

- A limitation on the scope of the auditors' examination

- Auditor’s disagreement with the treatment or disclosure of a matter in the financial statements.

Therefore in the auditors’ judgment, the effect of the matter is material to the financial statements and thus those statements, are not or cannot give a true of fair view of the matter on which the auditors are required to report.

In case of disagreement and uncertainty over a matter material but not fundamental, the auditor can come up with such opinions as; except opinion, Adverse opinion, Subject to opinion and disclaimer opinion.

- **An adverse opinion**

This was an opinion which stated that the financial statement were not fairly presented and thus misleading.

- **A disclaimer of opinion**

Auditors issued a disclaimer of opinion if they are unable to determine the overall fairness of the financial statements. Where the auditors conclude that the possible effect of the imitation is not so significant as to require a disclaimer, they issue an opinion that is qualified by stating that the financial statements give a true and fair view except for the effects of any adjustments that may be found necessary if the limitation does not affect the evidence available to them.

As earlier stated, on completion of the audit work, the auditor produce a report which is addressed to the directors of the entity. Incase auditors get disagreements on matters concerning the limitation of audit scope, disagreement on accounting treatment or disclosure, the auditors include them in the opinion section of their report:

A description of the substantive factors giving rise to the disagreement and their implications for the financial statements. Auditors did not express an opinion on financial statements until those statements and all other financial information contained in a report of which the audited financial statements formed a part had been approved by the directors, and the auditors have considered all necessary available evidence.

The audit committee normally presents findings regarding the financial statements of the entity and provides recommendations to improve the management of funds. Therefore, it is from this report that the director confirms the direction of the organization's objectives and goals. The management used the report to set strategies for improving operations within the entity for the purpose of achieving its goals and objectives .therefore it was upon the management to see that new information was effected for better performance of the organization. When the auditor genuinely gives an opinion, it is beneficial both to the directors and the shareholders. It will make the directors strive to improve on the performances in all departments of the entity leading to improved resource and funds utilization there by becoming truthful transparent and accountable. It also helps shareholders to see whether the business is profitable or not, and hence they can decide to stay in the business or leave it. (The case of the Tanzanian ministry of health and social welfare fiscal years 1999-2010)

Supervision and funds utilization

Supervision refers to a process which provides an individual with the opportunity to clarify and resolve issues and dilemmas presented by their client workplace (Charles kudushim1992)

The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.

No other financial crisis since the Great Depression has led to such widespread dislocation in financial markets, with such abrupt consequences for growth and unemployment, and such a rapid and sizable internationally coordinated public sector response. Behind this response was the acknowledgement that these costs have been imposed partly as a result of systemic weaknesses in the regulatory architecture and on the failure of supervisors to rein in the excessive private sector risk taking. A key lesson is that supervision is incredibly important. Countries with the same set of rules had very different experiences during the crisis. Why? There are clearly many reasons but a key one is ―better supervision. After all, rules are only as good as their implementation. The role of the financial supervisor is unique. They are there during the birth, life, and death of the institutions they supervise. They license them, monitor them, lay out the rules, guide them, penalize them, and step in when they fail.

Therefore workers need close supervision in order to perform their duties and achieve the set objectives. For example, for a book keeper to have proper record in the books of accounts, an open eye should be kept on them by their supervisors to ensure that what is being done is right. It is from observance of an error that a supervisor comes in to rectify any mistakes made. Likewise financial institution’s funds cannot be used effectively for its purpose in the absence of supervision, it is through supervision that people develop fear of doing the reverse and hence funds are used effectively.(Baron, R.M. and Kenny, D.A., 1986.)

Conclusion

In conclusion therefore it can be said that, for any financial institution to utilize its funds properly, it is important that it takes into consideration all the key factors necessary to ensure proper control of risks which may prove to be a threat to the organizational objectives.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Methodology refers to the means, techniques and frames of references by which researchers approach and carry out inquiry (Busha and Harte, 1980).this chapter entailed the description on how the research was conducted. It brought out the design, study population, area of the study, sample size, sample techniques and methods of data collection, data analysis and presentation, quality control, measurement of variables, ethical consideration and limitations of the study.

3.2 Research design

According to Kakinda (2002) research design represents the structure of a research which can be qualitative or quantitative.

This research was quantitatively carried out to establish the role played by auditing towards effective utilization of funds within post bank Kampala road. It was obtained through the use of closed ended questions to coordinators, heads of departments and departmental accountants.

3.4 Area of the study

The research was conducted in post bank Kampala road branch. It is one of the branch of post bank limited Uganda as one of the financial institutions. There are other branches across the country such as Postbank Uganda limited Mbarara branch and Wandegeya branch among others. Post bank was chosen as the area of study because getting information concerning issues of funds is not easy and due to the fact that the researcher had a great opportunity of doing internship practice from the same institution, there was a high chance that the researcher easily interacted with the employees and other concerned parties to get the required information in fulfillment of her research. The institution was also not far from the researcher's place of residence which reduced on the research costs.

3.4.1 Population

Research population refers to the total number of people, events or things subjected under study either within the community or a country. In research, population refers to the totality of all subjects under investigation (Kakooza T,2005).also according to Jill and Hussey Roger(2003),a population may refer to a body of people or any other collection of items under consideration for purposes of research. The research population included all the number of workers in post bank Uganda limited Kampala road branch which had in total eighteen employees

3.5 Sampling procedures

Sampling is an important audit technique since it enables the auditor to select some transactions out of a large mass of repetitive data in a manna that he can draw valid conclusions about the entire data after a thorough examination on the selected transaction. The primary objective in an audit is to formulate and express an overall opinion on financial information based on an examination of the record of transactions and other relevant information.

Post bank has many branches all over the country but the researcher chose to carry out his research in Kampala road branch because it was one of the branches near her resident area. The second reason is that the researcher had worked with the same organization before for three months and therefore she thought it would be more easy to collect data that if she went to another organization which would be very new to her.

3.6 Sampling methods.

The sample selection techniques are those procedures used that enable the researcher obtain accurate and reliable samples that help in collecting qualitative and quantitative data (Descombe, 2003). There are two major types of sapling techniques, probability and non- probability sampling. In the probability sampling, the elements in the population have some known chances of being selected as sample subjects. On the other hand in the non- probability sampling, the elements do not have a known or predetermined chance of being selected as subjects (Sekeran , 2003).

The study used both probability and non-probability sampling approaches. Random sampling involved every member in the study population getting an equal chance of being selected. A non-probability sampling method or purposive sampling was also used to select respondents with specialized experience and knowledge on auditing and funds utilization in post bank (Amin 2005)

3.5.1 Sample Size

Research sample refers to the unit of population that is being selected and being subjected under study. The study selected a number of employees under investigation.

My sample size was 15 employees in number. My initial sample size was 18 employees because that was the number of workers at that branch but because three were on a long leave the researcher had to interact with 15 only. It was derived as seen from the table below.

Population category	Total population	sample	Sampling method
Operations department	7	7	Simple random sampling
Loans department	4	2	Purposive sampling
Information technology department	2	2	Simple random sampling
Finance department	5	4	Purposive sampling
Total	18	15	

3.7 Data collection instruments

This refers to the tools that the researcher used in the collection, storing and analyzing of the data from the field. The study involved a major use of primary data. The sources for primary data included; questionnaires, interviews, recordings and observations. But mainly questionnaires were used. A questionnaire is a formulated written set of questions used to obtain important background information about the study from the study population and can be both open ended and closed ended thus respondents are left to express opinions or closed ended thus alternatives are given for the respondents to choose from (Amin, 2005).the questionnaires were used basing on the fact that variables cannot be observed such as views, opinions, perceptions and feelings of the respondents. (Amin 2005) on auditing and effective use of funds. The questionnaire was closed ended, scored on a 5 point Likert scale ranging from 1 for strongly agree to 5 for strongly disagree. The questionnaire was distributed to the different respondents in their respective departments of work for filling and later collected after two weeks.

3.7.1 Primary data

This refers to the data obtained directly from the respondents by use of questionnaires and interviews.

3.7.2 Questionnaires

Sarantakos (2005) argues that a questionnaire method used to survey data collection is one in which information is gathered through oral or written questionnaire. The main data collection instrument was a questionnaire which enabled respondents to give information without any fear. This method was helpful to the researcher to reach the intended people easily

3.7.5 Secondary data

Secondary data was obtained from textbooks, magazines, internet, and articles and from journals. This was the basis especially for introduction to this report. It was also helpful in developing the conceptual framework, as far as determining the extraneous variables is concerned.

3.7.6 Quality control methods

These are methods that were helpful in ensuring some minimum levels of quality.

3.7.8 Reliability

Pak (2008) and Joppa (2002) define reliability as the extent to which results are consistent over time. An accurate representation of the total under study is referred to as reliability and if the results of the study can be reproduced under the same methodology, then the research instrument is considered to be reliable. This refers to the ability of the instrument to measure what they were designed to measure.

The tests for the data collection instruments was run where a sample of respondents were given the questionnaires. This tested the effectiveness of the instrument in collecting information and reliability of the information collected.

3.7.9 Validity

Validity is the extent to which research results can be accurately interpreted and generalized to other populations. Therefore it is the extent to which research instruments measure what they are intended to measure. Attention was paid to the validity of the content of the data collected by the data collection instruments. It highlighted the degree to which the instruments were relevant in exploring the variables under investigation.

The reliability and validity of the method was determined by use of two methods and that was ,split half and pre-testing method in order to allow the researcher get actual facts to determine the role of auditing towards effective utilization of funds in the organization. Split half method involves dividing the total number of questions into two halves where the first half of the questionnaires was distributed. These were retrieved from the field and then analyzed. Then thereafter the second half was distributed as well, retrieved and analyzed. The pretest method was used to see how accurate the responses in the questionnaires were.

3.8 Data management, processing and analysis

Oso and Onen (2008) noted that data analysis is the organization, interpretation and presentation of collected data. This involved the researcher in the process of analyzing the data that was supported by the questionnaire format that was used to conduct the study for the questions necessitated. Coding, editing and tabulations was used while conducting the study.

The researcher ensured that the data was corrected before leaving the respondents because it was a primary research type of gathering information. The researcher ensured uniformity, accuracy, consistency, legibility and compressibility.

Data was then coded into meaningful categories so as to bring about meaningful patterns. The information that was got from records was coded to ensure manual exhaustiveness and representatives.

From the quantitative data that was collected, the researcher analyzed quantitative data using special package for social sciences (SPSS) sheets program. Qualitative data was analyzed using informal analysis; frequency tables, and graphs were used to present, compare and contrast.

Data processing and analysis was done and presented in the form of figures and tables in order to establish the findings of the study. Data was transformed into meaningful state, organized and made easy to understand for the parties interested in the research. This involved editing, coding and tabulation.

3.9 Anonymity

The purpose, the intentions and the value of the study was made known to the respondents. It was necessary to declare that the information obtained in this study would remain purely for purposes of study.

3.10 Confidentiality

The information obtained during the study was treated as confidential, no unnecessary disclosures exercised.

3.11 Informed consent

Consent of the respondents was sought first before a request for information was made. Thus only respondents who consented to the request were actually given the questionnaires and interviewed.

3.12 Limitations of the study

Limitations refer to the constraints that the researcher faced in the field while carrying out the study. It may be time, resources such as transport costs and information itself to enable the researcher get the required data for the study.

During this research, limitations where met for example some employees misplaced the questionnaires which they were given. This was overcome by reprinting the questionnaires so that they can be able to fill them again.

Some employees had gone for leave and could not be reached easily. To overcome this hindrance, the research data collection which was supposed to take one week was extended to two weeks so that even those who were absent can get a chance to take part in the filling of questionnaires.

Conclusion

This chapter looked at key factors that were put into consideration during the research data collection. These factors included techniques of data collection, the sample size, the population, sources of data and ethical consideration among others. This was done to give assurance to the organization that data being collected is specifically for academic purposes. Therefore it is always important to understand such key factors before carrying out any research.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

Postbank Uganda Limited was established in accordance with the Communications Act of 1997. It was incorporated in February 1998 as a limited liability company to take over operations of the former Post Office Savings Bank, which has been in existence since 1926.

PBU is 100% owned by the Government of Uganda. And is currently run by the Board of Directors headed by Chairman and for day to day operations it's guided by the Management team headed by the Managing Director.

Postbank currently has 37 branches supported by 9 mobile banking vans with an operational presence in over 50 districts. Our branch network is also supplemented by point of sale machines and a number of authorized cash points across the country. We serve over 600,000 customers. Our deposit base and loan portfolio is over 200 billion and 170 Billion respectively.

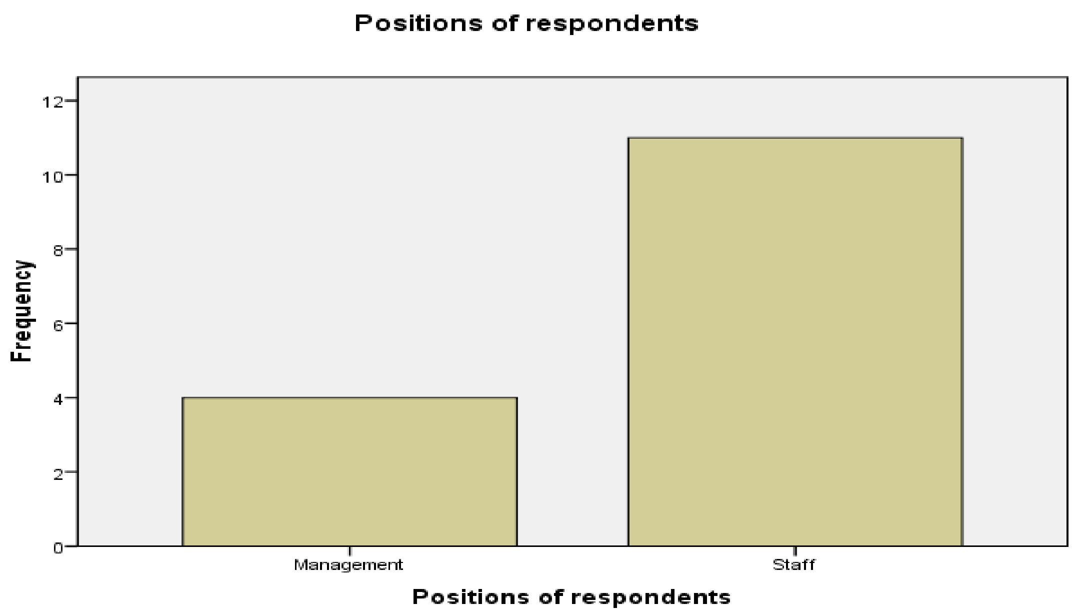
The bank's operations are supervised by the Bank of Uganda under Financial Institutions Act. The Bank also subscribes to Depositors Insurance Scheme at bank of Uganda, meaning that in the unlikely of a Bank failure, our customers are compensated for up to UGX 2 M Uganda Shillings. As part of the requirements, Postbank also has an internal audit for checking on the compliance of policies set and proper utilization of financial resources.

4.2 Respondents interviewed

Table 5. Respondent's gender.

Gender of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	8	53.3	53.3	53.3
	Female	7	46.7	46.7	100.0
	Total	15	100.0	100.0	



Source; field data 2017

Table 6

Departments of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	e-banking	2	13.3	13.3	13.3
	Operations	4	26.7	26.7	40.0
	Credit	5	33.3	33.3	73.3
	IT	2	13.3	13.3	86.7
	finance department	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

4.3. Financial reports in Postbank

A financial report is a written report for the company's managers and investors and government agencies that divulges the financial condition of the company**.** It usually includes statements about income, cash flow, shareholders' equity and balance sheet

A financial report is important because it helps to ensure that companies and organizations comply with relevant regulations and, if it is a public company, shows investors the current financial health of a company. Investors use need this data to make investment decisions, voice concerns and vote on issues at shareholder meetings

As already seen that financial reports serve a reasonable purpose, the researcher made efforts to ascertain how often Postbank makes its financial reports by asking a simple question which said;

How often do you make financial reports?

Table. 7

How often do you make financial reports					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Annually	7	46.7	46.7	46.7
	Semi annually	5	33.3	33.3	80.0
	Monthly	3	20.0	20.0	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

Analysis

Although the responses have various categories implying that they are from different departments, the particular element of internal and external checking is clearly distinguished in all of them.

The researcher was made to understand that various responses portrayed the different times the various departments are required to submit their reports for both internal and external checking by the auditors.

Interpretation

From the above findings, 46.7 % of the respondents responded that financial reports are made annually, 33.3% said that the reports are made semi-annually while the remaining 20% responded that reports are made monthly. These findings did not give a specific period when the financial reports are made since they gave varying answers. Though the biggest percentage showed that the reports are made annually, it was not clear enough for the researcher to tell when these reports are actually made in that organization. From the literature discussed, this type of checking annually on the organization's financial statement is very important in knowing the status of the organization as par the year end.

Table. 8

Statistics

How often are your financial reports audited

N	Valid	15
	Missing	0

How often are your financial reports audited

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Annually	3	20.0	20.0	20.0
	Semi annually	10	66.7	66.7	86.7
	Quarterly	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

4.4. Internal controls within Postbank Kampala road

According to the literature Internal control refers to an essential prerequisite for efficient and effective management of any organization

Internal control is normally considered very important in safe-guarding the utilization of resources of financial institutions, even if it is not a guarantee for success. The success of an organization depend on other external factors alongside internal ones. A question was given to employees in an attempt to find out whether there is an audit committee in Postbank Kampala road and it said;

Is there an audit committee in Postbank Kampala road?

The results are portrayed in the table below.

Table. 9

Is there an audit committee in Postbank Kampala road

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	15	100.0	100.0	100.0

Source: Field Data 2017

Analysis

Each organization is require to have at least an internal audit committee to carry out regular checks on the operations of the organization, ascertain whether the tasks have been done in the most appropriate way or if there is need for management to improve in some areas. It was crucial to know whether an internal auditing committee exists in post bank or not. As already seen from the data analyzed in the table above, all the fifteen respondents who were asked replied that there is an audit committee in post bank.

Interpretation

The fact that the researcher got 100% positive answers from the respondents that there is an audit committee in post bank, that is, all the fifteen responded with a “yes” it made the researcher understand that an audit committee is a very crucial activity in an organization.

In an attempt to confirm whether auditing is a great tool for proper utilization of funds in a financial institution, a question was paused to all the employees**.**

Does auditing enhance proper management of funds?

Table. 10

Does auditing enhance proper management of funds?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	5	33.3	33.3	33.3
	Strongly agree	6	40.0	40.0	73.3
	Disagree	2	13.3	13.3	86.7
	Strongly disagree	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

Analysis

The researcher analyzed data and the following was found out

33.3% of the respondents agreed that auditing enhance proper management of funds, 40% strongly agreed with the researcher, 13.3% disagreed that auditing does not enhance proper management of funds, and another 13.3% 0f the respondents also strongly disagreed that auditing does not enhance proper management of funds.

Interpretation

The respondents gave varying answers regarding the question which was paused. Therefore this made it difficult for the researcher to establish whether auditing is a good tool to facilitate proper utilization of funds in an organization.

Table .11

Should auditing continue in Postbank?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	14	93.3	93.3	93.3
	No	1	6.7	6.7	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

Analysis

After the respondents had given varying responses as to whether auditing enhances funds utilization in an institution, a related statement was paused to the respondents to be sure of those who are in support of its continuation in the institution and below were the responses.93.3% agreed that auditing should continue in post bank where as 6.7% said "No", meaning that auditing should not continue in Postbank.

Interpretation

According to the researchers' findings, the biggest percentage of the respondents which is 93.7% said that auditing should continue in post bank where as the smallest percentage which is 6.7% disagreed and said that auditing should not continue in post bank. Therefore the findings proved that most employees value auditing and find it helpful in an organization. As far as financial resource utilization is concerned.

Sine auditing was being used in Postbank as stated by all the respondents it was also so crucial to ascertain whether there has been any kind of fraud in the organization , this was achieved by pausing a question to all the respondents and it said;" what kinds of frauds have you experienced in Postbank?", and below were the responses.

Table. 12

Statistics

What kind of frauds have you experienced in Postbank

N	Valid	15
	Missing	0

What kind of frauds have you experienced in Postbank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Omitting entry of cash received in the book	1	6.7	6.7	6.7
	None of the above	14	93.3	93.3	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

Analysis

From the data analyzed by the researcher**,** 93.3% of the respondents showed that post bank has not experienced any kind of fraud where as 6.7% indicated that post bank has so far experienced omission of entry of cash received in the book.

Interpretation

The findings showed the researcher that post bank needs to be a little more conscious about the entry of cash in the books. Though the biggest percentage which is 93.3% showed that post bank has not experienced any fraud, there is concern about the 6.7% which indicated that post bank is not 100% free from cases of fraud. Therefore there is a need to make sure that fraud is completely detected and deterred from taking place in post bank.

Internal controls in Postbank

Internal controls are nothing more than policies or procedures put in place to safeguard an asset, provide reliable financial information, promote efficient and effective operations, and ensure policy compliance. For example: When you came to work this morning did you lock the doors to your house? If so, that's an example of an "internal control" you used to protect the assets you own. Generally there are three types of control:

Table. 13

Which of the following controls do you use for management of cash, inventory and non-current assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Internal Audit	8	53.3	53.3	53.3
	Record keeping	2	13.3	13.3	66.7
	Authorization and approval	1	6.7	6.7	73.3
	Arithmetic and accounting controls	4	26.7	26.7	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

Analysis of data findings

From the table above, respondents gave different views as to what kinds of control the institution uses for management of cash, inventory and non-current assets. There are various controls used for management of an organization's resources but from the data analysis it is was found out that the most used control is internal audit which holds the bigger number of the respondents and that is eight in total with a percentage of 53.3. This greatly informed the researcher that internal audit is a very strong internal control for management of funds utilization and a key to success. Other internal controls obtained a smaller percentage as compared to internal audit and this showed that however much they are also used in management of an organization's' resources, internal audit still holds the first position.

4.5. Employee teamwork

In today's society, there have been so much emphasis on pride and personal achievement at work place; where by the concept of teamwork seems to be overlooked by managers and employees, due to this management sees less essence of teamwork as a major tool of performance which has lead them to poor performance and productivity in the industry market. Team can be described as a group of people who work together to achieve the same goals and

Objectives for the good of the service users and organizations in order to deliver a good quality of service. Without teamwork houses take long to build, government collapse and companies are outshined by their competitors in the market and lastly without teamwork people

3 lose their inspiration (Husain, 2011). In direct relation to this, the researcher in an attempt to find out the corporation of employees and managers in Postbank asked this question;

How do you rate the general relationship of employees in Postbank Kampala Road?

And the responses were as follow.

How do you rate the general relationship in Postbank Kampala road **Table .14**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fair	2	13.3	13.3	13.3
	Good	10	66.7	66.7	80.0
	Very Good	3	20.0	20.0	100.0
	Total	15	100.0	100.0	

Source: Field Data 2017

Interpretation of the findings

From the table above, it is clearly seen that two respondents answered fair, ten answered good, three answered very good. Due to the fact that the majority answered well, this implies that the general relationship in Postbank Kampala road is good. This contributes to the effort of workers to work together as a team and achieve the organization’s goals and objectives

Conclusion

From the data analyzed, to a greater extent the researcher was able to establish the kind of working environment in post bank since the significant percentage was indicating that there is a good relationship amongst the employees.

CHAPTER FIVE

IMPLICATIONS AND SIGNIFICANCE OF THE STUDY

5.1 . Introduction.

In this chapter interpretation and analysis of the results were made. Issues for discussion include implication from methodology, data availability and implications from findings. This will be in light of the literature discussed in chapter two.

5.2. Implications from methodology and data availability

From the sample that was set on the number of people to be contacted, 15 out of 18 responded and that was the larger part of my respondents. Although three people did not respond, they are very important people in the organization. One of them being the bank manager herself. It is possible that very vital information from her which others do not know, might have influenced either negatively or positively the findings of this research and conclusions drawn by the researcher.

Questionnaires were given to all those who could understand. These were the people more directly involved in the controlling of the use of funds. They responded well with the exception of some three who failed or were unwilling to reply.

The similarities of responses given by the various respondents gave the researcher he impressing that even if more people were contacted ,most of the responses would still be the same indicating the truthfulness in what the respondents said. Hence the information given can be relied upon.

During the period of data collection, some employees were on leave while others claimed to have misplaced the questionnaires. This led to late collection and compilation of the data.

5.3. The relationship between auditing and effective utilization of funds in financial institutions

The study found out that auditing and effective utilization of funds in financial institutions go hand in hand. For an organization to effectively use its funds, there must be proper checking on what the funds are being used for.

5.4. Recommendations

From the above findings, however much the research managed to collect adequate data, the researcher discovered areas which needed adequate attention from the organization. First and foremost the researcher found out that the employees are not sure of when financial reports are audited, this was seen as a big threat to the organization because it could lead to poor preparation of financial statements so as to catch up with the unexpected internal checks and other checks on the financial statements. Therefore as the researcher, I recommend that the organization sets a particular period when the financial statements should be checked so that the involved parties can do their work in time and not in a rush.

The researcher found out that some employees do not clearly understand the role of auditing in their institution, which is so unfortunate. Some even suggested that auditing should not continue in post bank. On this note therefore, I would recommend that employees get orientation about the role of auditing in such an institution so that they are able to help the organization prevent uncalled for scandals.

The researcher discovered that post bank has somehow experienced fraud, fraud is the biggest reason why most organizations have not been able to carry on and develop. Though the percentage at which fraud was experienced was very minimal, it could cost the organization a big loss financial wise including public reputation. Therefore I recommend constant internal checks on the financial statements and internal controls so as to avoid such mistakes of omission of entries in the books of accounts.

Conclusion

Reliable information for the research was obtained through closed ended questionnaires to the employees of Postbank Kampala road branch. The analysis and interpretation of data gave a strong support to the underlying theory of the audit practice, that it enhances the use of funds in a financial institution.

Therefore, progress and success in audit practice in Postbank Kampala road can be of great importance to all shareholders and be an example to all the other financial institutions that are being poorly managed due to lack of proper checking on the activities of their managers.

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APPENDIX I : QUESTIONNAIRE

TITLE

THE ROLE OF AUDITING TOWARDS EFFECTIVE UTILIZATION OF FUNDS IN FINANCIAL INSTITUTIONS

A QUESTIONNAIRE FOR POSTBANK EMPLOYEES

BACKGROUND

This study is being undertaken as part of the requirement by the Uganda martyrs University for the Award of a bachelor's degree. And is purely for academic purposes only. All information obtained in the course of this study will therefore be confidentially treated. I am therefore requesting you to kindly fill in these questionnaires and return to me. I take this opportunity too to thank you for your contribution and cooperation.

Branch……………………………………………………

Department…………………………………………...

Position …………………………………………………

Sex………………………………………………………

Q.1 how often do you make financial reports?

a) Annually ☐ b) semi- annually ☐ c) quarterly ☐ d) monthly ☐

Q.2 how often are your financial reports audited?

a) Annually ☐ b) semi- annually ☐ c) quarterly d) monthly ☐

Q.3 is there an audit committee in post bank Kampala road?

a) Yes ☐ b) ☐

Q.4 auditing enhances proper management of funds

a) Agree ☐ b)strongly agree ☐ c)disagree ☐ d)strongly disagree ☐

Q.5 As a matter of fact auditing should continue in post bank

a) Agree ☐ b)strongly agree ☐ c)disagree ☐ d)strongly disagree ☐

Q.6 Do u prepare cash budgets in post bank Kampala road?

a) Yes ☐ b) no ☐ c) I am not sure ☐

Q.7 If yes, who is responsible for its

preparation..

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Tick the options that apply

Q.8 which types of frauds have you experienced in post bank Kampala road

a) Making fictitious payments ☐

b) Omitting entry of cash received in the book ☐

c) Misappropriation of goods ☐

d) Presenting receipts with more amount than actually paid ☐

e) All the above ☐

f) None ☐

Q.9 below are the internal control characteristics use by financial institutions

a) Organizational chart

b) Recording and record keeping

c) Segregation of duties

d) Authorization and approval

e) Supervision

f) Safe- guarding of assets

g) Competence of staff

h) Arithmetic and accounting controls

i) Internal audit

Which of the following controls do you use for management of

a) Cash
b) Inventory
c) Non- current assets

Q.10 does purchase department exist in post bank?

a) Yes ☐ b)No ☐

Q.11 which procedures do you follow in:

a) Purchase of materials…………..……………………………………………………………

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b)Cashpayments……………………………………………………………………………………

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Q.12 how do you rate the general relationship between managers and subordinates, commitment of staff to work, punctuality, concern for the organization and its assets, ethical values, adherence to policies and procedures within post bank?

A) Fair ☐ b) good ☐ c) very good ☐

Supervisor

Name …………………………………………………………………

Tel………………………………………………………………………

Email ………………………………………………………………….

Signature ……………………………………………………………

QUESTIONNAIRE FOR POSTBANK DIRECTOR/MANAGER

This study is being undertaken as part of the requirement by the Uganda martyrs University for the Award of a bachelor's degree. And is purely for academic purposes only. All information obtained in the course of this study will therefore be confidentially treated. I am therefore requesting you to kindly fill in these questionnaires and return to me. I take this opportunity too to thank you for your contribution and cooperation.

Q.1 what types of audit practices is carried out within Postbank? Tick the appropriate one(s) and briefly explain.

a) Internal ☐ b) external ☐ c) interim ☐ e) others specify ☐

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Q.2 what is the reason of having your financial reports audited?

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Q.3 who are the main users of your audited financial reports /statements?

a) Postbank ☐ b) Donors ☐ c) The public ☐

Q.4 who appoints the auditors?

a) Postbank board ☐ b) directors of Postbank ☐

Q.5 Is there an audit committee in Postbank?

a) yes there is ☐ b) no there is none ☐ c)I am not sure ☐

Q.6 has the checking created any problem for your institution?

a) Yes ☐ b)No ☐

If yes, explain……………………………………………………………………………………

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Q.6 which of the successes registered by Postbank do you attribute to the audit practice being done in the institutions?

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Q.7 there is a positive change in the quality of financial reports presented by Postbank between the time its financial reports were first audited and now?

a) Strongly agree ☐ b) Agree ☐ c) strongly disagree ☐ d) disagree ☐

Q.8 there are limitations or improvements that needs to be in the way Postbank manages resources

a) Agree ☐ b)strongly agree ☐ c)disagree ☐ d)strongly disagree ☐

Briefly explain……………………………………………………………………………….

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…………………………………………………………………………………………………

Q.9 how do you rate the general relationship between managers and subordinates, commitment of staff to work, punctuality, concern for the organization and its assets, ethical values, adherence to policies and procedures within post bank?

A) Fair ☐ b) good ☐ c) very good ☐

Supervisor

Name …………………………………………………………………

Tel…………………………………………………………………….

Email ………………………………………………………………….

Signature ………………………………………………………….

GUIDIING QUESTIONS FOR INDIVIDUAL INTERVIEW WITH POSTBANK EMPLOYEES

Q.1 Have you ever been advanced funds from your institution for transaction purposes?

Q.2 what procedures did you follow in order to obtain cash?

Q.3 how did your account for the use of funds advanced to you?

Q 4 how often do the accountants prepare financial reports in Postbank?

Q.5 who does the checking on the financial reports of your organization?

Q.6 how regularly do the reports prepared by the accountants audited?

Q.7 is the regular checking made on the financial reports of your financial institution helpful to you in any way as an employee?

Q.8 who are the people involved in the preparation of cash budget of Postbank?

Q.9how do you rate the general within Postbank?

Supervisor

Name ………………………………………………………………

Tel…………………………………………………………………

Email ……………………………………………………………….

Signature …………………………………………………………