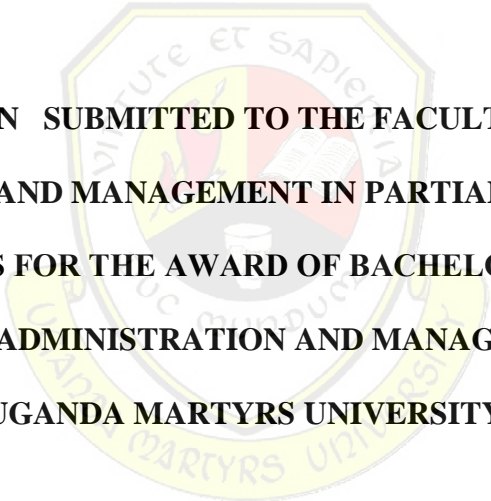


**THE EFFECT OF INTERNAL AUDITING ON FINANCIAL
PERFORMANCE OF LOCAL GOVERNMENTS IN UGANDA.
A CASE OF MBALE MUNICIPAL LOCAL GOVERNMENT.**

**A DESERTATION SUBMITTED TO THE FACULTY OF BUSINESS
ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF
REQUIREMENTS FOR THE AWARD OF BACHELORS' DEGREE IN
BUSINESS ADMINISTRATION AND MANAGEMENT OF
UGANDA MARTYRS UNIVERSITY.**

The logo of Uganda Martyrs University is a circular emblem. It features a central shield with a cross, a book, and a chalice. The shield is surrounded by a banner with the motto 'VERITAS LIBERABIT VOS'. The outer ring of the emblem contains the text 'UGANDA MARTYRS UNIVERSITY' and 'FUNDATION 1969'. The entire logo is rendered in a light, semi-transparent yellow color.

WELISHE DAVID

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DEDICATION

I dedicate this Research report to my dear mum Mrs.Mutonyi Rhoda for her endless and unconditional love, care and support both financially and morally to me during my growth and academic struggle. May God the almighty bless him abundantly?

ACKNOWLEDGEMENT

In especial way I thank my supervisor Father .H.R.Waiswa, for the ideal and practical guidance he offered to me to conceptualize, analyze and present this the Research.

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DEFINITION OF KEY CONCEPTS

Local Governments refer to administrative units of governance and service delivery. This is in line with the Local Government Act and operates with in the decentralization policy that was undertaken since 1993 as an alternative to service delivery among the grass root people that is the intended beneficiaries.

Service delivery basically refers to the outcomes of proper financial management system in terms of services especially in the fields of education, health, roads and agriculture.

Financial Management system in this study means the laid down procedures and rules that govern effective utilization of the financial resources to ensure proper performance and effective service delivery.

Internal Audit is an independent examination of financial information of any entity whether profit oriented or not and irrespective of its size, legal form when such an examination is conducted with a view of expressing an opinion” It helps an organization accomplish its objectives by bringing a systematic designed approach to evaluate and improve the effectiveness of risk management, control and governance process. Mannaseh; (2007)

Performance. According to the Encarta 2007 Microsoft Corporation defines performance as the act of carrying out or accomplishing something such as a task or action.

LIST OF ACRONYMS

AICPA	American Institute of Certified Public Accountants
ANOVA	Australian National Audit Office
CAE	Chief Audit Executive
CAO.	Chief Administrative Officer
CCR	Coordinating Committee on Remuneration
COSO:	Committee of Sponsoring Organization of the Teaching
DIA	District Internal Auditor
DPAC	.District Public Accounts Committee
GTF	Guidance Task Force
IA	Internal Auditor
IIA	Institute of Internal Auditors
IGG.	Inspector General of Government
ICPAU	Institute of Certified Public Accountants of Uganda
LG	Local Government
MoFPE.	Ministry of Finance Planning and Economic Development
MVA	Market Value Added
NGOS	Non-Governmental Organizations
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
ROA	Return on assets
ROE	Return on Equity
VFM	Value-for-money

ABSTRACT

The purpose of the study was to find out the importance of internal audit to the local government and the relationship between Internal Audit system and financial performance of Local Governments in Uganda. It was guided by four objectives namely; to find out the nature of Internal Audit and performance of Mbale Municipal Local Government, to find out the relationship between Internal Audit and performance of Mbale Municipal Local Government and to identify the challenges faced by the Internal Audit and performance of Mbale Municipal Local Government Local Government.

The research design involved collecting of both primary and secondary data using a questionnaire and interviews, and during data collection stratified sampling methods was used. Both qualitative and quantitative were used to analyze data as sample of 40 respondents was selected at Mbale Municipal Local Government.

The study was revealed by the respondents that checking of the totals in books of accounts was done by the people under the audit section in the study area to prove for the accuracy of the balances. From the study findings revealed corruption among the challenges of Internal Audit department and performance of Mbale Municipal Local Government. The respondents revealed that most of the Local Government officials are corrupt and tend to embezzle Government funds that impends performance. The study also established that there is a relationship between Internal Audit and performance of Mbale Municipal Local Government as indicated by the scores of roles of Internal Audit and financial performance.

The researcher concluded that there was political interference, corruption, conflict of interest, inadequate skills, inadequate information, inadequate funds, and improper communication flow are the major challenges faced by Internal Audit and performance of Mbale Municipal Local Government. The researcher also recommended that there should be use of strong internal control system in Local Governments, careful selection of employees in Local Government and Local Governments' to employees to always follow the drafted work plan in the departments if the auditing and performance is to be effective. Lastly that the influence of political structure and performance of Local Governments in Uganda and the relationship between employees experience and performance of audit department in Local Governments as areas for further studies.

CHAPTER ONE:

GENERAL INTRODUCTION

1.0 Introduction.

This chapter gives the clear view of Internal Audit to its existence. It also highlights on background of Internal Audit together with the statement of the problem with leaving the objectives.

1.1 Background of the study

Mannaseh;(2007) defines an audit as “An independent examination of financial information of any entity whether profit oriented or not and irrespective of its size, legal form with such an examination conducted with a view of expressing an opinion” It helps an organization accomplish its objectives by bringing a systematic designed approach to evaluate and improve the effectiveness of risk management, control and governance process”.

Internal Auditing began as one person clerical procedure that consisted primarily of performing independent verification of bills before payment. (Boynton and Kell; 1996) This was, therefore, an embryo Internal Audit. In the early 1900s, the emphasis on auditing shifted from the detection of fraud to the needs of the various users of financial statements. (Guy et al.; 1996) In other words, Internal Audit is the product of modern social and economic development. The significant changes pushed forward by the European Industrial Revolution in the eighteenth century greatly promoted the establishment of many large share-holding companies and monopoly trust groups. With

the rapid development of productive technology, expansion of operational scope, and large-sized organizations with many managerial levels, heads of companies could not directly carry out supervision so they needed some full-time representatives to do it for them. (Iliopoulos; 1980) After the 1940s, Internal Audit entered its golden developing period, in which the theory of Internal Audit began systematically taking shape and Internal Audit organizations also came to the fore. The American Institute of Internal Auditors, the predecessor of the Institute of Internal Auditors (IIA), was set up in 1941. (Dittenhofer; 2001)

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

Gupta; (2001) on the other hand asserts that “Internal Audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization”. The objective of Internal Audit is to assist members of the organization in the effective discharge of their responsibilities. He said that “the scope of Internal Audit is determined by management”. This may however, impair the Internal

Auditor's objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work. Although at a Seminar organized by the Institute of Certified Public Accountants of Uganda (ICPAU), Sebbowa; (2009) in his presentation "The role of Internal Audit function in Organizations", states that "Independence is established by organizational and reporting structure" and that "Objectivity is achieved by an appropriate mindset".

Sebbowa; (2009) also defines "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes". He further mentions the principles of Internal Audit to include; Integrity, Objectivity, Confidentiality and Competency. However, given that Internal Auditors are appointed by management, report to management, and are employees of an organizations, their objectivity is usually highly compromised. As Onesie; (2004) puts it, the main objective of Internal Auditing is "to assist management in the effective discharge of their responsibilities by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed".

Consequent to such Local Governments owe both physical and book accountability to the public which is best done through auditing. Local Government is required to be audited as they earn revenue or get funds from taxes in form of rates, charges for sales of goods

and services and grants from central Government, civil society and NGO's.(Jennifer Bigirwa; (2011)

The district structure of Internal Audit is that the duties are to be carried out to provide independent audit of Local Government functional departments/line ministries and all projects run at Local authorities' procedures. (Public Finance and Audit Act; 1983)

1.2 Importance of internal audit on local government

While the Importance of internal audit on local government are many and varied, the primary Importance is it provide effective performance which arguably will coincide with good governance for its municipality. Internal audit and relevant controls play a key role in ensuring that good governance. The introduction of accrual accounting in local government certainly adds complexity and additional risks, with cases of fraud, corruption and high risk investments in several Ugandan local councils being reported periodically by the media. Those cases have been accompanied by proposed governance reforms including the introduction of an internal audit function to address the issues raised. Although seen as an essential part of the governance process, the results here suggest there is still some confusion as to the role of the internal audit and its perceived effectiveness in Australian local government.

1.3 Statement of the problem.

According to the Uganda Local Government Act, Accounting and Audit 2003, every Local Government entity is to keep proper books of accounts and records in relation

thereto and shall balance its accounts within four months from the end of each financial year.

As stated by Fix on Okonye; (2010), Internal Audit is the cornerstone of good public governance by providing unbiased objectives assessment of whether or not public resources are responsibly and effectively managed to ensure that the intended objectives are achieved. Despite the existence of guidance on financial management in Local Governments as contained in the Internal Audit charter, finances and Performance (Act 2003, there are various inadequacies in the management of finances and high performance gaps in the Local Government sector today. There is no organization that can provide good and fair accountability of public funds to the public without internal audit and secondly it is internal audit that can ease the work of external auditors So there is need by the researcher to assess the role of Internal Auditing on financial performance of Local Government.

1.4 Purpose of the study.

The purpose of the study is to establish the effectiveness of Internal Audit systems in the financial performance of Local Governments in Uganda.

1.5 Objectives of the study

1. To find out the nature of Internal Audit in Local Government.
2. To find out the relationship between Internal Audit and financial performance of Mbale Municipal Local Government.

3. To identify the challenges faced by the Internal Audit in enhancing financial performance in Local Government.

1.6 Research questions

- (a) What is the relationship between Internal Audits in enhancing financial performance of Mbale Municipal Local Government?
- (b) What is the nature of Internal Audit in Mbale Municipal Local Government
- (c) What are the challenges faced by the Internal Audit and financial performance of Mbale Municipal Local Government?
- (d) What are the solutions to the challenges faced by Internal Audit in Mbale Municipal Local Government

1.7 Scope of the study

1.7.1 Geographical scope

The geographical scope of the study was Mbale Municipal Local Government, which is located in Eastern Region. Mbale Municipality is found in Mbale district in Eastern Uganda. Mbale Municipality is divided into three divisions which include Industrial, Wannale, and Northern division. This study considered the management and staff of Mbale Municipality plus people that were selected from the public who were assumed to be the citizens of the .Mbale Municipal

1.7.2 Time scope

The study was estimated to take a period of three months and would mainly consider information related to four years that is (2010- 2015). The period of four years was chosen because it was long enough for the researcher to establish the effect of Internal Audit on the financial performance at Local Government – Mbale Municipality.

1.7.3 Content scope

The study considered the relationship between Internal Audit and financial performance of Local Government, the importance of Internal Audit function in the accountability of Public Corporation and the areas that need Internal Audit in Local Government

1.8 Significance of the study

The study is to help the researcher to acquire more skills in research that enhance future performance and employment in the field of research. The findings from the study are likely to empower the finance and audit staff to evaluate some of the policies governing financial management and see whether they are generating the intended results. This may provide such users a base on which to modify these policies to suit the demands of the different stakeholders hence improving service delivery.

The findings from the study are likely to empower the finance and audit staff to evaluate some of the policies governing financial management and see whether they are generating the intended results. This may provide such users a base on which to modify these policies to suit the demands of the different stakeholders hence improving service delivery.

The study findings is to help the Local Government under study and others in Formulating appropriate Internal Audit function and accountability attitude policies that will help in enhancing better financial performance.

The study findings and addition to the already existing knowledge especially in the field of Internal Audit function and accountability of public funds.

The results of the study is to help the future researchers especially those who are researching in a similar area of Internal Audit function and accountability of public funds of organizations as they will use it as literature review.

The study also add literature review to the already established information about the variables hence acting as a source of literature review to the future academicians who may get interest in researching about the same study variables of Internal Audit and the accountability of public funds in Local Government.

The study may further help to bring out the weaknesses in Internal Auditing mostly found at Mbale Municipal Local Government regarding to the auditing as well as recommendable strategies to solve established weaknesses at the same organization.

The study further helps the researcher to acquire practical skills that may help in carrying out more researches in some future time. This is because during the process of carrying the study, the researcher may come up with the new inspiring problem in the area

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CHAPTER TWO: LITERATURE REVIEW

2.0 The concept of Internal Audit in Local Government

Internal Audit is an additional safeguard for proper financial control in the public sector. Each ministry, Parastatals and Local Government is expected to establish an Internal Audit division. The Internal Audit is responsible for the audit of all financial transactions by carrying out a continuous examination of all accounting books and records maintained in the Organization with a view to checking or detecting fraud and correcting errors. It is concerned with the examination of the system and procedure in place so as to ensure their conformity with the regulation, as the case may be, that the system of internal control is adequate and that it is continuously operating in accordance with Government regulations. It is the job of Internal Auditor to ensure that all financial transactions are in accordance with the approved regulations and that adequate system of security exists in the establishment. (Momoh; 2005)

Internal Audit is expected to be independent and directly responsible to the chief executive. The unit should be properly organized, adequately staffed and equipped to be able to effectively perform its functions. (Sabari; 2003), (Dandago; 2000) and (Sunday; 2003). These should include periodic surprise cash survey in all sections of the ministry or Parastatals or Local Government, checking of revenue collectors' cash books, receipt books and bank tellers, as well as, inventory verification of the store and maintenance of plant registers and ledgers for the purpose of easy location and identification of the assets of the organization. (Jocelyn; 2003)

2.1 Background of Internal Audit in the Local Government

Auditing is an independent examination of, and the expression of an opinion on the financial statements of an enterprise by an appointed auditor, in accordance with his terms of engagement and the observance of statutory regulations and professional requirements Dandago; (1999) and Mainoma; (2007) This definition clearly stated that there must be someone (auditor) responsible for expressing an opinion on the entire financial statement of an organization. The auditor here may mean an individual or firm carrying out the audit of an enterprise. The auditor should be approved and must have personal and operational independence in order to perform his duty effectively.

Akpata; (2001) and Sabari; (2003), their classified audit into four types: private, statutory, management and Internal Audit, even though all the types of audit focus on regulations, which lead to control of expenditure or revenue. Millichamp; (2000:35) defined Internal Auditing as “an independent appraisal function within an organization for the review of system of control and the quality of performance as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control system to the proper economic, efficient and effective use of resources”.

Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance

processes. (IIA; 2007) It delivers greater value to an organization by championing good governance, supporting enterprise risk management rollout, consolidating compliance processes, and potentially coordinating various other corporate monitoring functions. (Rick & Todd; 2008)

Internal Audit is an independent appraisal function with the organization set up for the view of systems of controls and quality performance.(Khalisa; 2000) The new definition of Internal Audit defines the function as an independent objective assurance and consulting activity designed to add value and improve an organization's operations. (Albert et al; 2002) Section 90 of the Local Government Act 1997 provides for the establishment of the Internal Audit departments in the Local Governments with a view of assisting the Local Government provide public goods and services in an effective, efficient and economic manner. As a service department to the organization, the Internal Audit function objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to proper economic use of resources. The Internal Audit is autonomous and reports directly to the district council. According to section 91 of the Local Government Act 1997, the department is responsible for verification of accounting records and any other roles as stated in section 91 of the Local Government Act (LGA) 1997 for all district departments.

The Local Government Act amended (2002) section 91 provides that every district, Municipal council or town shall provide for an internal department in order to foster financial management. Its head is charged with preparing quarterly reports and submit

them to the council giving a copy to the Local Government Accounts Committee. As a means to enhance good performance the auditors should do their work professional skepticism and due care.

However in Local Governments the audit department is faced with problems of inadequate staff that are allocated by the chief finance officer, inadequate facilities to monitor all the roles stated by the Local Government Act, poor segregation of duties and lack of independence of the Internal Auditors. Inadequate records and equipment, threats of being merged with accounts department, poor perception of people of the roles of Auditors, and interference by the politicians who engage in acts not stipulated in the Local Government Act amended 2000 and in the Local Government Finance and Accounting Regulation Act 1998 (LGFAR), hindering independence of the Audit department for example councilors awarding themselves tenders.

Performance in business refers to the ability to meet the standards, increased market share, improved facilities, ensuring returns on profitability, and total waste reduction and once this is achieved, a business is said to be performing effectively. (Bulunywa; 1998) Performance of an organization can be measured in terms of financial aspects, profitability risk levels, proper book keeping good evaluation and time management. The International Auditing Practice Statement (IAPS) 2003, states that the need for an Internal Audit functions will usually be governed by size, risk, and complexity of a business. The board's role in relation to Internal Audit is to understand and take committee. According to Ellis Internal Audit is not special thus the auditors must be able

to justify Internal Auditor's existence just like any organization to achieve its objectives. However the achievement of these objectives is hindered by risk and it is these risks that audit is all about

2.2 Scope of Internal Auditing

Mayo BPP (1993), the scope and objective depend upon the responsibilities assigned to the Internal Auditor by the management, the size and structure of the enterprise and the skills and experience of the Internal Auditor. Millichamp; (2000), Mainoma;(2007) and Sani;(2009) identify the common areas covered by Internal Auditing which include among others; reviewing the internal control system with a view to determining its adequacy and effectiveness, reviewing compliance with Government regulations and accounting rules and standards, checking compliance with policies and procedures, safeguarding the asset of the organization so as to prevent and detect errors, frauds and theft, appraising the effectiveness and efficiency in the use of resources, ensuring that the goals and objectives of the organization are attained, making recommendations on improvement in the operation of the organization, acting as in-house consultant on control matters.

Millichamp; (2000) identifies the following as the essential elements of Internal Audit; independence, staffing, training, relationship, due care, planning, controlling and recording, system control, evidence, reporting. It can be seen that without such essential element, no way the Internal Audit can perform their duties effectively.

2.3 Objectives of Internal Audit in Local Government.

The main objective of Internal Auditor in Local Government level was?

To promote accuracy and reliability in accounting and operating data,

To safeguard Government resources against waste, fraud, and inefficiency,

To measure the extent of the operating department's compliance with Government policy, To evaluate the overall efficiency of the operating functions

(Adams, 2004). (Shehu, 2004) is of the view that Internal Audit at Local Government should ensure that all officers whose duties involve the handling of Local Government funds are adequately bonded, ensure that the computation and casting have been verified and are arithmetically accurate, ensure that all payments have been entered in the Departmental Vote Book (DVEA)

The implementation guideline on the application of civil service reforms in the Local Government service (1998) as cited in Shehu (2004) and (Sani, 2009) provided that; there shall be established in each Local Government, an Internal Audit unit, headed by a qualified accountant to provide a complete and continuous audit of the accounts, and records of revenue and expenditure. The Internal Auditor of each Local Government shall directly be responsible to the accounting officer and the Auditor General of the Local Government council, and therefore he shall report monthly to the accounting officer, as well as to the Auditor General of the Local Government council, on the true progress of

the audit. He shall also issue special reports, if necessary, where, in his opinion, the attention of the Auditor General of the Local Government council should be drawn.

2.4 Responsively of internal audit in local government

The Financial Memorandum(1999), however, states that an Internal Audit unit shall be responsible for carrying out an independent appraisal of the accounting, financial and other processes of the Local Government with the objective of; assisting to protect the assets and interests of the Local Government through a process of continuous examination of its activities, securing a continuous operation of a sound internal control system within each department, reviewing, and where necessary, making recommendations for improvement of the system, controls and procedures in the Local Government with a view to ensuring that they operate effectively, monitoring the use of resources in the pursuit of defined objectives of the Local Government. The Memorandum also stated that; the Internal Auditor shall report to the Chairman at least four times each year on the progress of the Internal Audit work. The reports shall specifically indicate the Internal Auditor's finding with respect to; the collection of revenue, the protection of physical and other assets of the Local Government, the current and capital expenditure, the efficiency and effectiveness of system control and procedure, the use of resources of the Local Government in achieving its objective, any instance of fraud or misappropriation observed by the Internal Auditor should be revealed to the Chairman's attention From this, it can be seen that the scope and objective of Internal Auditing varies from organization to organization, depending on the size, structure and management of the organization.

Normanton, as cited in Daniel (1999), emphasizes the importance of Internal Audit by saying that “without audit, no accountability; without accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the Government and the success and sustenance of the internal control lies on Internal Auditing. The above observation underscores the importance of Internal Audit in every Government organization.

2.5 Relationship between Internal Audit and performance in Local Government

Performance.. According to the Encarta 2007 Microsoft Corporation defines performance as the act of carrying out or accomplishing something such as a task or action

Local Governments are entrusted with public funds of which are Local revenues, central Government grants, donor of who all aim at satisfying the public through service delivery. It is therefore, a stewardship phenomenon which can properly be ascertained by auditing in this regard particularly the Internal Audit. (Public Finance and Audit Act; 1983)

Committee of Sponsoring Organizations (COSO) framework, everyone in an organization has the responsibility towards the internal control to some extent. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, in compliance with the code of conduct

or other policy violations or illegal actions which in the long run leads performance. (Ongalo; 2006)

Internal Audit plays an important role in the prevention and detection fraud which is the challenge to performance in Local Government. It involves identifying scenarios in which theft or loss could occur and determining if the existing control procedures can effectively manage the risk to an acceptable level thus preventing financial and administrative irregularities hence performance in the long run. Diamond; 2002)

As a way to improve Local Government performance and accountability which in principle is a key element of upholding internal control systems, transparent budgeting processes and implementation procedures should be followed. Musari, R;2005)

For effective and efficient use of public funds in Local Governments, there is need to uphold internal control procedures and systems if the desired output is to be realized. The Local Governments particularly districts, under 1995 constitution article 190, are mandated to prepare comprehensive and integrated development plans have rights and obligations to formulate, approve and execute their balanced budgets and plans. All these activities are technical and critical requirements to proper use of public funds which are under the guide of the Internal Audit department. MOFPED ;(2003)

2.6 The Nature of Internal Audit and performance in Local Governments.

Internal Auditing is an accounting function that entails independent and constant appraisal of the Governments activities, operations and control so as to safeguard the

entities assets, ensure efficient operation all which are aimed at assisting the management to manage the entity, which makes this control “watch dog” of the Governments entire controls although it’s a control in itself. Mannaseh ;(2007)

Ministry of Finance Planning and Development (2003) the work of Internal Audit is centralized in the Internal Auditors office in the Local Government entity who is hierarchically subject to submission to auditor general office usually for the final audit. Internal Audit manual; (2000), Internal Audit is an independent appraisal activity in the utilization of resources upon the financial regulations which creates value for money out of the resources under consideration

The scope of Internal Auditing is broad and involves considerations like the efficiency of the operations, reliability of the financial reporting standards of the Government entity, deterring and investigating fraud, safeguarding assets and ensuring compliance with the existing laws and regulations. Muhurizi; (2012)

Saleemi N.A(1998) Internal Audit refers to the authority creation value for money through independent and objective reporting on the state of affairs in the Government entity aimed at adding value and improving on the Local Government operations by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.

Internal Auditing is inclined towards physical accountability as the users especially the public easily see the value for money against the reading and interpretation of the budgets. Physical accountability of public funds has purposively evolved as the stakeholders are involved in the Internal Auditing process in a quest to establish performance in Local Government. Diamond; (2012)

Local Government financial and regulations Act 1998 requires that the accountability of public funds be subject to auditing to portray the would be created suspicion from the public users and those who hold the public resources in trust through checking the expenditure patterns, authorization and approval of financial resources, asset registers to protect public assets, value for money audits and time frames to ensure timely service delivery.

De Koning, R. (2007) Internal Audit forms part of the management system of internal control. This becomes effective when the Internal Auditor reports to the highest level possible in an entity usually to the Audit committee. Public finance and Accountability regulations, (2003) describes Internal Audit as being decentralized that ideally and functionally report to the accounting officer and usually has access to the Audit committee.

Internal Audit is described as "turn and stick" referring to a system that is established towards goals and objectives of an organization in this case the Local Government. This formation steps ensuring compliance with relevant laws and regulations, reliability and

integrity of information for economic, effective and efficient use of resources while safe guard the public assets. Internal Audit therefore a fundamental element of corporate governance structure and processes within Local Governments. Harris, R ;(2004)

Internal Audit is either financial or operational; the former being about the formation of compliance with financial reporting requirements and accounting standards while the latter is the foundation to determine compliance with the council policies and procedures as well as the effectiveness and efficiency of the programs or projects. (Van Creveld, Martin; 2004)

Internal Audit is a long-standing function and an effective tool of management in many organizations. It has been a recognized component of organizations in both the public and private sectors and in most industries for many years. Internal Auditing is often seen as an overall monitoring activity with responsibility to management for assessing the effectiveness of control procedures which are the responsibility of other functional managers. The Internal Audit function is not limited to the operation of any particular function within an organization. Rather, it is all-embracing and accordingly is structured in the organization as a separate entity responsible only to a high level of management.

Local Government, established in Uganda in 1995 by the parliament, is a form of decentralization launched in 1997 intending to bring closer services to the people (Uganda constitution; 1995). Its procedures, rules and regulations of order of work are provided for in Local Government Act. 1997 among others include; provision of

infrastructures and property services, provision of recreation of facilities, healthy services and community services, building services, planning and development approval, administration facilities, cultural facilities and services, Water and sewage services, Local revenue collection. Such valued and varied work and services of Local Governments pertinently reveal the importance of value attachment.

Internal Audit is a two way fold system with its essential components being perception and ownership. Saalemi; (2008). For any organization, public institutions in this regard, to undergo a transition, the stakeholders have each to do a separate repetitive work. While the leadership establishes the governance, risk management and systems control and constantly applying particular sections of public Government and financial regulations acts. Internal Audit assesses the work of service delivery by ensuring effectiveness and efficiency accruing from use of public funds.

The Institute of Internal Auditors, Institute of Internal Auditors; 2004) latest definition of Internal Auditing claims the broad scope and value-adding focus of the function. The definition and other literature for example, Davidson et al.; (2005) also present both assurance and consulting activities as key components of the IA function. Similarly, Al-Twajjry et al. (2003) and Albrecht et al. (1988) explain that IA can be of benefit to organizations by ensuring compliance to policies, rules, and regulations, which are largely of a financial nature, and by working in partnership with management to help improve operations and manage risk. Although the value-adding notion of IA presumes that *IA is* usually effective, this is never guaranteed. In fact the literature suggests that IA

effectiveness tends to be influenced by the contextual dynamics within which Internal Audit is practiced.

The accountability of public funds has not only been a matter of debate in Local Government but rather nationally. Such national cases include; shillings 1.2 trillion offered by European Union for roads and rural development (New vision, 5th June, 2008), shillings. 3.5 billion, part of CHOGM shillings. 20.4 billion (Daily Monitor 3rd, June, 2008). It's upon this back ground that justifies the need to research on the relationship between Internal Audit and performance in Local Governments.

2.7 Challenges to Internal Audit and performance in Local Government

Brendah; (2010) stresses that Internal Audit can provide reasonable but not absolute assurance that the objectives of an organization will be met. The concept of reasonable implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures.

Effective internal controls imply the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it. However, whether the organization achieves operational and strategic objectives may depend on the factors outside the enterprise such as competition and technological advancement. These factors are outside the scope of Internal Audit therefore effective internal control provides only timely information or feedback on progress towards achievement of operational and strategic objectives but cannot guarantee their achievement Mussari, R; (2005).

Ongaro.E ;(2006), stresses that proper public performance is Internal Audit professionalism. She described it as a recognition among peers and outsiders of one's service and qualification which has been earned by hard work. .Professionalism remains relevant through continuous updating oneself referring to categorical value addition essential for buoyant and complex organization needs and requirements.

But whereas Internal Audit is described as true professionalism in public finance management (Cecilia Nordin van Gansberghe; 2005), the section is sometimes faced with less professional workers, under staffing, limited independence and less funding among others. Its authority to access all the books of accounts are accordingly limited, compliance with relevant financial regulations becomes inadequate and risk management extended to the council dwindles, Diamond; (2005) which explain inefficiencies of both the Internal Audit systems and Local Government.

Politicians are fond of influencing the actions and decisions of the civil servants at the districts thus denying them their right to independence, (Lapsley, I; 2009) observes that politics need to be removed from contracting at all costs. Ideally this would be accomplished by passing laws banning campaigns contributions from contractors but in the absence of this strict enforcement of accountability and transparency rules will be sacrificed.

The Local Government Internal Audit manual (2000) contends that independence is a must in auditing and that its particularly important that the Internal Auditor has the freedom to select the areas of audit he/she wishes to investigate and report thereon to all the levels of the council. Kaazoba;(2006) stresses that Internal Audit independence can also be impaired when there is personal conflict of interest, limitation in scope and restriction to access to records of the organization. He further explains that resource limitation in terms of funding to the department may also impair independence.

2.8 Measures to the challenges faced by Internal Audit and performance of Local Governments

Krugman, & Wells, (2006), looks at staff development through Human resources reviewing as among critical reforms of up grading Internal Audit development. He stressed reviewing of strengths and weakness of Internal Audit personnel along with training needs identification. He associated team spirit, understanding the aims of modern Internal Audit and embracing auditing ethics Internal Audit outstanding in its roles.

The public finance and audit Act (1983) recognizes the establishment of an Internal Audit system which must be effective, efficient, consistent and maintained economically under the supervision of the authority head usually the management. In such work arrangement, Internal control and audit prevail consistent with the Act essentially leading to good practices of management policies, regular appraisal of audit records, programmers operations reviewing, among others. The under laying issue is ascertainment of good use

of public funds held in trust by Local Governments. The Local Governments have a responsibility of being accountable to the public and this is best done through auditing.

Internal Audit charter (2006) puts much emphasis on a strong Internal Audit system to serve as a channel of communication with the appointed Audit committee. The Internal Audit department is comprised of the district Internal Auditor, senior Internal Auditor and the Internal Auditors as the support staff. These work under the directives of the office of the Auditor General to ensure compliance to the set standards and regulations.

Internal Audit charter (2006) emphasizes the formation of the Audit committee to help strengthen proper use of public funds in Local Government through its roles such as reviewing proposed scope of Internal Audit; Audit performance; Appraising the effectiveness of the Internal Audit by discussing the approach to the examination of the areas where special attention was considered necessary; reviewing the management letter provided by the Audit general on any weakness in Internal Auditing, organization and operating control, and consider recommendations made by the auditors general and action taken by management in response of auditor, general suggestions. All these help Internal Audit department ensure compliance with policies, laws plans, procedures and regulations safeguarding the employers assets, economic and efficient use of resources, accomplishment of established programmes and drawing attention to any failure to take prompt remedial action relating to the previously identified shortcoming. (Kaazoba; 2006)

He further stresses the need for staff development through human resource reviewing as among critical reforms of upgrading Internal Auditing, review of strengths and weaknesses of the Internal Audit personnel through appraisal forms along with training and needs identification programmes. Kaazoba; (2006) He associated team spirit, understanding of the aims of the modern Internal Audit and embracing auditing ethics to having an outstanding Internal Audit function and in such circumstances; Internal Audit is made stronger with solid ethical capabilities.

CHAPTER THREE:

METHODOLOGY

3.0 Introduction

This chapter presents the research methodology which includes; the research design, study population, area of study, study sample, study variables, instruments of data collection, administration of the instruments, sources of data, data processing and presentation and data analysis.

3.1 Area of study

The geographical scope of the study was Mbale Municipal Local Government, which is located in Eastern Region. Mbale Municipality is found in Mbale district in Eastern Uganda. Mbale Municipality is divided into three divisions which include Industrial, Wannale, and Northern division. This study considered the management and staff of Mbale Municipality plus people that were selected from the public who were assumed to be the citizens of the .Mbale Municipal

3.2 Research Design

A research design is a detailed plan which guides the study. Dalton L. R. and Tudor, C (1979) defines it as the plan and structure of investigation so conceived so as to obtain answers from research questions. The study used a descriptive research design in which both qualitative and quantitative techniques were used. Quantitative data are based on methodological principles of description, and use of statistical measurements as it was experienced by the researcher. Quantitative data are presented on graphs, pie charts and tables.

The research was designed so as to ease the collection capturing of data from the field which is relevant

3.4 Study Population

The study population is sixty eight people (68) who are all employees at the district in different departments as shown in the table below.

Table 1: Study population

Department	Study population
Natural resource	8
Finance and planning	10
Health	6
Stationary	7
Production and marketing	6
Department of works	8
Education	4
CBS	7
Internal Audit	3
Management	9
Total	68

Source: Human Resource Department of Mbale District (2016)

As can be seen in table 3.1 above, the study considered a total number of 68 however the researcher did not consider the entire study population as shown above (Table 3.1), a representative sample size of 40 respondents was selected to save both time and money and these were selected as explained in 3.6.

3.5 Sampling method

Sampling method is defined as a method used in order to obtain the required sample from the study population;

During the process of data collection, stratified probability sampling technique was employed by using the following formulae as put forward by CR. Kothali (2001) and determined as in table 3.2.

$P = F/N \times n$. Where; F= Number in the category

N = Total population

P = Number of respondents in the category obtained from the group

n = Total number of the respondents

Table 2: Sample size

Department	Study population	Proportion is a fraction / %	Sample size
Human resource	8	4.7	5
Finance and planning	10	5.8	6
Health	6	3.5	4
Statutory	7	4.1	4
Production and marketing	6	3.5	3
Department of works	8	4.7	5
Education	4	2.3	2
CBS	7	4.1	4
Internal Audit	3	1.7	2
Management	9	5.2	5
Total	68	40	40

Source: Primary data (2016)

The researcher uses the sample size of 40 were selected from the study population of 68 because; it is large enough to help the researcher to obtain more and reliable information for the study.

3.6.0 Data collection methods and instruments

The study was incorporated by the use of various methods in the process of data collection in a bid to come up with sound, concrete and credible research findings. The researcher therefore amalgamated the use of questionnaire, and interviews in the process of collecting primary data

3.6.1 Documentation/ secondary data

Secondary data was used in this study; the researcher collected secondary information from text books and newspapers. This information was reviewed by visiting places like libraries and internet cafes. The researcher visited such places and got information that was related to the study variables as presented in literature review.

3.6.2 Questionnaire

According to Robson (1993), a questionnaire is commonly applied to research, designed to collect data from a specific population or a sample from that population. Questionnaires are commonly used as research instruments because of the distinct advantages they yield (Leary, 1995). The researcher therefore chose a descriptive research methodology and designed a questionnaire to collect the required data. The questionnaire was divided into two sections. The first section was intended to provide demographic information that would provide a clear understanding of the sample attributes. The second section was intended to provide data on the measurement of the research variables. An open and close ended questionnaire was constructed and these were self-administered where the researcher was allowed the study respondents to fill the

questionnaire in the study field. Open ended questionnaires were used to allowed free responses from respondents which enabled getting of the in-depth views about the study in question. Closed ended questions included alternative answers for selecting was also used to get the required information in as far as the studies are concerned.

3.6.3 Observations.

The researcher also himself observed how auditors do their work, observed the way activities were arranged, observed how the accountability was done and got to know who is responsible for the accountability.

3.6.2 Interview guide

An interview guide was drafted with a set of questions that the researcher asked during an interview. The researcher personally recorded the provided responses as per the study respondents during the process of carrying out an interview.

The researcher used a semi structured interview guide when collecting data on lower level employees from the local government. The researcher designed an interview guide which contained both closed and open ended questions. The researcher also designed questions to the respondents related to the topic under study because it assisted the researcher to collect adequate data from the respondents who could not read and write and therefore it made the work easy and guided the researcher to collect the required data effectively. A semi-structured interview guide was administered to knowledgeable persons, according to the following main themes as the role of budgeting, contributions of budgeting, Relationship between the role of budgeting and financial performance

3.7 Data Analysis and presentation.

Data collected was handled as follows;

3.7.1 Data editing.

Editing of collected data was done to make the data ready and simpler for presentation.

The filled questionnaires were edited one by one to correct errors that were done by the study respondents. Data was edited in order to check for accuracy, completeness, consistency and uniformity.

3.7.2 Data presentation

Presentation of data involved use of tables that were generated from the responses to the questions relevant to the study variables

3.7.3 Data analysis;

The edited data were analyzed quantitatively and it was as follows; Quantitative data were grouped and statistical description such as tables showing frequencies and percentages such that Conclusions were drawn from the above analyze data to establish their relevancy in regard to my study variables.

3.7.4 Interpretation of the study results

Interpretation of the results was done as the researcher explains the strength of the study variables basing on the frequencies and percentages. Statistical conclusions was formed a basis for interpreting the data collected from the field.

3.8 Validity and Reliability of the Questionnaire

3.8.1 Validity

Cook and Campbell; (1979) define validity as the "best available approximation to the truth or falsity of a given inference, proposition or conclusion. After constructing the questionnaire, the researcher will contact two research experts in order to determine whether his questionnaire tool are valid as a way of collecting information that are used in understanding the research problem. Hence the researcher is constructing the validity of the instruments by using expert judgment method as suggested by Gay (1996).

The instrument is refined based on experts' advice. The following formula were used to test validity index.

$$\text{CVI} = \frac{\text{No. of items regarded relevant by judges}}{\text{Total No. of items}}$$

3.8.2 Reliability,

According to Miles and Huberman (1994), has to do with the extent to which the items in an instrument generate consistent responses over several trials with different audiences in the same setting or circumstances". The reliability of the instruments and data was established following a pre-test procedure of the instruments before their use with actual research respondents.

Reliability, The reliability of the questionnaire was established using the Chronbach Alpha coefficient. The Chronbach Alpha formula below was used to establish reliability of the questionnaire.

$$\alpha = \frac{k}{1 + \left(\frac{\sum \sigma_k^2}{\sigma^2} \right)}$$

$$k - 1 \quad \sigma^2$$

Where a = reliability Alpha coefficient (Chronbach)

K = Number of items in the instrument

$\sum \sigma_k^2$ = variance of individual items

σ^2 = variance of the total instrument

Σ = summation. The researcher considered the questionnaire as appropriate, if a coefficient generated is more than 50% as proposed by Amin (2005).

3.9 Limitations of the study

During the process of undertaking the study, the following limitations are experienced by the researcher:

High costs to finance the research, such as stationary costs, air time costs and transport costs were very high. However assistance is obtained from different group like friends, and relatives.

Some respondents were not cooperative at the beginning and reluctant to give the necessary data in time.

Related to the above some respondents had tight schedules and are not get ample time to respond to the questionnaires on a timely basis. This result in to delays in the accomplishment of this work.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The chapter involves presentation, analysis and interpretation of the study results. Data presented, analyzed and interpreted according to the research objectives. It is presented in the form of tables and figures basing on the responses got from the study respondents that were selected during the process of data collection.

The discussion of findings was arranged in accordance with demographic characteristics of respondents' and objectives of the study as were formulated in chapter one of this report. These objectives include; to find out the nature of Internal Audit and performance of Mbale Municipal Local Government, to find out the relationship between Internal Audit and performance of Mbale Municipal Local Government, to identify the challenges faced by the Internal Audit and performance of Mbale Municipal Local Government and to identify solutions to the challenges faced by Internal Audit and financial performance of Mbale Municipal Local Government

4.1 Biographic data of the respondents.

4.1.1 Gender composition of the respondents.

The gender of respondents was established. This aimed at knowing how males and females as community members actively participate in Local Governments. The study

targeted both male and female which gave a variety of findings that were not biased making it gender sensitive.

Table 3: Gender composition of the respondents

Gender	Frequency	Percentage
Male	23	58
Female	17	42
Total	40	100

Source: Primary Data (2016)

According to the study findings as in table 4.1, most of the respondents were male as compared to the female. The number of males who participated in the study was represented 58% as compared to 42% of the female respondents. Further findings by the study revealed that the difference in percentage arose as a matter of fact that most men were participating in the finance department at Mbale Municipal Local Government and were selected during the study. The above finding clearly indicates that male participated in Local Government than female within the study area.

4.1.2 Age composition of respondents

The age composition of the study respondents was also an important factor in the process of understanding Internal Audit and performance of Local Governments. This was so because different age groups were assumed to understand the study variables differently yet considered vital to the study. According to the study findings the respondents views were as in table 4.2 below.

Table 4: Age composition of the respondents

Age range	Male	Female	Frequency	Percentage
25 – 30	7	5	12	30
30 – 35	9	7	14	35
36 – 45	4	3	8	20
46 and above	3	2	6	15
Total	23	17	40	100

Source: Primary Data ((2016)

The table 4.2 above shows that most of the respondents were between the ages of 30 – 35 accounting for 35%. This implied that were likely to understand better the relationship between Internal Audit and performance of Local Governments which they were in position to provide to the study information as majority reported to had stayed practicing in Local Government for a long time.

The other category of the respondents were in the age range of 21 -30 as reported by 30% of the study respondents and these respondents' views were very important for the study as most of them were making accountability as part of enhancing Internal Audit the activities that were assigned on their disposal. More, 20% of the study respondents were in the category age of 36 – 45. These respondents' views were so great in the process of analyzing the study variable that helped to understand the problem. Finally 15% of the respondent indicated to be 46 and above years as these were of the least in number. This could mean that, Local Government has age limit that could have attributed to the people

in such group to be less than any other age group of the respondents studied during data collection.

4.1.3 Marital status of the respondents.

The marital status of the respondents was also covered and analyzed to assess their views in relation to the study variables of Internal Audit and performance of Local Governments as shown below.

Table 5: Marital status of the respondents

Marital status	Male	Female	Frequency	Percentage
Married	16	12	27	68
Single	6	5	12	29
Divorced	1		1	03
Total	23	17	40	100

Source: Primary Data (2016)

As seen in the table 4.3 above, majority of the study respondents constituting 68% were married and these were followed by respondents who were single as revealed by 29% of the respondents then 03% of the respondents who were divorced. The study established that majority of the respondents were married.

4.1.4 Highest Level of education of respondents.

In order to get information from all categories of people, those that have attained Secondary, tertiary, University levels of education and others like primary, certificate,

professional courses like CPA were all approached during the study process. This established the levels of education of the respondents as indicated in table 4.4 below.

Table 6: Highest level of education of the respondents

Level of education	Male	Female	Frequency	Percentage
Secondary	1		1.2	03
Diplomas	12	10	20.8	52
University	7	5	12.8	32
Others like; Certificate, CPA,ACCA	3	2	5.2	13
Total	23	17	40	100

Source: Primary Data, (2016)

The table 4.3 above shows that most of the respondents had attained up to diploma level of education with 52%, followed by 32% of the study respondents who had university level then secondary as was reported by 03% of the respondents, and finally 13% of the respondents who cited that had attained other levels of education like certificate, and professional courses like CPA, counseling.

The study on further understanding revealed that respondents with professional courses comprised of those in finance department at the Local Government of Mbale Municipal Local Government, as some of the people in such category reported that were still students in a way to attaining such professional courses like CPA, and ACCA, in addition to post graduate diplomas in relevant specific fields. The above findings show that tertiary level of education take a lead in participating within Local Government of Mbale

Municipal Local Government as compared to other levels of education. This is showed that the information was from literate people and who could understand better the Internal Audit and performance of Local Governments.

Table 7: Designation of the respondents

Designation of respondents	Frequency	Percentages
Civil servants	23	57.5
Politicians	10	25
Business persons	07	17.5
Total	40	100

Source: Primary Data (2016)

About the occupations of respondents, majority were civil servants consisting of fifty seven percent, politicians making (25%) and only 17.% business persons.

According to responses of the term financial performance the definition were ranked in percentages according their financial performance indicators of Local Government accountability towards services delivery in areas of health, roads and schools

4.2 Respondents opinions on whether financial performance is related to Internal Audit.

Respondents were also required to give their opinion on whether Internal Audit was related to performance. To establish this, the respondents during the study were provided with options of Yes and No as in table 4.6.

Table 8: Respondents opinions on whether performance is related to Internal Audit

Responses	Male	Female	Frequency	Percentage
Yes	22	16	38.8	97
No	1	1	1.2	03
Total	23	17	40	100

Source: Primary Data (2016)

According to the study findings as indicated in table 4.9 above, at least more than 97% that is 58(97%) of the study respondents said that there is a relationship between the Internal Audit and performance of Local Governments as compared to only 03% of the respondents who reported that there is no relationship between the Internal Audit and performance of Local Governments as such respondents did not explain why thought of such.

However, most 97% of the respondents who revealed that there is a relationship between the Internal Audit and performance of Local Governments were able to cite different reasoning including that auditing establishes whether Local Governments activities are done in accordance with the required standards and that Internal Audit looks at compliance with the regulations. Respondents further revealed that Internal Auditing when well done helps auditors to arrive at the best opinion regarding the Local Governments' transactions as such aid in the proper making of decisions for improved performance.

Respondents reported that proper Internal Audit helps external auditors in writing audit reports when performing Local Governments' audit. These same respondents indicated that if Internal Audit is properly done by the required parties, external auditors find no problem in the process of conducting an audit that later helps to reach the best conclusion. As Mannaseh (2007) puts it Internal Audit forms basis for external auditing.

Table 9. The relationship testing the relationship between Internal Audit and performance in Local Government

Response	Frequency			Percentage
	Male	Female	Total	
Yes (x)	22	16	38	98
No (y)	01	01	2	2
Total	23	17	40	100

Source: field data 2012

Table 4.7 shows that 98% of the respondents indicated that there is a relationship between Internal Audit and financial performance and hence this indicated that Internal Audit is so much required in Local Government.

4.3 Nature of Internal Audit and performance in Local Government.

One of the study objectives was set to find out the characteristics of Internal Audit and financial performance of Mbale Municipal Local Government, the following was established as below;

4.3.1 Characteristics of Internal Audit system.

In a bid to generate a clear background for this research from within the minds of respondents, the researcher found it vital to find out responses of various targeted respondents on the characteristics of Internal Audit systems. The findings are revealed in table 4.8 below in response to the question that was asked that is, what are the characteristics of a good Internal Audit system?

Table 10: The views of the characteristics of Internal Audit system

Characteristics	Frequency	Rank	Total score	Percentage	Sample response
A. Should be free from political interference	20	1	20	15.4	Should be able to act on their own
B. Should have well trained and competent auditors	22	3	66	50.8	Should have qualified auditors Should have experienced auditors
C. Should have enough resources that is computerized systems	20	2	44	33.4	Should be technological innovative Enough transport and communication e

Source: Primary Data (2016)

From the table above, the study established that: Internal Auditing system should have well trained and competent auditors as was supported by 22(0.8%) respondents.

4.3.2 The role of Internal Audit in accountability of public funds.

Table 11: Respondent's responses on the importance of Internal Audit on the accountability of public funds

Importance	Frequency	Rank	Total score
A. Ensures management systems of internal control	25	1	25
B. Ensures effective and efficient use of public resources	30	1	30
C. Ensures compliance with relevant laws and regulations	20	2	60
D. Ensures reliability and integrity of information for economics	10	3	30
E. Ensure compliance with financial reporting requirements and accounting standards	20	2	40
F. Extends councils understanding of risk Management beyond traditional areas of public liabilities	05	4	20

Source: Primary Data (2016)

Table above the majority showed that the role of Internal Audit is to ensure compliance with relevant laws and regulations with 30% respondents and minority with 5% of the respondents, revealed that the insignificant role is to extent councils, understanding of risk management beyond traditional areas of public liabilities.

4.4 Other responses of respondents on the role of Internal Auditing.

Other respondents were met abruptly and only involved with those who were also employed and affected by the topic and mainly those who were educated and understand internal auditing in the organization

Table 12: Other responses of respondents on the role of Internal Auditing

Importance	Frequency	Rank	Total score
Checking unnecessary spending	15	2	30
Recovering of misappropriated funds	25	1	25
Total	40		55

Source: Primary data (2016)

In order for the researcher to get respondents views different from those that were put in a questionnaire as answers to open questions about the importance/ role of Internal Auditing, various responses were mentioned and they include; recovering of misappropriated funds this was supported by twenty five respondents. Here respondents further explained that defaulters have been brought to book and asked to refund or imprisoned thus increasing public resources that would others be lost if the Internal Audit would be weak.

Other respondents totaling to fifteen also stressed that Internal Auditing checks and control unnecessary spending within the Local Government's employees. Here they lamented on over extravagancy among some employees to benefit themselves rather than the general public.

Table 13: The indicators of financial performance

Indictors	Frequency	Rank	Total score
Liquidity	07	3	21
Accountability	15	1	15
Employee retention	05	4	20
Good welfare	03	5	15
Reporting	10	2	20
Total	40		91

Source: Primary data (2016)

The above table shows that financial performance is highly indicated through accountability with the frequency of 15

Accountability procedure

The respondents gave their opinion on the effectiveness of the accountability procedure and supported their position by citing some key examples which are presented below; they believe that, the Accountability process is adequate and their reason being that some staff take the process for granted. Some line managers noted that they have never been asked for accountability for money given to them especially after implementing the activities. They also pointed out that the problem of accountability is related with lack of a comprehensive finance manual that stipulates clearly what has to be done in regard to accountability. They also pointed out lack of supervision and follow up of accountability related issues. However, they equally support that other instances regarding

accountability seem to be adequate and these include; improving transparency in the system, and procurement process.

Reporting procedure

The respondents seem to have mixed opinions regarding the Local Government's position on reporting. Others believe that the Local Government has adequate reporting system (the reporting in the Local Government is gradually improving) while others think the reporting system is not any better (lack of regular reports; senior managers do not ask for reports from their juniors, similarly, line managers also fail to ask for regular reports and with sanctions in case this is not adhered to)

4.5 Challenges of Internal Auditing in promoting accountability of public funds.

As to one of the major variables to the study, from the findings there were diverse challenges facing Internal Auditing in promoting accountability of public funds as indicated in the table below?

Table 14: Respondents views on the challenges facing Internal Auditing

Challenges	Frequency	Percentage	Rank	Sample responses
Less developed human capacity i.e. low skills and knowledge of financial management and control	32	28.8	1	Low skills and knowledge of finance management
Pressure from political leaders	15	10	5	Interferences by political leaders to

				save colleagues
Limited competence resulting from professionalization hardships	25	17.8	3	Auditors being corrupt
Limited human resource reviews	20	14.2	4	Seminars, conferences and short courses
Inefficient district audit committees	20	14.2	4	Instigate corruption Themselves
Limited communication between auditors and managers	28	20	2	

Source: primary data (2016)

Less developed capacity i.e. low skills and knowledge of finance management was supported by Thirty two responses from respondents (28.8%) who further indicated that Internal Auditing has been largely constrained by less developed human capacity for instance low skills and knowledge of finance management and control. This category of people argued that some working staff / employees lack skills and knowledge of finance management and control which leaves that at the possibility of mishandling or misusing public money hence failure of accountability for such funds.

Limited communication between auditors and managers, Twenty eight (28) responses from respondents (20%) clearly stressed that Internal Auditing has largely been challenged by the auditors and managers failure to interact. such respondents majority hint on the way managers and auditors communicate whereby they argued that communication between these close parties is limited yet they are always supposed to interact and coordinate if efficiency and transparency as tool towards ensuring accountability among workers in public offices is to be kept constant.

Limited competence resulting from professionalization hardships, some twenty five responses from 25 respondents (17.8%) claimed that most of the workers ways of conduct do not reflect their professional's codes of conduct, this therefore has led many to remain incompetent at work and therefore can hardly improve their accountability standards as well as record keeping systems. This has thus remained a bigger challenge to Internal Auditing.

Inefficient district audit committee, this was supported by twenty (20) responses from respondents (14.2%). They argued that the district audit committees themselves are insufficient therefore instead of dealing against corruption and ensuring proper accountability through following up all the respective official records and resource allocation, they just instigate corruption and misuse of office and funds as well.

Limited human resource reviews where by twenty (20) responses from respondents (14.2%) emphasized that limited human resource reviews has remained a great challenge

to the Internal Auditors in their encounter to bring about proper accountability and transparency in public offices. That lack of such reviews instills a sense of irresponsibility and carelessness with in the minds of the responsible employees. Pressure from political leaders as it was supported by the least number of responses (15) from respondents (10.7%) who complained that such auditing processes are in most cases being influenced by political leaders who always influence some auditors to save their colleagues from being summoned on grounds of office misuse / corrupt tendencies. This therefore leaves Internal Auditing deprived of its objective of promoting and ensuring accountability of public funds as now integrated in Local Government.

4.6 Other challenges identified.

Limited funds allocated to the auditing department, this was supported by 15(60%) respondents who explained that the activities of auditors have been constrained by limited funds that would help in procurement of several machinery that would help to run an effective and efficient auditing. With this they mentioned lack of machinery such as vehicles, motorcycles and computers for proper records. This was mainly responses from officers from auditing department, councilors, other district employees and respondents from CAO's and LCV's office.

Other respondents summing up to 10(40%) pointed out work overload to be other factor hindering effective auditing in Local Government. They further explained that auditing department has been constrained by limited number of auditor as this has led to work overload by those in service thus inefficient to perform to the expectation of the public.

4.7 Policies used to solve the challenges faced by Internal Audit on the financial

Performance of Mbale Municipal Local Government

Respondents from the study were also required to indicate policies to the challenges faced by Internal Audit the financial performance of Mbale Municipal Local Government and these were found as in the table 14.

Table 15: Solutions to the challenges faced by Internal Audit the financial performance of Mbale Municipal Local Government

Solutions	Male	Female	Frequency	Percentage
Global accounting harmonization	4	2	6	15 100
Use of strong internal controls	6	4	10	25 00
Careful selection of employees	4	4	8	21
Following of the actual work plan	4	3	7	17
Others (like; public involvement, facilitation of the concerned officials)	5	4	9	22
Total	23	17	40	100

Source: Primary Data (2016)

As seen in table 4.13, 15% of the respondents indicated global accounting harmonization as one of the solutions to the challenges faced by Internal Audit and performance of Mbale Municipal Local Government. Global accounting harmonization will help to

reduce on the funds needed by the workers in the audit department in Local Governments. This so because, if there are auditors in one country who there would be need of hiring other more experts as such auditors will be familiar with what is supposed to be prepared in the financial statements.

The other solutions to the challenges faced by Internal Audit and performance of Mbale Municipal Local Government was revealed as use of strong internal controls as was pointed out by 25% of the study respondents. Respondents from the study said that employing of strong internal controls by Local Government of Mbale Municipal Local Government will eventually reduce on the frauds and error done by the employees for improved performance of Local Governments. It was also revealed by the study that corruption and embezzlement of Local Governments were major challenges in the study area. Respondents revealed that if strong internal controls like segregation of duties monitoring, information and communication, control activities, risk assessment, control environment among others are employed well, corruption and embezzlement of Local Governments funds will be controlled that will improve on the performance of the district.

In addition, 22% revealed careful selection of employees in Local Government among the solutions to the challenges faced by Internal Audit and performance of Mbale Municipal Local Government. Respondents said that in auditing some of the employees lack enough skills to perform the district activities. Regarding this, respondents argued

that if employees are carefully recruited and selected will help in proper performing control of public funds.

Following of the actual work plan is one of the ways that was cited by the study respondents for the challenges faced by Internal Audit financial performance of Mbale Municipal Local Government. Respondents 17% said that Local Government employee should always follow the drafted work plan in the departments if the auditing of Mbale Municipal Local Government is to be effective. This could be that actual work plan will help in the proper performing of the drafted activities that will assists in the writing of reports by the auditors.

The study respondents further cited other measures like public involvement and facilitation of the concerned officials to undertake their activities assigned to them. To this idea, respondents 22% reported that public involvement will help in the proper auditing of activities in Local Government.

4.8 Satisfaction of respondents on the way auditing is done in Mbale

Municipal Local Government

In a bid to generate meaningful data in this research study, the researcher probed into the minds of respondents on how auditing is being done in Mbale Municipal Local Government. The findings revealed the following as shown in the table 4.1 below.

Satisfaction of respondents	Ro of Respondents	Percentage frequency
Fully satisfied	80-100	62
Partially satisfied	40-80	25
Not at all	0-40	13
Total		100

Source: Primary data (2016)

As presented on the table above, the findings of the study come up with twenty five (25% of respondents partially satisfied, but 62% (25%) fully satisfied and fell in satisfaction scale of 80-100 respondents, others (13%) were not satisfied and these fell under the satisfaction scale of (00-40) respondents. To the researcher, basing on the above views of respondents those who were partially satisfied with the way auditing is done were the majority however; this did not means the views of the minority were not taken seriously.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter of the study provides a summary of the study findings by making conclusions and recommendations. The study conclusions and recommendations done are based on the findings from the study objectives.

5.1 Discussion of the findings

The study established that Mbale Municipal Local Government audit department is responsible for making comparisons between different period's figures with the current period figures and find out the changes which at the time must be explained and justified. In addition, that checking books of accounts among the roles performed by the Internal Audit section under that Local Government of Mbale Municipal Local Government. It was revealed by the respondents that checking of the totals in books of accounts was done by the people under the audit section in the study area to prove for the accuracy of the balances. The study finding above is in line with Okwoli (2004) also shares the view that the present requirement of Internal Audit is not the detection and prevention of fraud and errors, but reviewing the system of internal control. This is because in public organizations, Internal Audit is meant to carry out an independent appraisal of the effectiveness of internal controls and other financial controls operating in such ministry. Normanton, as cited in Daniel (1999), emphasizes the importance of Internal Audit by saying that "without audit, no accountability; without accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy

depends to a large extent on the system of control adopted by the Government and the success and sustenance of the internal control lies on Internal Auditing. The above observation underscores the importance of Internal Audit in every Government organization.

Findings from the study further revealed that Internal Audit in Local Government of Mbale Municipal Local Government make comparison of physical items and if possible sometimes count them in the trial balance of the current year with items of that trial balance of the previous year and see whether an item has been left out which at times are traced to the ledger to find exactly that which has been left out. Respondents argued that safeguard of the assets at Mbale Municipal Local Government Local was helping the district assets from use for the private purposes that would making the depreciation level increase. The finding is in line with Internal Auditing is to provide assurance to the management that the internal control system in the organization is sound in design and effective in operation. It also helps to achieve value for money(Momoh, 2005).

It was further indicated by the study that ensuring compliance is another role performed by the staff in audit section at Mbale Municipal Local Government. Regarding this, respondents indicated that audit ensures compliancy to the Local Government financial statements accounting standards and regulations. Also, the findings revealed comparison of the list of debtors and creditors from the respective ledgers with the trial balance, total up such accounts to find out whether they agree with those in the trial balance. The study respondents indicated that Internal Audit at the Local Government of Mbale was

responsible for such activity and at times was responsible for checking of every transaction taking place almost all the departments at Mbale Municipal Local Government among other roles under the audit section. The finding is in line According to Thompson (2003: 17), Internal Auditing should not be restricted to financial transaction only. He believes that Internal Auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weaknesses in such system and making recommendations toward their improvement which include among the others; with Internal Audit, errors are more likely to be discovered in their early stages. Existence of assets is verified so as to protect the assets of the organization, errors in account can be corrected early once detected by the Internal Auditor, it acts as moral influence on the staff and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

According to the findings, majority of the respondents had their opinions that performance and Internal Audit are related. Respondents indicated that performance and Internal Audit are related since auditing involves verification of the activities especially the Local Government transactions whether they comply with the regulations as performance shows how the planned activities have been carried out and achieved, therefore both compare the planned activities with the activities carried out. Qualitative results during an interview with some of the study respondents indicated that as per ISA

700 requires the audit report to contain specific contents and these were followed at the Local Government of Mbale Municipal Local Government during the process of conducting an audit. It was reported that report of the auditor whether or not considers the person to whom the audit report is addressed, the particulars in the financial statements audited, the respective responsibility of the auditor, the basis of the opinion on the financial statement, any other information or opinion as prescribed by the statute or other requirements, the signature of the auditor and the date of the audit report.

From the study findings revealed corruption among the challenges of Internal Audit department and performance of Mbale Municipal Local Government. The respondents revealed that most of the Local Government officials are corrupt and tend to embezzle Government funds that impends performance. Respondents cited that due to corruption the auditors sometimes are bribed to produce qualified reports about the use of public funds in Local Government of Mbale Municipal Local Government. In addition, respondents cited that people tend to fulfill their interests ignoring the public and such also becomes problem in the process of providing accountability for the resources used. These results could imply that corruption is hitting most of the Local Governments in Uganda in the process of controlling public funds. Millichamp (2000) identifies the following as the essential elements of Internal Audit; independence, staffing, training, relationship, due care, planning, controlling and recording, system control, evidence, reporting. It can be seen that without such essential element, no way the Internal Audit can perform their duties effectively.

Further findings also showed that Internal Audit department and financial performance of Mbale Municipal Local Government is faced with the challenges of political interference and inadequate information each. This is because, qualitative findings from the study revealed that people with negative aspect on the current Government come to intervene in the Internal Audit system as they always only want to say negative on the performance of the Local Government. Some of these respondents also reported that political interference was a challenge in way that leaders Mbale Municipal Local Government tend to develop their places or origin as they use the allocated funds to the Local Government as such was contradicting the Government objective of prosperity for all. This position is enhanced by Local Government Act (1997) which views that accountability of public funds for it to be conclusive has to be physical like physical assets that have come into place for the use of the entrusted public funds against paper accountability that does not always suffice the situation.

Further findings from the study revealed that in adequate information was affecting the auditing and accountability process in the Local Government of Mbale Municipal Local Government. This is because, respondents indicated that some transactions made at the district are not properly accounted for as auditors could find a problem in providing proper report due to lack of audit evidence. Conflict of interest was also revealed among the challenges faced by Internal Audit department and performance of Mbale Municipal Local Government. It was indicated by the study that Internal Auditors sometimes audit their relatives as such impend their independence. Respondents reported that self-interest

was one of the major challenges that at times were facing the auditing process and performance at Mbale Municipal Local Government.

5.2 Conclusions

In relation to the nature of Internal Audit and performance of Mbale Municipal Local Government, the study concludes that making comparisons between different period's figures with the current period figures and find out the changes which at the time must be explained and justified, checking books of accounts, making comparison of physical items and if possible sometimes count them in the trial balance of the current year with items of that trial balance of the previous year and see whether an item has been left out which at times are traced to the ledger to find exactly that which has been left out, ensuring compliance is another role performed by the staff in audit section at Mbale Municipal Local Government, checking of names in the accounts ledgers against the names recorded in the trail balance are done under the Internal Audit department.

In addition, the study concludes that there is a relationship between Internal Audit and financial performance of Mbale Municipal Local Government. This is because most of respondents revealed the same and that if Internal Audit takes place, Local Government employees fear of misusing the public resources as they have provide accountability of the used resources that results proper management of such resources that improve the financial performance of public funds. It was also evidenced by the calculated value of Karl Pearson which is 1 showing a positive relationship between Internal Audit and financial performance.

The study also concluded that political interference, corruption, conflict of interest, inadequate skills, inadequate information, inadequate funds, and improper communication flow are the major challenges faced by Internal Audit and financial performance of Mbale Municipal Local Government.

5.3 Recommendations of the study.

From the above study findings, the study recommends the following;

Employment of strong internal control system in Local Governments. This will eventually reduce on the frauds and error done by the employees. In addition corruption and embezzlement of public funds as challenges will also be reduced. This can be done through employment of controls like segregation of duties monitoring, information and communication, control activities, risk assessment, control environment among others are properly employed corruption and embezzlement of public funds will be controlled that will help in the proper auditing of Local Governments' resources.

Careful selection of employees in Local Government is also recommended by the study. If employees are carefully recruited and selected will help in proper performing, control of Local Governments' activities in providing the public services to the communities. By doing this, auditing of Local Governments' activities will be done properly by proper employees that will foster performance.

That global accounting harmonization. This so because, if there are auditors in one country who there would be need of hiring other more experts as such auditors will be familiar with what is supposed to be prepared in the financial statements. This will help to reduce on the funds needed by the workers in the audit section within Local Governments.

It is also recommended that Local Governments' employees should always follow the drafted work plan in the departments if the auditing is to be effective. This is so because the actual work plan will help in the proper performing of the drafted activities that will assists in writing of reports by the external auditors.

5.3.1 Recommendation for further research.

If better conclusions are to be made, the following areas should be researched upon;

1. The influence of political structure and performance of Local Governments in Uganda
2. The relationship between employees experience and performance of audit department in Local Governments as areas for further studies.

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UGANDA MARTYRS UNIVERSITY

MBALE CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

Dear respondent,

I am Welishe David, a student at Uganda Martyrs University pursuing a Bachelor's Degree in Business Administration and Management as one of the requirements leading to award of Bachelor's Degree in Business Administration and Management. This is purely academic research on (The Effect of Internal Audit on Financial Performance of Local Government, a case study Mbale Municipal Local Government).

You have been chosen as a respondent because of the knowledge and information that you have with regard to this topic. So it is my request as a researcher that you help me and fill in this questionnaire. The information obtained will be treated with confidentiality since it is for academic purposes.

I therefore, request for your time as you provide this information.

I thank you very much for your time and cooperation.

We greatly appreciate your help in furthering endeavors this research

Yours sincerely

.....

Researcher WELISHE DAVID

SECTION A: GENERAL INFORMATION

Name of the respondent (optional).....

Email address of the respondent if any

I kindly request you tick in the box provided

1. Gender of the respondent

a) Male

b). Female

2. Age of the respondent

a) 25-30

b). 31-35

c). 36-45

d). 46 and above

f) Below 25

3. Marital status

a) Single

b). Married

c) Others specify

4. The highest level of education of the respondent

a) Primary

b). Secondary

c). Tertiary

d).University

e). others specify.....

5. Designation

If any other specify

a).....

b).....

8. The following are the characteristics of a good Internal Audit system? Please rank the following role of Internal Audit that is 1 to least or 3 to most)

Statement	1	2	3
Should be free from political interference			
Should have well trained and competent auditors			
Should have enough resources that is computerized system for proper records keeping			

9 According to you, has Internal Audit contributed anything good towards proper accountability of public funds?

(a) Yes (b) No

(i) If yes, what could be the roles of Internal Audit in accountability of public funds?

Please rank 1 to least or 6 to most)

	1	2	3	4	5
(a) Ensures management systems of internal control					
(b) Ensures effective and efficient use of public resources					
(c) Ensures compliance with relevant laws and regulations					
(d) Ensures reliability and integrity of information for economics					
(e) Extends councils understanding of risk management beyond					

traditional areas of public liabilities					
(f) Ensures compliance with financial reporting requirement and accounting standards					

If any other, specify

(a).....

(b).....

SECTION D: the challenges faced by the Internal Audit Mbale Municipal Local Government

10. In the same scenario where Internal Audit has been seen as one of the priority policies towards improving accountability of public funds in Mbale Municipal Local Government , the following are the challenges facing the Internal Auditing system? Please rank 1 to least or 6 to most)

Statement	1	2	3	4	5	6
Less developed human capacity i.e. Low skills and knowledge of finance management and control						
Pressure from political leaders						
Limited competence resulting from professionalization hardships						
Limited human resource reviews						
Inefficient district audit committees.						
Limited communication between auditors and managers						

If any other, specify

(a).....

(b).....

(c).....

11 .The following are the policies used to solve the challenges of Internal Audit (please rank 1 to least or 4 to most)

Statement	1	2	3	4
Global accounting harmonization policy				
Use of strong internal controls system policy				
Use of strong internal controls				
Following of the actual work plan				

If any other,

specify.....

12. As an individual are you satisfied with the way auditing is done in this area

(a) Fully satisfied (40-80%)

(b) Partially satisfied (80-100%)

(c) Not at all (00-40%)

Thank you very much for your cooperation

APPENDIX II: Répondent' Interview Guide

Dear Répondent,

I am **WELISHE DAVID**, a student of Uganda Martyrs University offering Bachelor's Degree in Business Administration. As part of the requirements for the completion of the Degree Program, I am carrying out a study on the topic "*Internal Audit and financial performance of Local Governments, a case study of Mbale Municipal Local Government*". Your contribution and input will be highly appreciated and the answers provided will only be used for academic purposes and will be treated with utmost confidentiality. Hence you are requested to answer the questions as freely as possible.

1. Gender of the respondents
2. Marital status
3. Highest level of education attained
4. Occupation of respondents
5. How have the Internal Auditing improved the performance of Local Governments?
7. Apart from Internal Auditing, what do you think can be other factors influencing the performance of Local Governments?
8. What are the benefits of Internal Auditing to the performance of Local Governments?
What do you think by the Internal Auditing?
9. What do you think can be the challenges facing Internal Auditing and the performance of Local Governments?

10. How have the above challenges affected the development of Local Governments in Uganda?

11. What do you think can be the measures put in place to improve on the performance of Local Governments?

Any other comment to say on Internal Auditing and the performance of Local Governments?

Thank you for your responses given to me