

**INTERNAL AUDIT FUNCTION AND FINANCIAL PERFORMANCE OF PUBLIC
SECTOR ORGANIZATIONS.**

CASE STUDY: NATIONAL WATER AND SEWERAGE CORPORATION MBALE



UGANDA MARTYRS' UNIVERSITY

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**AN UNDERGRADUATE DISSERTATION PRESENTED TO THE FACULTY OF
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MUGUGWA JUSTINE

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DEDICATION

I dedicate this Research report to my dear father Mr. Sisye Anselm and my beloved mother GimboAngela for their endless and unconditional love, care and support both financially and morally to me during my academic struggle. May God the almighty bless them abundantly?

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I would like to thank the almighty God for the gift of life, knowledge and guiding me throughout my education and this research for his mercy was always with me.

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List of Abbreviations

| | |
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| ACCA | Association of Certified Chartered Accountants |
| AICPA | American Institute of Certified Public Accountants |
| ANOVA | Australian National Audit Office |
| CAE | Chief Audit Executive |
| CCR | Coordinating Committee on Remuneration |
| COSO: | Committee of Sponsoring Organization of the Teaching |
| GTF | Guidance Task Force |
| ICPAU | Institute of Certified Public Accountants of Uganda |
| IGG | Inspector General of Government |
| IIA | Institute of Internal Auditors |
| MVA | Market Value Added |
| NGOs | Non Government Organizations |
| NWSC | National Water and Sewerage Corporation |
| OECD | Organization for Economic Co-operation and Development |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| SEREP | Service and Revenue Enhancement programme |
| SSC | Support Services Contract |
| VFM | Value for money |
| NCAA | National Collegiate Athletic AS Secure |
| IT | Information technology |
| CPA | Certified Public Accountant |
| ANOVA (means) | Analysis of variance, ANOVA |
| SD | Secure Digital |

Abstract

The overall objective of the study was to examine internal audit function and financial performance of public sector organizations while considering National Water and Sewerage Corporation Mbale. The study was guided by the three objectives; to examine the types of internal audit applied by National Water and Sewerage Corporation Mbale, to analyze the importance of internal audit function in the accountability of Public Corporation and to establish the relationship between internal audit and financial performance of National Water and Sewerage Corporation Mbale. Data was collected using a questionnaire and interview guide, and during data collection purposive sampling method was used. Both qualitative and quantitative methodologies were used to analyze data as a sample size of 50 respondents was used.

The study concludes that there are number of Internal audit systems at National Water and Sewerage Corporation Mbale including; checking of goods entering National Water and Sewerage Corporation Mbale after their purchase, checking of people at the building entrance, frequent supervision of the corporation activities, writing of reports to the corporation workers concerning all that has been done under departments by the heads of departments every after five months, use of recording systems, internal audit system, training and workshop programs to the corporation employees, screening of prospective employees in addition to the use of budgetary and financial controls. The study concluded that there is a positive impact of internal audit function on the financial performance of corporation.

The study results indicate that, internal auditing function ensures efficient and effective use of public resources ensures reliability and integrity of information for economics, management system of internal audit among others. However, the study also pointed out that, less developed human capacity, pressure from political leaders, limited human resource review to be among the challenges facing internal auditing.

The study recommended National Water and Sewerage Corporation Mbale to continue practicing book keeping and auditing them and this will improve on their financial performance, human resource in organizations to always conceive and adhere to the Internal audit function in a positive way as it is communicated by workers and follow their contents in the day to day

running of the corporation activities, training of employees in corporation as important motivational tool of motivating employees towards better financial performance, corporation to invest in market research so as to understand what people think of their services and or products for improving financial performance of corporation . Lastly, which the impact of organizational structure internal audit function on the financial performance of National Water and Sewerage Corporation Mbale and the impact of salary motivation on the financial performance of corporation in Uganda

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This chapter is on the general background and covers the following, the background of the study, statement of the problem, objectives of the study, research questions of the study, scope of the study, the definitions of the key terms, the significance of the study and conceptual framework

1.1 Background of the study

Auditor independence and objectivity are the cornerstones of the profession. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance. Prior research on auditor independence and objectivity has been undertaken predominantly in the context of external audit.

However, in more recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit. The motivation for research growth in the area is related to the evolving and expanding role of internal audit as a key corporate governance mechanism as well as an internal consultancy service. In this regard, internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers. Not surprisingly, this dual role has generated significant debate as it has the potential to place the internal auditor in a situation of conflict. Furthermore, as employees of the organization, the ability of internal auditors to exercise true objectivity has also been questioned (Paper, 2007).

According Griffiths, D. (2006), Internal Audit in United States of America are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. The goal of an internal audit is to express an opinion on the person and organization system in question, under evaluation based on work done on a test basis. Due to practical constraints, an internal audit seeks to provide only reasonable assurance that the statements are free from material error. Hence, statistical sampling is often adopted in audits. In

the case of financial audits, a set of financial statements are said to be true and fair when they are free of material misstatements a concept influenced by both quantitative and qualitative factors.

Auditing refers to a systematic and independent examination of books, accounts, documents and vouchers of an organization to ascertain how far the financial statements present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Auditing has become such a ubiquitous phenomenon in the corporate and the public sector that academics started identifying an Audit Society. The auditor perceives and recognizes the propositions before him or her for examination, obtains evidence, evaluates the same and formulates an opinion on the basis of his judgment which is communicated through his audit report.

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. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The scope of internal auditing within an organization is broad and may involve topics such as an organization's governance, risk management and management controls over: efficiency or effectiveness of operations including safeguarding of assets, the reliability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss.

Internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors or similar oversight body regarding how to better

execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

The Institute of Internal Auditors (IIA) is the recognized international standard setting body for the internal audit profession and awards the Certified Internal Auditor designation internationally through rigorous written examination. Other designations are available in certain countries. In the United States the professional standards of the Institute of Internal Auditors have been codified in several states' statutes pertaining to the practice of internal auditing in government New York State, Texas, and Florida being three examples. There are also a number of other international standard setting bodies.

Internal auditors work for government agencies federal, state and local; for publicly traded companies; and for non-profit companies across all industries. Internal auditing departments are led by a Chief Audit Executive CAE who generally reports to the Audit Committee of the Board of Directors, with administrative reporting to the Chief Executive Officer in the United States this reporting relationship is required by law for publicly traded companies.

1.2 Statement of the problem

Internal auditing has evolved over time to the needs of business governmental and non profit organization. The institute of internal auditors (IIA) defines internal auditing an independent objectives assurance and consulting activity designed to add value and improve an organizational operations. It helps an organization accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control, and governance process

It is very clear from the above definition that internal audit forms an organization with appraise recommendation and control. HoweverAccording to the consolidated report of the National Water and Sewerage Corporation's accounts committee for the financial year end (2008), it was implied that the cash balance of shs. 470,267,548 appearing in the balance sheet at National Water and Sewerage Corporation Mbale Municipality were not supported by a board of survey report on cash. For advances of shs. 97m there was over granting and management of suchadvances, which remained the same as mentioned in the previous year's report. This is

no recovery was made on personal advances amounting to shs. 25, 314,000 brought forward from the two previous years. Neither was there any recovery of fresh official advances amounting to UShs. 13,200,000 granted in the current financial year. The report further revealed that a total sum of UShs. 18,467,000 were paid to an accountant and official of the National Water And Sewerage Corporation for supply of water pipes and purchase of stationery for the branch offices. Besides in violation of tender board regulations, two members of accounts staff were paid cash amounting to shs. 11,400,000 to buy stationery for preparing budget estimates for the financial year 2009 or 2010. Cash receipts were not availed to the Auditor General, the amount also appeared inflated and neither was their stationery taken on charge.

This means that NWSC will lose a lot of its resources. Significantly, this raises many questions on the oversight role of the internal audit function in NWSC. For in the absence of records relating to receipts, issues and utilization of these materials, the internal audit should have revealed that the items were not received and utilized for the right purpose. Besides, that the materials and supplies were not taken on charge as required by the set regulations. Therefore the researcher seeks to investigate the effect of internal audit on the financial performance of public sector organizations taking National Water and Sewerage Corporation in Mbale Municipality as a case study.

1.3 Objectives of the study

1.3.1 General objective

To examine the effect of internal audit on the financial performance of public sector organizations while considering National Water and Sewerage Corporation in Mbale Municipality.

1.4 Objectives of the study

- (a) To examine the types of internal audit applied by National Water and Sewerage Corporation in Mbale Municipality.
- (b) To analyze the importance of internal audit function in the accountability of Public Corporation.
- (c) To establish the relationship between internal audit and financial performance of National Water and Sewerage Corporation of Mbale Municipality.

1.5 Research questions

- (a) What are the types of internal controls applied by National Water and Sewerage Corporation- Mbale Municipality?
- (b) Which are some of the importance of internal audit function in the accountability of Public Corporation.?
- (c) How is the relationship between internal audit and financial performance of National Water and Sewerage Corporation of Mbale Municipality?

1.6 Scope of the study

1.6.1 Geographical scope

The study was conducted at National Water and Sewerage Corporation. The study is located in Mbale municipality in the eastern part of Uganda. Mbale Municipality is divided into three divisions of industrial, Wanale, and northern division. This study considered the management and the staff of National Water and Sewerage Corporation of Mbale Municipality plus people that were selected from the public who were assumed to be the customers of the same organization of National Water and Sewerage Corporation.

1.6.2 Content scope

The study is about internal audit and financial performance of National Water and Sewerage Corporation of Mbale municipality. It considers the relationship between internal audit and financial performance of public sector organizations, the importance of internal audit function in the accountability of Public Corporation and the areas that need internal audit in Public organizations.

1.6.3 Time scope

The study took a period of five months and would mainly consider information related to years that was (2014- 2015). The period of a year was chosen because was long enough for the researcher to establish the effect of internal audit on the financial performance at National Water and Sewerage Corporation Mbale municipality.

1.7 Significance of the study

The study findings might help to narrow the knowledge gap between the internal Audit and the financial performance of public sector organizations and National Water and Sewerage Corporation of Mbale in particular.

The study was to add the literature review to the already established information about the variables hence acting as a source of literature review to the future academician's who may get interested in researching about the same study variables of internal Audit and the financial performance of public sector organizations.

The study further helped to bring out the weaknesses in internal Auditing mostly found at National Water and Sewerage Corporation of Mbale municipality regarding to the auditing as well as recommendable strategies to solve established weaknesses at the same organization.

The study also helped the researcher to acquire practical skills that would help in carrying out more researches in some future time. This was because during the process of carrying the study, she would come up with new inspiring problem in the area.

1.8 Definition of operational words

A Company is a structure or undertaking that may have been created to provide a good service to the population with an aim of achieving the stated goals to arrive at profits.

Cash management processes consist of procedures, mechanisms and tools that top leadership puts into place to monitor cash inflows and outflows. These processes also relate to accounts payable and accounts receivable recording. An accountant lists cash as a short-term asset in a corporate balance sheet (Bernstein, 2008).

Performance is a measure of the results achieved. Performance efficiency is the ratio between effort expended and results achieved. The difference between current performance and the theoretical performance limit is the performance improvement zone. Performance assumes an actor of some kind but the actor could be an individual person or a group of people acting in concert (Deardorff, 2008).

Performance measurement is the process whereby an organization establishes the parameters within which programs, investments, and acquisitions are reaching the desired results. This

process of measuring performance often requires the use of statistical evidence to determine progress toward specific defined organizational objectives.

Mishkin (2007) argued that Cash is ready money in the bank or at hand. It is not inventory, it is not accounts receivable (what you are owed), and it is not property. These can potentially be converted to cash, but cannot be used to pay suppliers, rent, or employees. Profit growth does not necessarily mean more cash on hand.

Value for Money Audit, is a financial analysis looking into whether resources are used in an economic, efficient and effective way.

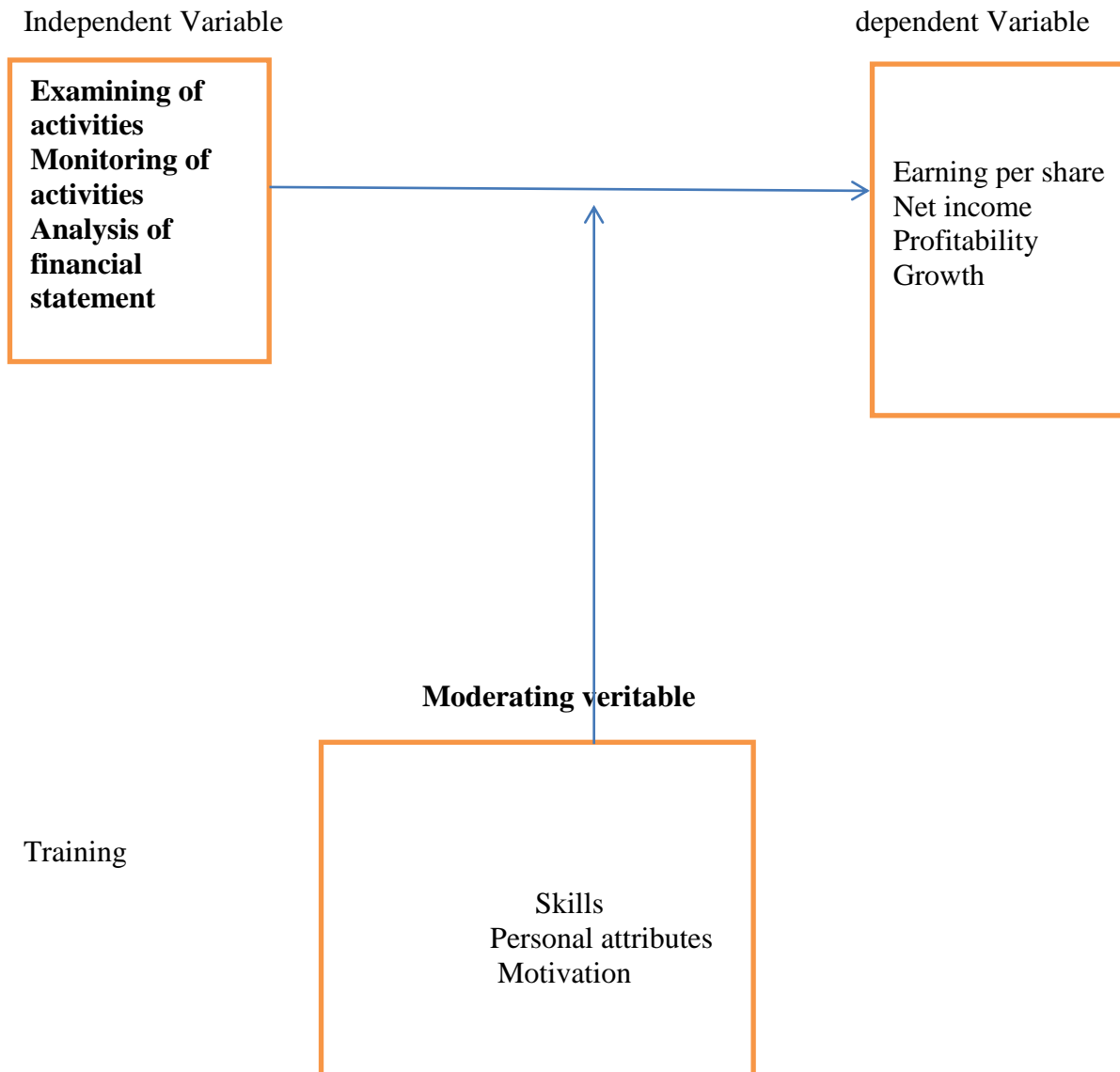
A customer, also client, buyer or purchaser is the buyer or user of the paid products of an individual or organization, mostly called the supplier or seller. This is typically through purchasing or renting goods or services. It is also the person or group that is the direct beneficiary of a project or service.

Efficiency refers to a functioning or prospering of a company at a given time in a given period basing on the desired goals and objectives of a company.

The conceptual frame work

The following conceptual frame work shows the relationship between Independent Variable (Internal Audit Function)and dependent Variable (financial performance)

Figure 1:9the conceptual frame work



Source: researcher (2016)

Source: Adopted from Aguzio (2014) and modified

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter showed how the research problem under the study fits into a body of knowledge generated over the ages. It revealed investigations other researchers have handled and to this therefore the section borrows literature from different authors about the study variables.

2.1 Historical perspective of Internal Audit Function

The Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions (Keen and Murphy, 1996). With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law.

To perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of management activities and personnel. Although internal auditors are part of company management and paid by the company, the primary customer of internal audit activity is the entity charged with oversight of management's activities. This is typically the Audit Committee, a sub-committee of the Board of Directors. To provide independence, most Chief Audit Executives report to the Chairperson of the Audit Committee and can only be replaced with the concurrence of that individual (Keen and Murphy, 1996).

According to the Institute of Internal Auditors, the Internal Auditor's obligation of Independence refers to:

The reporting line or status of the CAE. The Chief Audit Executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit

executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

2.2 The concept of internal auditing

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. Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes Coram, P.J., Ferguson, C. and Moroney, R.A. (2007). With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

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).

2.3 The types of internal auditsystems

Internal audit, is the Frequent or ongoing audit conducted by a firm's own (as opposed to independent) accountants to monitor operating results, verify financial records, evaluate internal controls, assist with increasing efficiency and effectiveness of operations and, to detect fraud. Internal audit can identify control problems, and aims at correcting lapses before they are discovered during an external audit. Although the internal auditors are the firm's employees, they

normally do not audit themselves or their own departments, but entrust it usually to independent auditors.

An internal audit is the examination, monitoring and analysis of activities related to a company's operation, including its business structure, employee behavior and information systems. An internal audit is designed to review what a company is doing in order to identify potential threats to the organization's health and profitability, and to make suggestions for mitigating the risk associated with those threats in order to minimize costs.

The following objective of internal audit system; to ensure that correct procedures are established, maintained and followed so that the financial and management data disclose through timely report, to safeguard the organization's asset against obsolescence and deterioration, to improve the organization's efficiency in line with stated objectives, to ensure that everybody in the organization follows the relevant laws, regulations, policies and stated directives, to ensure the completeness, accuracy and reliability of all records. The operational Auditing Guideline on internal control as cited in Shehu (2004) and (Jenfa, 2002) identifies some classification of internal control system which include among others; organizational Control, segregation of duties, physical control, authorization and approval Control, arithmetical and accounting controls, personnel controls, supervision control. This shows that every internal audit system most has the above component in order to ensure its effectiveness.

According Gupta (2001) drawing from Statements of Standard Auditing Practices No. 6 (SAP 6) defines Internal control as the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information. It is therefore worth noting from the above that; properly instituted systems of internal control will ensure; completeness of all transactions undertaken by an entity, that the entity's assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company's financial statements do exist, that all the assets presented in the company's financial statements are recoverable and that

the entity's transactions are presented in the appropriate manner according to the applicable reporting framework (ACCA Audit and Assurance Services).

According to Khan, (2006) internal control systems are classified as below;

The Internal Audit Department performs a wide range of audit services to the University community including: financial audits, compliance audits, operational audits, information technology audits, consulting or advisory services, and special investigations. Should you have any questions or concerns regarding specific policies and procedures employed by your department, we encourage you to contact us.

Financial Audits address questions regarding internal controls, accounting and the propriety of financial transactions. Most audits are integrated encompassing financial, operational, compliance and information technology audits.

Compliance Audits determine the degree of adherence to laws, regulations, policies, and procedures of the University, the Commonwealth of Pennsylvania, the Federal government, and other regulatory agencies such as the NCAA.

Operational Audits review the use of resources and procedures/practices in the department being audited to determine if goals and objectives are being met in the most effective and efficient manner. A key component of operational audits is to assess the internal control environment of the unit to manage and mitigate inherent risks.

Consulting and Advisory Services are requested by management and encompass a wide range of activities. This facilitated risk assessments, business process analysis, data analysis or information technology assessments. We were also available to consult on new system implementations, process and system redesign initiatives, and policy changes.

Special Investigations are performed in response to allegations received by our office through the University's hotline or other internal and external sources. Allegations are prioritized and investigated based on an assessment of potential risk to the University.

Follow-Up Audit, The purpose of a follow-up audit is to revisit a past audit's recommendations and management's action plans to determine if corrective actions were taken and are working, or if situations have changed to warrant different actions.

Investigations, An investigation are an inquiry into circumstances surrounding suspected incidents of fraud, misuse of University assets, or violations of USNH policies. Investigations are conducted to determine the extent of loss, assess weaknesses in controls, and make recommendations for corrective actions. The University will conduct these investigations in a manner that protects the civil rights of those who may be the subject of allegations.

Information Technology audit (IT) audit evaluates controls related to the institution's automated information processing systems. IT audits include an assessment of data, networks, hardware, applications, databases, servers, contracts, software/hardware licensing, security, business continuity, access authorization, and compliance with the institution's objectives, policies, and procedures. The goal is to ascertain that IT systems are safeguarding assets, maintaining data integrity, and efficiently operating to achieve business objectives.

2.4 Importance of internal audit function on accountability of public corporation funds in Governments Corporation.

According to VAGO (2004), internal audit function forms part of the management system of internal control. This becomes effective when the Internal Auditor reports to the highest level possible in an organization usually to the Audit committee. The Audit committee in turn works through reviewing and approving the internal Audit plans, progress results and the implementation of the recommendations. These stipulated above are commensurate means of strengthening the Internal Audit, to this end leading to proper accountability in local Governments.

Regarding to internal Audit charter (2006), internal audit is looked as an independent appraisal of various operations and systems of control to determine whether acceptable policies and procedures are followed. Internal audit therefore offers professional assistance to all levels of management in the effective discharge of their responsibilities. Some of the critical areas that require profession Audit advice include accounting, financial control, Assets management,

information management and control systems and all these are key elements of local governments in executing their work in as far as public resources are concerned.

Diamond (2002) argues that an Internal Auditor has the authority to access all books, documents, accounts, property vouchers recode, correspondences which all improve the performance of local governments through Internal Audit processes. This arises as an obligation of the secretary to establish Internal Audit function as expressly put by Tasmanian Financial management and Audit Act, (1990) under section 22 (c). The implied situation here is that whether external or internal the importance of internal audit cuts across. Therefore such above function applies to local government including Mbale District local government under study.

According to Harris (2004), Internal Audit is described as turn and stick referring to a system that monitors the accomplishment of established goals and objectives, ensures 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. The relevance of this to local governments is, though internationally asserted, that more less these are actual and expected schedule of Internal Audit in as far as the use of public resources to satisfy the users.

Internal Auditby Payne (2005), Internal Audit is realized as helpful in extending councils understanding of risk management beyond traditional areas of public liabilities and occupational health and safety into areas such as Internal Governance, fraud risk and broader regulatory risk. These professional considerations are none the less pertinent requirements to the handling of public issues more especially resources that require the above. They are regular obligations that must be cautiously handled with the assistance of Internal Audit function

Internal Audit is a fundamental element of corporate governance structure and processes with in local Governments. Accordingly Audit can be financial or operational; the former being about compliance with financial reporting requirements and accounting standards while the later determines compliance with the council policies and procedures as well as the effectiveness and efficiency of the programs or projects (ANAO, 2004). Without Internal Audit in local Government, Mbale district local governments in particular, such performance ingredients go

missing as the above two cases are about working within boundaries of regulations. Usually management of resources in the interest of the public is a stewardship phenomenon that is harmonized through audit procedures and reports; therefore internal audit is at the foreplay.

As part of Internal Audit, the local government Act 1989, local governments are required to have Audit committees as emphasized by Lundgren (2003). Audit committee is described to be established by the council which becomes the advisory committee that time and then prevent the local governments from working against the rules and regulations of the Act. More than often the Councils that have disregarded the advice of the audit committee have been caught up with the law (VAGO, 2004).

The audit function has become an integral part of government financial management and an instrument of improving performance in the public sector. The need for good governance and accountability has compelled governments to demonstrate a stronger sense of responsibility in the use of public funds and efficiency in the delivery of services. Management of national economies today is more complex and demands greater competency and professionalism from internal auditors if they are to be able to assist government in ensuring that scarce resources are deployed more efficiently and to also effectively deal with the associated risks (Gansberghe, (2005).

Khan, (2006); Effective internal oversight and monitoring are crucial to good governance and effective Public Financial Management (PFM). Internal oversight includes the internal audit function that must be effective and should comply with generally accepted auditing standards with regards to practice and approach. The focus of internal auditing is to determine whether public funds have been spent for the purpose for which they were appropriated and thereby promoting accountability. Internal audit undertakes reviews of individual systems and processes and consequently makes recommendations to heads of public sector entities on how external controls could be improved.

An internal audit function is an essential part of any public expenditure management system and should ensure that public spending within budgetary provisions; disbursements comply with

specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Coram, 2007).

Gansberghe (2005) puts forward the case that Management must reorganize the value added role of internal audit and contribute towards its effectiveness and that as internal auditing in the public sector assumes a status of professional practice, management would benefit from its recommendations in improving its decision making and thus would be playing a more proactive foresight role.

Internal audit function provides internal consulting service to the management of public institutions to identify risks, suggest risk management strategies and, ultimately, provide assurance that the risks are being appropriately managed. Thus, the internal auditing function evaluates the effectiveness of public institutions in achieving agreed objectives and thereby promoting strong governance and accountability regime. Internal audit function also applies professional skill through the evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization's objectives. The recommendations made by internal audit for improvement helps management in public sector entities to improve their risk management, control and governance processes (Gansberghe, 2005).

With the emergence of the public Expenditure and Financial Accountability (PEFA) framework in developing countries (PEFA, 2005), Performance measurement framework and results indicators have become key concepts in managerial practices and in the formulation and execution of budgets. Indicators recently introduced in some countries measure nationwide socio-economic progresses, stimulate public debate, and thus help fulfilling public accountability that emphasizes results and outcomes. Internal audit forms instrumental role in performing value for money (VFM) audits otherwise called Performance audits are concerned with the audit of economy, efficiency and effectiveness of government expenditures or spending plans. In practice, performance auditing is focused on assessing whether organizations are doing the right things and in the smartest way.

Public sector governance relates to means by which goals are established and accomplished. It also includes activities that ensure a government's credibility, establish equitable provision of

services, and ensure appropriate behavior of government officials whilst reducing the risk of public corruption (11A 2006). According to ANAO (2003) Public sector governance has a very broad coverage, including how an organization is managed, its corporate and other structures, its culture, its policies and strategies and the way it deals with its various stakeholders. The concept encompasses the manner in which public sector organizations acquit their responsibilities ward ship by being open, accountable and prudent in decision-making, in providing policy advice, and in managing and delivering programs.

The broader nature of public sector governance necessitates an effective internal auditing function in order to meet the demanding responsibilities imposed by stakeholders. Internal audit can help to improve governance processes by focusing on how values are established to ensure effective and efficient control and management of public sector entities. Such a value system requires an open government that is transparent in its dealings with a high sense of ethical behavior and fairness. The complexity of the public sector operating environment requires that the internal audit structural design, approach, practice and scope are reformed to ensure open, accountable and prudent decision making with all public sector organizations (Szymanski, 2005).

Internal auditors in governance are broadly identified to be twofold. Firstly, internal auditors provide independent, objective assessments on the appropriateness of the organization's governance structure and operating effectiveness of specific governance activities. Secondly, they act as catalysts for change, advising or advocating improvements to enhance the organization's governance structure and practices (Diamond, 2002).

Diamond (2002), points out that management control in the public sector includes all the policies and procedures put in place by a government and the management of public sector entities aimed at promoting accountability or resources. In the public sector, controls are mainly in-built in the public financial management system. Public financial management includes the legal and organizational framework for supervising all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit.

The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority need, and efficient and effective allocation of public services. Internal audit, in turn, has the key function of the reporting to the senior management of the public sector entities on the functioning of the management control systems, and recommending improvement where applicable (Szymanski, 2005).

According to Baltaci and Yilmaz (2006), the effort to reform a fiscal system should include internal control and audit due to the role they play in enhancing accountability and effectiveness. Internal audit provides both governments and related parties with a powerful tool for understanding the extent to which the public institution in question has delivered on budget and effective services. Internal audit activity has become an essential internal assurance mechanism in public financial controls and tool for monitoring and evaluating managerial activities prior to external evaluation by external auditors. Internal auditors in the public sector work with management to improve service delivery, secure their commitment to improve internal controls and to ensure compliance with applicable laws.

The demand for proper risk management strategies in the public sector or emanates from the complexity and dynamism of the operating environment, ever-increasing needs of society coupled with general unpredictability pattern and dwindling of resources for national development. Risk management should constitute an essential part of the strategic management process of any entity involved in the implementation national development strategies (Diamond, 2002).

Diamond (2002), Public procurement constitutes a huge portion of government expenditure and is an area that is often vulnerable to conflicts of interest and corruption of public officials. Internal audit activities will further enhance transparency, fairness, reduce corruption and ensure value for money in public procurement. According to Szymanski (2007) control systems should include adequate independent internal control and audit with a clear coordination of all control mechanism. He added that however, internal auditing as a control measure does not only minimize the opportunities for corruption through the verification of procurement process but

also ensures effective physical monitoring of capital items procured and actual utilization to avoid fraud and abuse.

Internal audit adds value through improving the control and monitoring environment within organizations to detect fraud (Coram and others, 2007). The very presence of internal of internal audit review in an institution serves as a deterrent measure on the assumption that any fraud perpetuated may be uncovered. Good governance principles require that audit committees or similar oversight bodies, work closely with internal auditors in fraud risk evaluation and investigations especially when recent trends suggest perpetration by senior management in collusion with other employees.

Khan (2006) identified the useful role internal audit could play the investigation process and made the following suggestion. Internal auditors can play a vital role assisting the agencies responsible for investigation of alleged cases of corruption in public sector organization by way of interpretation of various rules, explanation of various practices, and the sharing some of the confidential information that they may possess as they usually have more diversified and detailed knowledge of the operations in different parts of the organization than the investigating agency staff that are deployed only for a particular case.

The challenge of public sector internal audit, however, is to avoid becoming compliance based due to the presence of a strict legal framework that sets out the public financial controls and internal auditing processes. Moving towards risk-based internal audit will require a foresight function of monitoring and advising on the improvement of program efficiency and effectiveness and mitigating risks that hinder the achievement of organizational objectives (Glass, 2005).

2.8 The Relationship between internal audit function and financial performance

Whittington and 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 and 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. According to Gupta 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.

In accordance to Institute of Internal Auditors (IIA-UK; 1997), independence is applicable to all categories of auditors. This means the opportunity granted to the auditors to report directly to the top authority. Woolf (1986), says, although an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carryout his work as he wishes and have access to the highest level of management.

Mill champ (1993) says, effective internal audit should be carried out by an independent personnel though they are employees appointed by management, for them to work efficiently,

they should have scope to arrange priorities and activities have unrestricted access to records, assets and personnel

According to Bhatia (2003), Internal Auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It's also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of managements control system (Subramaniam, 2006). Its objective is to provide management with re-assurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Reid andAshelby, 2002). It is a component of the internal control system set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested. For example, it's common these days for internal audit to undertake the extensive and continuous task of setting management goals and monitoring its performance (Woolf, 1996).

Emasu (2010) notes that the effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff". It is however a bitter reality that internal audit departments are rarely adequately facilitated. Regarding the size and facilitation of the Internal Audit Function,

Gerrit and Mohammad (2010), found evidence in support of the monitoring role of the Internal Audit Function. They specifically, found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management. This finding suggests that increased management ownership may influence the board of directors to support larger Internal Audit Functions to allow them to closely monitor managers' performance. It is also plausible that management with higher share ownership is motivated to invest in larger Internal Audit Function for better monitoring of

earnings and for signaling to the board of directors that, despite their high stake in earnings, they are convinced that appropriate use of resources has to be assessed on a regular basis.

Gerrit and Mohammad also believe that the proportion of independent board members to have a negative effect on Internal Audit Function size. This finding may indicate a substitution effect, which means that independent board members may be considered as an alternative monitoring mechanism to the Internal Audit Function. They further assert that the control environment has a significant effect on the relative size of the Internal Audit Function. Specifically, a supportive control environment characterized by formalized integrity and clear ethical values, a high level of risk and control awareness, the perception that risk management is important and the fact that responsibilities with respect to risk management and internal control are clearly defined is associated with a relatively larger Internal Audit Function.

Using a US sample, Wallace and Kreutzfeldt (1991) found that companies with internal audit departments are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more conservative in their accounting policies, more competent in their management and accounting personnel, and subject to better management controls. Carey et al. (2000) found that agency variables do not explain the voluntary use of internal audit by Australian family firms. More recently, a study by Goodwin Stewart and Kent (2006), using a sample of Australian listed companies, shows that the existence of an Internal Audit Function is positively associated with firm size and commitment to risk management.

Sarens and De Beelde (2006) also show that the risk and control awareness have an influence on the scope of the Internal Audit Function. These results suggest that when management is aware of risks and control activities, they are more likely to understand the role of the Internal Audit Function in monitoring risk and control activities, thus it is more likely that they will support a relatively larger Internal Audit Function (Sarens and De Beelde, 2006, Selim and McNamee, 1999). Meigs et al (1988) holds that there must be a strong internal control system and the internal auditor must verify the operations of the system in much the same way, as the external auditor. It involves the investigation, recording, identification and review of compliance tests of

control, they also argued that effective internal audit procedures provide sufficient relevant and reliable evidence in order to detect and prevent fraud.

Kochan (1993), considers auditing procedures in one company and describes steps taken in implementing a quality assurance system, she discusses the use of internal audits as an essential part of ISO 9000 certification process. Boakye-Bonsu (1999) asserts that internal audit procedures are seen as ends in themselves rather than a means towards a specific objective, with such an approach our rambler would undoubtedly get lost. Internal audit procedure is a form and content manual that includes audits notes and responsibilities, documentation standards, local reporting standards and targets, training requirements and expectations and performance measures and indicators (Watts, 1999). Effectiveness is the achievement of goals and objectives using factor measures provided for in determining such achievement. However, it has been traditional in internal auditing that determination of internal auditing effectiveness can be accomplished by evaluating the quality and effectiveness of internal auditing procedures that result in determination by the internal auditors of the character and the quality of effectiveness of the auditor's control operations and if the auditing procedures are effectively carried out, then the evaluative results are positive (Dittenhofer, 2001).

Maitin (1994) says efficiency and effectiveness of internal audit procedures is not a simple task, successful operation is governed by the extent to which the element of internal audit procedures receive attention which include; expertise, independence, objectivity and totality. Effectiveness of internal audit procedures is a measure of the ability of the programme to produce a desired effect or a result that can be qualitatively measured (Harvey, 2004).

Zabihollah (2001) argues that, there should be effective internal audit procedures to ensure reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls. Benston (2003) further supplements that perception and ownership, organization and governance framework, legislation, improved professionalism and resources were identified as functions in the public sector derived from the effectiveness of the internal audit procedures. How far internal audit procedures succeed in their effort of effectiveness is mainly judged by three factors that include; frequency of irregularities committed by the staff in

the organization in form of errors or fraud, the promptness with which such irregularities are detected by the authorities and the planning which makes possible repetition of such irregularities in future more difficult (Reid and Ashelby, 2002).

Earnest and Young (1995), the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed. Examples of the due professional care by the internal auditor are the existence of an adequate audit manual, general internal audit plans, procedures for controlling individual assignments and satisfactory arrangements for reporting and following up.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

In this chapter, the methods used in data collection, analysis and presentation are presented. It therefore provides a description of research design, area of study, population and sample size, data collection, Validity of the instruments, data analysis, procedure in addition to the study limitations and delimitations.

3.1 Research Design

The researcher undertook this study using a case study research design of data collection from a wide section of the study respondents. This research design was suitable in the sense that the information collected involved in analyzing how internal audit function affects the financial performance of public sector organizations. The study focused on using quantitative and qualitative research methodologies.

3.2 Study Area

The researcher limited the study to National Water and Sewerage Corporation located in Mbale Municipality found in Mbale district in Eastern Uganda. . This study considered the management and staff of National Water and Sewage Corporation of Mbale municipality plus people selected from the public who were customers of the same organization of National Water and Sewerage Corporation.

3.3 Study population

The researcher obtained information from National Water and Sewerage Corporation in Mbale municipality staff, and management of the same organization. The researcher was then involved in all these categories of the study. The total number of the study population was 87 people at National Water and Sewerage Corporation in Mbale municipality.

The study population therefore included the respondents from different departments at the Company including; Human resource, procurement, and finance departments of the organization

that was selected during the study process in the study area. However, since no significant better results can be got through the entire study population of 87, a representative sample size of 50 respondents was selected to save resources like time and money.

3.4 Sampling method

Sampling is the selection or making of a sample, the selection of a group of people, events, behaviors, or other elements that are representative of the population being studied in order to derive conclusions about the entire population from a limited number of observations.

The study used purposive sampling method during the process of data collection from the study respondents. The purposive sampling technique was used since it enabled the researcher to select a sample with experience and knowledge about the study variables and this method will be used to select all the study respondents.

purposive sampling a type of nonprobability sampling in which the researcher consciously selects specific elements or subjects for inclusion in a study in order to ensure that the elements will have certain characteristics relevant to the study.

3.5 Sample size

The sample size consisted of 50 respondents from the study area and these were selected as in table below.

Table 1: Showing category of respondents as well as the Sample size

| Category of respondents | Study population | Sample size |
|-------------------------|------------------|-------------|
| Procurement | 12 | 10 |
| Production | 46 | 30 |
| Human Resource | 19 | 02 |
| Finance department | 10 | 08 |
| Total | 87 | 50 |

Source: NWSC- Mbale municipality (2013)

The study used a sample size of 50 respondents because it was large enough compared to the study population of NWSC Mbale municipality.

However, this sample was determined with the help of the following formulae according to Agatha (2009). The sample size of the respondents was determined as in the formulae below;

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

N = Total population.

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

n = Total number of the respondents needed by the study.

3.6 Data sources

Concerning data sources, both primary and secondary data were the main sources of data to be used in the study.

3.6.1 Primary data

Primary data is that which is collected by sociologists themselves during their own research using research tools such as experiments, survey questionnaires, interviews and observation.

Primary data can take a quantitative or statistical form, for example charts, graphs, diagrams and tables. It is essential to interpret and evaluate this type of data with care. In particular, look at how the data is organized in terms of scale. Is it organized into percentages, hundreds, thousands? Is it a snapshot of a particular year or is it focusing on trends across a number of years?

Primary data involved use of a questionnaire and interview guide method. During the collection of this data, the researcher approached the study area with the research tools as he gets responses as per the study respondents. Such data was used to analyze the problem that was at hand.

Primary data can also be qualitative, for example extracts from the conversations of those being studied. Some researchers present their arguments virtually entirely in the words of their subject matter. Consequently the data speaks for itself and readers are encouraged to make their own judgments.

An advantage of using primary data is that researchers are collecting information for the specific purposes of their study. In essence, the questions the researchers ask are tailored to elicit the data that helped them with their study. Researchers collect the data themselves, using surveys, interviews and direct observations.

In the field of workplace health research, for example, direct observations may involve a researcher watching people at work. The researcher could count and code the number of times she sees practices or behaviors relevant to her interest for instances of improper lifting posture or

the number of hostile or disrespectful interactions workers engage in with clients and customers over a period of time.

To take another example, a research team wants to find out about workers' experiences in return to work after a work related injury. Part of the research may involve interviewing workers by telephone about how long they were off work and about their experiences with the return to work process. The workers' answers considered primary data, it provided the researchers with specific information about the return to work process for example they may learn about the frequency of work accommodation offers, and the reasons some workers refused such offers. Primary data's are very useful to the organizations in many ways for example.

Addresses Specific Research Issues, Carrying out their own research allows the audit firms organization to address issues specific to their own situation. Primary research is designed to collect the information the auditors wants to know and report it in ways that benefit the organization. For example, while information reported with secondary research may not fit the auditors needs for example different age groupings no such problem exists with primary research since the auditor controls the research design.

Efficient Spending for Information, unlike secondary research where the auditor may spend for information that is not needed, primary data collections' focus on issues specific to the researcher improves the chances that research funds will be spent efficiently.

Proprietary Information, Information collected by the auditor using primary research is their own and is generally not shared with others. Thus, information can be kept hidden from competitors and potentially offer an information advantage to the company that undertook the

3.6.2 Secondary data

The researcher was to collect secondary data from different sources like; text books, internet, newspaper, magazines, and journals that will be found at National Water and Sewerage Corporation in Mbale municipality. This information was reviewed by visiting places like libraries and internet cafes and this type of information was used to supplement collected data from different categories of the respondents during data collection.

Secondary data refers to data that was collected by someone other than the user. Common sources of secondary data for social science include censuses, information collected by

government departments, organizational records and data that was originally collected for other research purposes. Primary data, by contrast, are collected by the investigator conducting the research.

The first advantage of using secondary data (SD) has always been the saving of time (Ghuri, 2005). Not enough with this, in the so called Internet Era, this fact is more than evident. In the past, secondary data collection used to require many hours of tracking on the long libraries corridors. New technology has revolutionized this world. The process has been simplified. Precise information may be obtained via search engines. All worth library has digitized its collection so that students and researchers may perform more advance searches.

Accessibility, in the past, SD was often confined to libraries or particular institutions. Top of that, not always general public gained access. Internet has especially been revolutionary in this sense. Having an internet connection is frequently the only requirement to access. A simple click is sometimes more than enough to obtain vast amount of information. The problem, nevertheless, is now being able to see whether the data is valid.

Strongly connected to the previous advantages is the saving of money (Ghuri, 2005). In general, it is much less expensive than other ways of collecting data. One may analyze larger data sets like those collected by government surveys with no additional cost.

Feasibility of both longitudinal and international comparative studies, Continuous and regular surveys such as government censuses or official registers are especially good for such research purposes. The fact of being performed on a regular or continuous basis allow researchers to analyze the evolution of, to give an example, per capita income in Poland from 2000 to 2012. Something similar occurs when comparing different countries. Although important difference between countries may exist, the truth is that censuses and other government studies tend to unify criteria all over the world or, at least, within certain geographical areas, such as European Union, or among certain international organizations members, such as OECD. Another example is the studies carry out by international networks that aim to collect information world-widely following the same criteria. The World Values Survey is a good example. It is a source of empirical data on attitudes covering a majority of the world's population (nearly 90%) It is carried out by a worldwide network of social scientist who, since 1981, has conducted representative national surveys in almost 100 countries. Aiming such data for international or longitudinal studies via primary data collection is truly difficult and often misses the rigor that

diverse social contexts comparisons require.

May Help Clarify Research Question, Secondary research is often used prior to larger scale primary research to help clarify what is to be learned. For instance, a researcher doing competitor analysis, but who is not familiar with competitors in a market, could access secondary sources to locate a list of potential competitors.

3.7 Data collection and instruments

3.7.1 Questionnaire

The questionnaire tool was both open and close ended in nature and this was self administered where the researcher fills the questionnaire in the study field as per respondents' responses. The tool was used to collect information from non supervisors. The questionnaire method of data collection was used because of being cheap and that the method collects responses with minimum errors and high level of confidentiality. Questionnaires are very useful to the organizations in many ways for example.

Large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost effective way, Can be carried out by the researcher or by any number of people with limited affect to its validity and reliability, The results of the questionnaires can usually be quickly and easily quantified by either a researcher or through the use of a software package, Can be analyzed more 'scientifically' and objectively than other forms of research, When data has been quantified, it can be used to compare and contrast other research and may be used to measure change, Positivists believe that quantitative data can be used to create new theories and or test existing hypotheses.

Questionnaires are easy to analyze. Data entry and tabulation for nearly all surveys can be easily done with many computer software packages.

Questionnaires are familiar to most people. Nearly everyone has had some experience completing questionnaires and they generally do not make people apprehensive.

Questionnaires reduce bias. There is uniform question presentation and no middle-man bias. The researcher's own opinions will not influence the respondent to answer questions in a certain manner. There are no verbal or visual clues to influence the respondent.

3.7.1 Interview

An interview guide was drafted with questions that the researcher asks during an interview and this was closed ended. The researcher personally recorded the provided responses as per the study respondents during the process of carrying out an interview. The tool was used to collect information from the employee's superiors at the organization of NWSC in Mbale municipality. Interview is very useful to the organizations in many ways for example.

Accurate screening. Face to face interviews help with more accurate screening. The individual being interviewed is unable to provide false information during screening questions such as gender, age, or race. It is possible to get around screening questions in online and mobile surveys. Online and mobile surveys that offer incentives may actually encourage answer falsification. Individuals may enter incorrect demographic information so they are able to complete the survey and gain the incentive. The answers the individual provides may all be truthful, but for the purpose of data analysis, the data will be inaccurate and misleading.

Capture verbal and non-verbal cues. A face to face interview is no doubt going to capture verbal and non verbal cues, but this method also affords the capture of non verbal cues including body language, which can indicate a level of discomfort with the questions. Adversely, it can also indicate a level of enthusiasm for the topics being discussed in the interview. Let's discuss an employee job interview, for example. Capturing non verbal cues may make the difference between selecting an employee that is less skilled, but displays a tremendous amount of enthusiasm for the position. Capturing non verbal cues is not possible in online or mobile surveys.

Capture emotions and behaviors. Face-to-face interviews can no doubt capture an interviewee's emotions and behaviors. Similar to not being able to capture verbal and non-verbal cues, online and mobile surveys can also not capture raw emotions and behavior

3.9 Data analysis

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 and presentation of data involved use of tables which will be generated from the questions that are relevant to the study variables.

The edited data was analyzed both quantitatively and qualitatively. Quantitative data was grouped and statistical description such as tables showing frequencies and percentages for better interpretation.

3.10 Ethical consideration

The researcher respected human dignity by not revealing the identity of the respondents in the study. Under here, a letter of introduction from the administrator was got permission to conduct the study after being directed by the supervisor to do so. This letter was presented to the respondents in the study area for permission to conduct the study. Once the permission is granted, the researcher was to distribute the questionnaires to the respondents in addition to interviewing them and the next stage after analyzing the data collected from the study respondents.

3.11 Limitations of the study

The study is limited by funds as it was not enough to cater for secretarial services. The researcher had however got some financial support from her relatives that supported him during the research study.

In addition, the researcher faced a problem of not finding all respondents in the time of the study due to them being too busy with the organization work. The researcher however had to draft the appropriate time table with the top company managers that may suit all the respondents during the process of data collection for reliable and valid information.

The study also faces with the problem of limited time to undertake the comprehensive study in time. However, the researcher followed the drafted work plan to undertake the study successfully in addition to the direct response in accordance to the supervisor's comments.

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 has been 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, examining the types of internal controls applied by at National Water and Sewerage Corporation Mbale, to analyze the importance of internal audit function in the accountability of Public Corporation and to establish the relationship between internal audit and financial performance of National Water and Sewerage Corporation Mbale

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

Table 2: Showing gender composition of the respondents

| Gender | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|------------------|----------------|----------------------|---------------------------|
| Male | 30 | 60.0 | 60.0 | 60.0 |
| Female | 20 | 40 | 40.0 | 100.0 |
| Total | 50 | 100 | 100.0 | |

Source: Primary Data, April 8, 2013

According to the study findings as in table 2, most of the respondents were male as compared to the female. The number of males who participated in the study was represented 60% as compared to 40% 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 engineering department , operation department, finance department at NWSC Mbale and were

selected during the study. The above finding clearly indicates that male participated in NWSC than female within the study

4.1.2 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 services delivery of NWSC as shown below.

Table 3: Showing marital status of the respondents

| Marital status | Male | Female | Frequency | Percentage |
|-----------------------|-------------|---------------|------------------|-------------------|
| Married | 15 | 05 | 20 | 40 |
| Single | 09 | 05 | 14 | 28 |
| Divorced | 06 | 10 | 16 | 16 |
| Total | 30 | 20 | 50 | 100 |

Source: Primary Data, April 8, 2013

As seen in the table above, majority of the study respondents constituting 40% were married and these were followed by respondents who were single as revealed by 28% of the respondents then 16% of the respondents who were divorced. The study established that majority of the respondents were married.

4.1.3 Age composition of respondents

The age composition of the study respondents was also an important factor in the process of understanding internal audit functions and financial performance of public organization using a case of NWSC. This was so because different age groups were assumed to understand the study variables differently yet considered vital to the study.

Table 4: Showing age composition of the respondents

| Age range | Male | Female | Frequency | Percentage |
|------------------|-------------|---------------|------------------|-------------------|
| 20 – 29 | 10 | 05 | 15 | 30 |
| 30 – 39 | 06 | 02 | 08 | 16 |
| 40 – 49 | 04 | 04 | 08 | 16 |
| 50 - 59 | 08 | 04 | 12 | 24 |
| Above 65 | 02 | 5 | 07 | 14 |
| Total | 30 | 20 | 50 | 100 |

Source: Primary Data, April 8, 2013

The table above shows that most of the respondents were between the ages of 30 – 39 accounting and engineering for 30%. This implied that were likely to understand better the relationship between internal audit and service delivery of NWSC which they were in position to provide to the study information as majority reported to had stayed practicing in NWSC for along time.

The other category of the respondents were in the age range of 20 -29 as reported by 16% 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, 16% of the study respondents were in the category age of 40 – 49. These respondents' views were so great in the process of analyzing the study variable that helped to understand the problem. Finally 24% of the respondent indicated to be 50-59 and above years as these were of the least in number. This could mean that, NWSC 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 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 below

Table 5: Showing highest level of education of the respondents.

| Level of education | Male | Female | Frequency | Percentage |
|---------------------------|-------------|---------------|------------------|-------------------|
| Certificate | 02 | 10 | 12 | 24 |
| Diplomas | 14 | 04 | 18 | 36 |
| University degree | 08 | 02 | 10 | 20 |
| Master | 06 | 04 | 10 | 20 |
| Total | 30 | 20 | 50 | 100 |

Source: Primary Data, April 8, 2013

The table above shows that most of the respondents had attained up to diploma level of education with 24%, followed by 36% of the study respondents who had university level then certificate as was reported by 20% of the respondents, and finally 20% of the respondents who cited that had attained other levels of education master level, and professional

The study further understanding revealed that respondents with professional courses comprised of those in finance department, engineering at the NWSC of Mbale, as some of the people in such category reported that were still students in away 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 NWSC of Mbale 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 functions and financial performance of public organization using a case study of NWSC.

4:1:4 Duration of stay or work of respondents.

The duration of the respondents was also covered and analyzed to assess how long the respondent's were to work and stay at NWSC as shown below.

Table 6: Duration of stay or work in the study area that is NWSC

| Years | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|------------------|----------------|----------------------|---------------------------|
| 1 – 3 year | 20 | 40 | 40.0 | 40.0 |
| 3- 4 year | 14 | 28 | 28.0 | 68.0 |
| 4 – 5 years | 06 | 12 | 12.0 | 80.0 |
| Above 5 years | 10 | 20 | 20.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

From the above table, Respondents were asked about their duration of stay or work in the study area that is NWSC Mbale. It was hoped that the workers or respondents time of the stay on work influenced their impact in the area. Those who had stayed longer in the study area were further believed to have witnessed several changes, trends and patterns of work or services offered by the institutions to its clients 40% slightly low ten percent had stayed or worked NWSC for a period of only one to three year. Only 28% of the respondents had worked with NWSC for a period of three to four years while the rest of the respondents 12% and 20% had worked or stayed with NWSC for a period of four to five year and above years respectively. Hence those over two years were more knowledgeable than those below two years.

4:1:5 religions of respondents.

The religion of the study respondents was also an important factor in the process of understanding internal audit functions and financial performance of public organization using a case of NWSC. Because this helps to how religions are there and which religion has many respondents.

Table 7: Showing religion of respondents

| Religion | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------|------------------|----------------|----------------------|---------------------------|
| Catholic | 14 | 28 | 28.0 | 28.0 |
| Protestant | 08 | 16 | 16.0 | 44.0 |
| Muslim | 16 | 32 | 32.0 | 76.0 |
| Others (specify) | 12 | 24 | 24.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Table above shows the religious affiliation to the respondents, where the 28% of them swere Catholics, Protestants had 16%, Muslims had 32% and others who did not specify had 24%. Therefore this implied that most of the respondents were Muslim by faith.

4.2. Internal control systems applied by National Water and Sewerage Corporation Mbale.

According to the study objective, the study was set to establish the internal control systems at National Water and Sewerage Corporation Mbaleand the results were revealed as follows.

4.2.1 Responses on if under standard the term internal control systems

The study respondents were required to indicate whether they could understand the term internal control systems. According to the study findings only 60% of the study respondents cited of understanding the term internal control systems as in the table 7. This showed that the study respondents were likely to cite valid and reliable information for the study.

Table 8: Showing whether respondents under standard the term internal audit systems

| Under stand the term Internal control systems | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|------------------|----------------|--------------------------|---------------------------|
| Yes | 30 | 60 | 60 | 60 |
| No | 20 | 40 | 40 | 100 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

After establishing that all the study respondents knew what the term Internal audit systems is, it was important to establish how such respondents could perceive the same term and this was established as in table 8.

Perceptions about internal audit system

This help the respondents to measures put in place to control mismanagement of items, Policies used by an entity to achieve its mission, Vision and objectives

Table 9: Showing respondents perceptions about internal audit system

| Perceptions | Frequency | Percentage |
|---|------------------|-------------------|
| Measures put in place to control mismanagement of items | 20 | 40 |
| Monitoring system that takes place in the organization | 14 | 28 |
| Policies used by an entity to achieve its mission, Vision and objectives. | 16 | 32 |
| Total | 50 | 100 |

Source: Primary Data, April 8, 2013

Table 9above shows that most of the respondents 40% understood internal audit systems as the measures put in place to control mismanagement of items. In relation to the NWSC Uganda limited, it meant that the employees of telecom have to design measures in the control of the NWSC Uganda limited' properties such as incomings and outgoings, and the NWSC Uganda limited assets. This could imply that many NWSC Uganda limited in the way of managing its assets have to develop different strategic measures and communicate them to all the employees.

Other respondents constituting 28% understood internal control systems as monitoring system that takes place in the organization. This implied that NWSC Uganda limited was monitoring its employees in the process of doing the Uganda telecom activities for improved profitability and safety of the NWSC telecom image. Respondents said that heads of departments supervisors are responsible for monitoring all the activities done by the employee under their supervision.

In addition, 32% reported of understanding internal control systems as Policies used by an entity to achieve its mission, Vision and objectives. That Uganda telecom limited had a blue print citing the NWSC Uganda mission, vision and objectives that could help the staff in the process of undertaking the Organization activities.

4.2.2 Responses on if there are internal audit systems in place

The study also established if there were internal audit at NWSC limited and the respondents' views were as shown in table 9

Table 10: Showing responses on if there are Internal audit systems in place

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Yes | 20 | 40 | 40 | 40 |
| No | 30 | 60 | 60 | 100 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

According to the study findings as in table 9, all the respondents 100% revealed that there were internal audit systems at NWSC Uganda limited. Regarding the Internal control systems at Mbale NWSC Uganda limited, the study respondents indicated checking of goods entering the NWSC. It was revealed by the respondents that goods especially those purchased are checked before they are put to the Mbale telecom limited store. Respondents said that the store keeper records all the goods that are brought to be kept and even those leaving Mbale NWSC Uganda limited stores for proper accountability to reduce of the demand disparities.

The study also showed checking of people at the building entrance among the controls used by the NWSC Uganda limited. It was established by the study that security unit is responsible for checking all the people who come for the telecom limited services. Checking of people at the building entrance at Mbale NWSC Uganda limited help to protect the destruction of the assets by people with bad intentions like the terrors who may go to the NWSC Uganda limited not to consume NWSC Uganda limited services but to harm NWSC Uganda limited assets. It was

also revealed by the study that cameras are also put in different parts in the NWSC Uganda limited to capture thieves with the help of individual controlling them.

Another internal control procedure in place was revealed as frequent supervision of the NWSC Uganda limited activities. Respondents from the study said that workers at the employees are frequently supervised during the process of performing NWSC Uganda limited activities. Frequent supervision of employees helps them to perform the assigned tasks for effectively and effectiveness that helps the NWSC Uganda limited to improve profits.

It was further indicated that report writing is also among the internal control systems used at Mbale NWSC Uganda limited. It was revealed a group of the study respondents that some heads of departments at NWSC Uganda limited write reports to the NWSC Uganda limited workers concerning all that has been done under their departments. Reports are frequently written by the heads of departments every after five months. These report help in showing the workers of the Mbale NWSC Uganda limited the financial performance and what needs to be adjusted in the management towards better financial performance. It was reported by the study respondents that top management report review help in the analysis of the actual Mbale NWSC Uganda limited results with the organizational goals and plan and other key financial performance indicators.

Also, the findings revealed use of recording systems among the internal control systems used at Mbale NWSC Uganda limited. It was established that all the Organization sales and expenses are recoded by the help of receipt books for proper accountability. In relation to recording, the money brought in by the NWSC Uganda limited people at the building entrance are recorded in receipt book where balancing is also done at the end of every after five days by the accounts and the finance officer at the Mbale NWSC Uganda limited.

The other Internal control systems used at Mbale NWSC Uganda limited were indicated by the respondents as internal audit system, training and workshop programs to the Mbale NWSC Uganda limited employees, screening of prospective employees in addition to the use of budgetary and financial controls. Findings from the study revealed that proper use of budgetary and financial controls help to control overstocking and under stocking of materials to be used by

the organization. To this, Pope Mbale NWSC Uganda limited management use budgetary and financial controls to make sure that the Mbale NWSC Uganda limited materials are available at the right time and in the right place that has been helping the Mbale NWSC Uganda limited to become the best one in Mbale can later lead to better performance and achievement of the Mbale NWSC Uganda goals and objectives.

Also, the findings revealed use of authorization of purchase at NWSC Uganda .The findings revealed that 100 % agreed with authorization of purchase at NWSC Uganda, this implies that all transactions are authorized and approved by appropriate authorities to prevent fraudulent and erroneous transaction

The general findings regarding segregation of duties which involves different responsibilities being performed and by different officers, with the existence of segregation of duties the findings revealed 40% of respondent agreed with segregation of duties, This implies that there is segregation of duties as such no one can be responsible for initiation and processing a complete transaction this reduces intentional manipulation of records hence making inventory management good.

It was further indicated that Supervision involves overseeing staff to ensure that the right activity is performed at right time and by officer responsible is also among the internal control systems used at Mbale NWSC Uganda Limited. From the e respondents 100% of the respondents agree with the existence of close supervision of staff ,this implies that staff at all levels are supervised and responsibility of supervision is well laid down and there is communication to the supervisor and person being supervised hence emphasizes the strict adherence to internal auditors.

The study also showed that internal checks system has internal control used by NWSC Uganda with 100% of the respondents agree with internal checks, this implies that at NWSC Uganda internal checks such as abrupt staff rotation, abrupt review of management accounts are weak thus this leads, fraud misappropriation in inventory management.

Another internal control procedure in place was revealed as frequent respectively with the budgetary controls , This implies that budgetary exercise is carried out at NWSC Uganda, this means that NWSC Uganda can compare actual out put with desired out and differences investigated hence there is deviations from the planned objectives leading to good inventory management.

4.2.3 Findings on the effectiveness of internal audit used in NWSC

This was carried out to determine the effectiveness of internal audit used in NWSC and this encouraged the majority of the respondents to agree. It has a percentage of 60%

Table 11: Responses on whether there are adequate asset listings done by management

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-----------|------------|---------------|--------------------|
| Agree | 30 | 60 | 60.0 | 60.0 |
| Disagree | 20 | 40 | 40.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above show that 60% of the respondents agreed that there are adequate asset listings done, 40% disagreed and Majority of the respondents were in agreement and this implies that there are adequate asset listings done by management at NWSC Uganda Limited.

Table 12: Responses on whether procedures in place ensure asset additions, disposal, replacement and transfers for proper accountability

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-----------|------------|---------------|--------------------|
| Agree | 10 | 20 | 20.0 | 20.0 |
| Disagree | 40 | 80 | 80.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in the table above show that 20% of the respondents agreed that procedures in place ensure asset additions, disposal, replacement and transfers for proper accountability, 80% disagreed and the Majority of the respondents disagreed and this implies that procedures in place

do not ensure asset additions, disposal, replacement and transfers for proper accountability in the organization.

Table 13: Responses on whether capital assets purchased are approved by appropriate level of management

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 31 | 62 | 62.0 | 62.0 |
| Disagree | 19 | 38 | 38.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above indicate that 62% of the respondents agreed that capital assets purchased are approved by appropriate level of management and 38% disagreed. So the Majority of the respondents disagreed and this implies that capital assets purchased are not approved by appropriate level of management.

Table 14: Responses on whether asset numbering is done to show location and protection of the assets

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 17 | 34 | 34.0 | 34.0 |
| Disagree | 33 | 66 | 66.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above show that 34% of the respondents agreed that asset numbering is done to show location and protection of the assets, 66% disagreed. Majority of the respondents disagreed. This implies that asset numbering is not done to show location and protection of the assets at NWSC Uganda Limited.

Table 15: Responses on whether there is free access to cheque books and organization assets

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 10 | 20 | 20.0 | 20.0 |
| Disagree | 40 | 80 | 80.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above indicate that 20% of the respondents agreed that there is free access to chequebooks and organization assets and 80% disagreed. Majority of the respondents disagreed; this implies that there is limited or no access to cheque books and organization assets.

Table 16: Responses on whether a person responsible for inventory management is different from the bookkeeper

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 37 | 74 | 74.0 | 74.0 |
| Disagree | 13 | 26 | 26.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above depict that 74% of the respondents agreed that a person responsible for inventory management is different from the bookkeeper, and 26% disagreed and the Majority of the respondents agreed, this implies that a person responsible for inventory management is different from the bookkeeper at NWSC Uganda Limited.

Table 17: Responses on whether stock taking is done following the procedures and in the Presence of the internal auditor

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 18 | 36 | 36.0 | 36.0 |
| Disagree | 32 | 64 | 64.0 | 100.0 |
| Total | 50 | 100 | 100.0 | |

Source: Primary Data, April 8, 2013

Results in table 16 above show that 36% of the respondents strongly agreed that stock taking is done following the procedures and in the presence of the internal auditor and 64% disagreed. Majority of the respondents disagreed implying that stock taking is not done following the procedures and in absence of the internal auditor.

Table 18: Responses on whether the petty cashier is different from the main cashier

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 19 | 38 | 38.0 | 38.0 |
| Disagree | 31 | 62 | 62.0 | 100.0 |
| Total | 50 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above reveal that 38% of the respondents strongly agreed that the petty cashier is different from the main cashier and 62% disagreed. Majority of the respondents disagreed; this implies that the petty cashier and the main cashier are the same at NWSC Uganda Limited.

Table 19: Responses on whether there are adequate policies to ensure effective collection and follow ups of due accounts

| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|------------------|----------------|----------------------|---------------------------|
| Agree | 12 | 24 | 24.0 | 24.0 |
| Disagree | 38 | 76 | 76.0 | 100.0 |
| Total | 39 | 100 | 100 | |

Source: Primary Data, April 8, 2013

Results in table above show that 24% of the respondents strongly agreed that there are adequate policies to ensure effective collection and follow ups of due accounts and 76% disagreed. Majority of the respondents disagreed implying that there are inadequate policies to ensure effective collection and follow ups of due accounts.

4.3 The importance of internal audit function in the accountability of Public Corporation.

4.3.1 Meaning of Internal Audit

During the research study, the researcher felt it imperative to generate various perceptions of respondents about the internal as a key variable of the study. The findings revealed the following; Majority of respondents 25(50%) indicated that internal audit refers to an independent consultancy aimed at improving the efficiency of an organization. Other respondents 15(30%) however, understood internal audit as any activity with the objective of bringing a systematic design approach to evaluate and improve the effectiveness of risk management. The remaining respondents 10(20%) asserted that internal audit is simply any activity designed to improve an organizations operations.

4.3.2 Characteristics of Internal Audit system

In a bid to generate a clear background for this research from with in 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 below in response to the question that was asked that is, what are the characteristics of a good internal audit system?

Table 20: Respondents views of the characteristics of internal audit system

| Characteristics | Frequency (%) | Sample response |
|---|---------------|---|
| Should be free from political interference | 20(40) | Should be able to act on their own |
| Should have well trained and competent auditors | 10(20) | Should have qualified auditors Should have experienced auditors |
| Should have enough resources that is computerized systems | 20(40) | Should be technological innovative Enough transport and communication equipment's. |

Source: Primary Data, April 8, 2013

The study established as indicated in the table above that: internal auditing system should have well trained and competent auditors as was supported by 20(40) respondents, other 10(20%) stressed that internal audit system should be free from political interference and the rest totaling to 20(40%) argued that systems of internal audit should have enough resources that is computerized systems for proper records keeping. The study also identified sample responses in accordance to the characteristics that were given by respondents as shown in table 4.3 above.

4.3.3 Respondents responses on whether they have ever heard of misappropriated public corporation funds.

Respondents who were mainly from the general public corporation were interviewed on whether they have ever heard of any misappropriated funds that was meant to benefit them in the area. To this more than three quarters of the total respondents from the general public 45(90%) answered No while the other 5(10%) said Yes. Therefore those who had never heard of any misappropriated funds were the majority an indication that public funds or resources were being put to the designed activities.

Also, in relation to above, those who answered yes were asked on how they came to know about the misappropriated funds in the area and they all said they heard through the press following internal auditor's reports. However, those answered No advanced several reasons as to why their leaders and other people in authority have effectively used public funds. They include, fear of some employees to be sucked, fear for some politicians to be pointed out by their opponents and above all a vibrant audit system which has designed good strategies for auditors in auditing.

4.3.5 Importance of internal audit in the accountability of public corporation funds in Uganda governments

The second objective of the study was to establish the importance of internal audit in the accountability of public corporation funds in NWSC Mbale. This research study established that internal audit had great linkage with ensuring transparency and accountability with in public offices. Most respondents credited internal audit for a positive transformation and fight against misuse of offices as well as public corporation funds as shown in the table below;

Table 21: Respondent’s responses on the importance of internal audit on the accountability of public corporation funds

| Importance | Frequency (%) | Sample responses |
|--|----------------------|---|
| Ensures management systems of internal control | 15(30) | Monitoring and maintenance of public resources |
| Ensures effective and efficient use of public resources | 10(20) | Transparency in offices |
| Ensures compliance with relevant laws and regulations | 10(20) | Auditing leaves workers on a careful guard |
| Ensures reliability and integrity of information for economics | 10(20) | Good information and records flow in offices |
| Ensure compliance with financial reporting requirements and accounting standards | 03(6) | Improved accounting for Public resources |
| Extends councils understanding of risk Management beyond traditional areas of public liabilities | 02(4) | Widens knowledge on mismanagement of public resources |

Source: Primary Data, April 8, 2013

Ensures effective and efficient use of public resources, this was supported by 15(30%) respondents, who stressed that with out internal audit, most of the public resources would be lying under waste. They had to put it that public workers have in most cases been forced to promote transparency in their respective offices so as to concur with expectations of the auditors; otherwise they would be questioned and penalized. Therefore, internal audit has sown seeds of efficiency and effectiveness in NWSC office.

Ensures management systems of internal control, This was raised by 10(20%) respondents who asserted that management systems are improving whereby there is close monitoring and maintenance of for instance office equipment and records. This ensures proper management systems for internal control through effective reporting of auditors to audit committees who in turn through reviewing and approving progress results for implementation of the recommendations.

Ensures compliance with relevant laws and regulations, This was pointed out by 10(20%) of the total respondents who further stressed that internal auditing leaves public workers on a careful guard while dealing with public funds and this improves their accounting standards that even yields compliance to the financial reporting requirements. Hence transparency and proper accountability keeps evident.

Ensures reliability and integrity of information for economics, was raised by a total of 10 (10%) who that said, reliability and integrity of information for economics in various offices has been reaped out of the seeds sown by internal auditing as a positive move towards ensuring accountability of public funds. They further explained that these are actual schedule of internal auditors in as far as the use of public resources to satisfy the public.

Extends councils understanding of risk management beyond traditional areas of public corporation liabilities, this was raised by the least number of respondents 03(6%), but has nothing to interfere as regards its relevancy towards promotion of accountability of public funds. This is because raising the possibilities of the council to understand risk management would reduce financial mishandling and unnecessary diverting of public corporation intended funds for private gains. All in all therefore, despite the fact that ensuring effective and efficient use of public resources was supported by the majority of respondents as presented in table above, it should not be wholesomely understood that it is the major role internal audit plays towards ensuring accountability of public corporation funds, other factors raised are equally significant.

4.3.6 Other responses of respondents on the role of internal auditing

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 or 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.

4.4 The Relationship between internal audit function and financial performance of the corporation

The third study objective was set to find out the impact of internal audit function on financial performance of corporation. Findings from the study established the following as follows.

Table 22: Showing Relationship between internal audit function and financial performance of the corporation

| Response | Frequency | Percentage |
|-----------------|------------------|-------------------|
| Yes | 50 | 100 |
| No | 00 | 00 |
| Total | 50 | 100 |

Source: Primary Data, April 8, 2013

Table above, shows that all 100% of the respondents were in position to agree that of internal audit function has impact on financial performance of corporation as none of the respondents indicated that of internal audit function has no impact on financial performance of corporation. Further probing by the study also showed that the impact of internal audit function on the financial performance of the corporation can either be positive or negative as illustrated in the table

Table 3: Showing the impact of internal audit function on financial performance of the corporation

| Impact | Frequency | Percentage |
|---------------|------------------|-------------------|
| Positive | 48 | 96 |
| Negative | 02 | 04 |
| Total | 50 | 100 |

Source: Primary Data, April 8, 2013

The findings in table show that, majority of the respondents 96% said that of internal audit function have a positive impact on the financial performance of corporation like NWSC as compared to 04% respondents who said that Internal control systems negatively impact the financial performance of corporation like NWSC. These same respondents argued that internal audit functions like use of cameras reduce on the profitability level of the corporation. It was revealed by the study respondents that cameras to capture thieves in corporation are very expensive to purchase and needs highly skilled employees to operate them. In addition, Internal audit function like checking people at the building entrance when entering may at times stop some of the people who do not like being checked to come that reduces on the sales volume financial performance of the business.

However, qualitative findings during an interview with some of the respondents at NWSC revealed that when internal audit functions are well applied can impact on the financial performance of the corporation like NWSC Mbale positively. This is because; respondents said that proper application of Internal audit function can help the business entity to achieve its objective, help in the detection of fraud, help in minimizing costs, help employees to perform their assigned tasks both effectively and effectiveness all of which improve on the financial performance of the business.

Pearson Correlation between internal audit function and financial performance of the corporation. Correlations

The correlation between internal audit function and financial performance of the corporation was to analysis the reveals a significant positive relationship between internal audit functions and financial performance audit of NWSC as shown below.

Table 4: Showing Pearson Correlation between internal audit function and financial performance of the corporation.

| | | Internal audit function | Financial performance |
|--------------------------------|---------------------|--------------------------------|------------------------------|
| Internal audit function | Pearson Correlation | 1.000 | .960* |
| | Sig. (2-tailed) | . | .000 |
| | N | 50 | 50 |
| Financial performance | Pearson Correlation | .960* | 1.000 |
| | Sig. (2-tailed) | .000 | . |
| | N | 50 | 50 |

Correlation is significant at the 0.05 level (1-tailed).

Using the rating level of;

0 to +0.3= Weak Relationship

+0.4 to +0.6= Moderate/ Average Relationship

+0.7 to +0.9= Very Strong Relationship

Table 4.21 indicates that there is a very strong positive relationship between internal audit function and financial performance at $r= 0.960$ and at level of significance 0.05, this implies that the good internal audit function improves on financial performance in the corporation. Therefore in order to improve on financial performance, there is need to develop an internal audit function plan. Mullins (2003) also found out that there is strong positive relationship between internal audit functional and financial performance.

The Correlation analysis reveals a significant positive relationship between internal audit functions and financial performance. The findings confirm to assertions by IIA, (2001) which states that internal control provides a foundation for accountability in Government Corporation. It is further argued that internal audit function are designed to ensure that a ministry, agency or department carries out its required function effectively and efficiently, that its financial reporting is reliable and complies with relevant laws and regulations (Policy belief, 2004). It further states

that for most countries, such internal controls are focused on controlling allocation of spending, accounting procedures and financial statements

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter, discussion, conclusions and recommendations were written basing on the findings from chapter four. The discussion, conclusions and recommendations were done according to major study themes in relation to the study objectives.

5.1 Discussion of the study findings

According to the study findings, all the respondents revealed that there were internal audit systems at National water and Sewerage Corporation Mbale. Regarding the Internal audit systems at National water and Sewerage Corporation Mbale; it was revealed by the respondents that goods especially those purchased are checked before they are put to the National water and Sewerage Corporation Mbale store. Respondents said that the store keeper records all the goods that are brought to be kept and even those leaving National water and Sewerage Corporation Mbale stores for proper accountability to reduce of the demand disparities.

The study also showed checking of people at the building entrance entering National water and Sewerage Corporation Mbale building among the controls used by the National water and Sewerage Corporation Mbale. It was established by the study that security unit is responsible for checking all the people who come for the corporationservices. Checking of people at the building entrance at National water and Sewerage Corporation Mbale help to protect the destruction of the assets by people with bad intentions at the corporation. It was also revealed by the study that cameras are also put in different parts in the corporation to capture thieves with the help of individual controlling them.

Another internal audit procedure in place was revealed as frequent supervision of the Municipal activities. Respondents said that workers are frequently supervised when performing National water and Sewerage Corporation Mbale activities. Frequent supervision of employees helps them to perform the assigned tasks for effectively and effectiveness that helps the corporation to improve profits.

It was further indicated that report writing is also among the internal audit used at National water and Sewerage Corporation Mbale. It was revealed that heads of departments at National water and Sewerage Corporation Mbale write reports to the National water and Sewerage Corporation Mbale workers. Reports are frequently written by the heads of departments every after five months. These reports help in showing financial performance and what needs to be adjusted in the corporation management towards better performance. It was reported by the study respondents that top management report review help in the analysis of the actual National water and Sewerage Corporation Mbale results with the corporation goals and plan and other key performance indicators.

Also, the findings revealed use of recording systems among the internal audit systems used at National water and Sewerage Corporation Mbale. It was established that all the corporation sales and expenses are recoded by the help of receipt books for proper accountability. In relation to recording, the money brought in by the National water and Sewerage Corporation Mbale people at the building entrance are recorded in receipt book where balancing is also done at the end of every after two days by the accounts and the finance officer at the National water and Sewerage Corporation Mbale.

The other internal audit systems used at National water and Sewerage Corporation Mbale were indicated as use of internal audit, conducting of trainings and workshop programs, and screening of prospective employees. Findings also established that all 100% respondents were in position to agree that internal audit systems have impact on financial performance of the corporation as none of the respondents indicated that internal control systems have no impact on financial performance of the corporation. Further probing by the study showed that the impact of internal control systems on the financial performance of the corporation can either be positive or negative. Some of the study respondents argued that internal control systems like use of cameras reduce on the profitability level of organizations. Qualitative results revealed that when internal audit functions are well applied can impact on the financial performance of corporation positively. This is because; respondents said that proper application of Internal audit function can help the business entity to achieve its objective, help in the detection of fraud, help in

minimizing costs, help employees to perform their assigned tasks both effectively and effectiveness all of which improve on the financial performance of the corporation .

Findings during an interview with some of the respondents at National water and Sewerage Corporation revealed that when internal audit functions are well applied can impact on the financial performance of corporation positively. This is because, respondents said that proper application of internal audit function can help the business entity to achieve its objective, help in the detection of fraud, help in minimizing costs, help employees to perform their assigned tasks both effectively and effectiveness all of which improve on the financial performance of the corporation.

The study was able to establish that an internal audit function is perceived by the majority of the masses to mean; an independent consultancy aimed at improving the efficiency of the corporation. However, this did not disqualify other respondents understanding of internal auditing as they were equally important to the study. Regarding the characteristics of internal audit system, respondents gave different views regarding this. However, majority of respondents highlighted that it should have well trained and competent auditors create value to public resources as presented below. Considering the importance of internal audit function in accountability of public corporation fund, a recognizable degree of success has been registered for example; internal audit has ensured effective and efficient use of public resources as it was stressed by majority of respondents, it also ensures management systems of internal control whereby office equipment's are closely and properly managed by employees, it also ensures compliance with relevant laws and regulations were all employees have complained with district rules and law while at work, lastly it ensures compliance with financial reporting requirements and accounting standards.

In addition to Mullins (2003) findings that internal audit function affects financial performance , this study also found out that there is a strong positive relationship between internal audit and service delivery at $r= 0.715$ and at level of significance 0.05. Further more the study found out that internal audit sets in motion the entire internal audit process of acquiring services in The

National Water and Sewerage Corporation it also facilitates efficient and effective service delivery in the National Water and Sewerage Corporation public sector organization.

5.2 Conclusions of the study

The study concludes that there are number of internal audit systems at National Water and Sewerage Corporation public sector organization. including; checking of goods entering National Water and Sewerage Corporation after their purchase, checking of people at the building entrance, frequency supervision of the Municipal activities, writing of reports to the National Water and Sewerage Corporation workers concerning all that has been done under departments by the heads of departments every after two months, use of recording systems, internal audit system, training and workshop programs to the corporation employees, screening of prospective employees in addition to the use of budgetary and financial auditors.

The study also indicated a positive impact of internal audit function on the financial performance of the corporation. This is so because, majority of the respondents that internal audit function have a positive impact on the financial performance of National Water and Sewerage Corporation public sector organization. These respondents said that when internal audit function is well applied can impact on the financial performance of the corporation like National Water and Sewerage Corporation positively. This is because; respondents said that proper application of internal audit function can help the corporation to achieve its objective, help in the detection of fraud, help in minimizing costs, help employees to perform their assigned tasks both effectively and effectiveness all of which improve on the financial performance of the corporation.

In general, the study concludes that there is a relationship between internal audit function and financial performance of the corporation. This was also supported by the majority of the study respondents that made the study to conclude that a relationship was existing between the two variables of internal function and financial performance of the corporation.

5.3 Recommendations of the study

Basing on the study findings as well as study conclusions, the researcher recommends the following;

The study recommends corporation like National Water and Sewerage Corporation public sector organization to always practice book keeping and auditing of their creditors and this will improve on their financial performance. This can be done by developing the skills of double entries in their business as well as employing of internal auditors in their day to day activities for improved financial performance in such corporation like National Water and Sewerage Corporation public sector organization.

The study further recommends that human resource in corporation always conceive and adhere to the Internal audit functions in a positive way as it is communicated by workers and follow their contents in the day to day running of the corporation activities. By doing this negative attitude of the human resource in such businesses was reduced that would result into high level of financial performance in terms of profitability level.

The company should employ skilled and competent professional internal auditors to strengthen the internal controls and minimize on fraud. This will yield high profits. With efficient internal controls, cases of fraud, embezzlement and cash mismanagement was controlled hence supplementing on the level of profits in the company.

The study further recommends training of employees in corporation as important motivational tool of motivating employees towards better performance. In fact through training, employees were motivated and a full grasp of all aspects of the internal control, their nature in relation to hence better performance.

Lastly that, corporation such as National Water and Sewerage Corporation to invest in market research so as to understand what people think of their services and or products for improving financial performance of the corporation. This was further supported by respondents selected who said that extensive market research done by corporation can result into positive financial performance.

5.4 Suggestions for further studies

Basing on the above study findings, the following areas are suggested for further studies. This is because when well understood, the performance of organizations will be improved.

- i. The impact of organizational structure internal audit function on the financial performance of the corporation.
- ii. The impact of salary motivation on the financial performance of organizations in Uganda
- iii. Impact of internal auditing on external auditing.
- iv. Why the auditor's report only gives reasonable assurance.

UGANDA MARTYR'S UNIVERSITY

MBALE CAMPUS

FACULTY: BUSINESS ADMINISTRATION AND MANAGEMENT

Dear. Respondent,

I am MUGUGWA JUSTINE, a student of Uganda Martyr's University Mbale Campus, pursuing a Degree in Business Administration and Management as one of the requirements.

This questionnaire has been designed only for academic purposes pertaining research on the topic: Internal audit function and financial performance of public sector organizations: a case study of National Water and Sewerage Corporation Mbale. Please kindly fill in the gaps and where necessary tick the best option in the boxes provided.

Your opinions are very important to this study and the information given will be treated with utmost confidentiality.

Thank you

SECTION A: BIOGRAPHIC DATA.**A: Demographic characteristics of respondents. (Tick where appropriate)**

| | | |
|--|-------------------|--|
| 1. Gender | Male | |
| | Female | |
| 2. Age | 20- 29 | |
| | 30- 39 | |
| | 40- 49 | |
| | 50-59 | |
| | above 65 | |
| 3. Marital Status | Single | |
| | Married | |
| | Separated | |
| | Divorced | |
| 4. Education Level | Certificate | |
| | Diploma | |
| | University degree | |
| | Masters degree | |
| 5. How long have you been employed here? | 1-3years | |
| | 3-4years | |
| | 4-5years | |

| | | |
|--------------------------|----------------|--|
| | Above 5years | |
| 6. Religious affiliation | Roman catholic | |
| | Anglicans | |
| | Moslem | |
| | Pentecostal | |

SECTION B:

The types of internal audit applied by at National Water and Sewerage Corporation Mbale.

7. Do you understand the term internal audit system?

(a) Yes (b) No

8. If Yes to Question 7, does the National Water and Sewerage Corporation Mbale employ internal audit systems in managing its activities?

(a) Yes (b) No

If yes, what are they?

.....

.....

.....

9. In this section the researcher seeks to establish the effectiveness of internal audit in National Water and Sewerage Corporation Mbale. Please Tick the appropriate alternative

Key; YES, NO

| STATEMENT | YES | NO |
|---|-----|----|
| There are adequate asset listings done by management | | |
| Procedures in place ensure asset additions, disposal, | | |

| | | |
|---|--|--|
| replacement and transfers for proper accountability | | |
| Capital assets purchased are approved by appropriate level of management | | |
| Asset numbering is done to show location and protection of the assets. | | |
| There is free access to cheque books and organization assets | | |
| A person responsible for inventory management is different from the bookkeeper | | |
| Stock taking is done following the procedures and in the presence of the internal auditor | | |
| The petty cashier is different from the main cashier | | |
| There are adequate policies to ensure effective collection and follow ups of due accounts | | |

SECTION C:Importance of internal audit in the accountability of public corporation funds

10.As a leader, what do you understand by the term internal auditing?

- (i) Any activity designed to improve on an organizations operation
- (ii) An independent consultancy aimed at improving the efficiency of an organization.
- (iii) An activity with an objective of bringing a systemic design approach to evaluate and improve the effectiveness of risk management.

11. What are the characteristics of a good internal audit system?

- (a) Should be free from political interference
- (b) Should have well trained and competent auditors
- (c) Should have enough resources that is computerized system for proper records keeping

12. According to you, has internal audit contributed any thing 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 corporation funds?

- (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

Any other

(a).....

(b).....

(c).....

13. Which of the following represent the scope of work for internal audit in your organization?

(Please mark each boxes as much as it is applicable.)

(a) Verification of financial transaction

(b) Assessing and promoting the adequacy of corporate governance

(d) Assessment of internal audit

(e) Evaluates projects or programs accomplishments.

(f) Operational audit

(g) Compliance audit

(h) Assessment of organizational risk

(i) Fraud investigation

(i) Information system audit

(j) Other areas if any.....

SECTION D: The Relationship between internal audit function on the financial performance of the National Water and Sewerage Corporation Mbale.

14. Do you think there is a relationship between internal audit function on the financial performance of the National Water and Sewerage Corporation Mbale?

(a) Yes

(b) No

15. If yes, what kind of relationship do you think internal audit function have on the financial performance?

(a) Positive

(b) Negative

Explain your answer above

16. Internal audit function influences the financial performance of the corporation.

(a) I agree with the statement

(b) I disagree with the statement

Thank you very much for your cooperation may God blesses you

APPENDIX B: INTERVIEW GUIDE FOR SUPERVISORS

I am MUGUGWA JUSTINE, a student of Uganda martyrs University. This interview guide has been designed for academic purposes pertaining research on the topic internal audit function and financial performance of public sector organizations, a case of National Water and Sewerage Corporation Mbale. Please kindly fill in the gaps and where necessary tick the best option in the boxes provided. Your opinions are very important to this study and the information was treated with utmost confidentiality.

Thank you in advance

1. Gender of the respondent
2. Marital Status the respondent
3. Age the respondent
4. Education Level the respondent
5. Religious affiliation the respondent
6. Position held in the company by the respondent
7. What are the types of internal audit applied by at National Water and Sewerage Corporation Mbale?
8. What are the areas that need internal audit in Public organizations?
9. What is the relationship between internal audit and financial performance of National Water and Sewerage Corporation Mbale?
10. What are your recommendations about internal audit on the financial performance of public sector organizations?
11. What is your conclusion on the impact of internal audit on the financial performance of public sector organizations?

THANK YOU VERY MUCH

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