

Effect Of Internal Audit On Financial Performance Of Local Governments

Case Study: Sironko District Local Government



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2013-B022-40004

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July 2016

Effect Of Internal Audit Function On Financial Performance Of Local Governments
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**A Research Dissertation Submitted To The Faculty Of Business Administration And
Management In Partial Fulfillment
Of The Requirements For The Award Of The Degree Of
Bachelor Of Business Administration And
Management Of Uganda Martyrs
University**

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DEDICATION

This work is dedicated to my family-members . I deeply thank you for your endless support and encouragement especially my father David Magomu,my mother Betty , my uncle Rev Charles Walyekere, my brother Eric Mwonge and my sister Tracy, and all those whose support has enabled me to accomplish this resaerch work and the entire program.

ACKNOWLEDGEMENT

I thank the Almighty God for the precious life, wisdom, and strength granted to me to enable me complete this research.

I also thank my supervisor, Mr. Etengu Robert who has been guiding and encouraging me to complete this report. I am grateful for your constructive effort and encouragement.

To my family relatives and friends; thanks for the prayers, love, care and moral support that has brought me this far. I also extend my appreciation to the employees of Sironko District Local Government who were in position to provide me with the needed information for this research.

A special thanks goes to my family for showing me the importance of education and for the support right through my studies most especially my Father Mr. David Magomu and Mrs Magomu and Sister Tracy Nangede.

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LIST OF ABBREVIATIONS

FRQ:	Financial Reporting Quality
H.C III:	Health Centre three
IAC:	Internal Audit Committee
IAF:	Internal Audit function
NSSF:	National Social Security Fund
ROA:	Return on Assets
ROCE:	Return on Capital Employed
SDLG:	Sironko District Local Government
SOX:	Sarbanes –Oxley
SPSS:	Statistical Package for Social Science Research

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ABSTRACT

The research was carried out to study the effect of internal audit on financial performance of local governments with the case study being SDLG. The major objective of the study was to find out the effect of internal audit on financial performance. In SDLG. The study was also guided by the following specific objectives: to find out the effectiveness of find out the effectiveness of internal audit in SDLG, to find out the effectiveness of financial performance in SDLG and the relationship between internal control and financial performance.

The study adopted a case study research design to collect data from a population of 50 respondents out of which 44 were sampled; both simple random and purposive sampling techniques were used to select the respondents. The researcher administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Quantitative analysis and regression analysis were used as data analysis techniques. Descriptive statistics such as mean, standard deviation and frequency distribution were used in the analysis of data. Data presentation was done by use of tables for easy understanding and interpretation.

After computing the descriptive statistics, average mean of the variables, it was found to be (3.58). This level was high enough for the researcher to conclude that internal controls in SDLG are effective. And after computing the mean and average mean of variables under effectiveness of financial performance, the mean average was high enough (3.72), implying financial performance in SDLG is effective. The findings also portray a high value of R squared 0.463(46.3%) that shows there is a strong and positive relationship between internal audit and financial performance.

The study concluded that SDLG has an effective internal audit system; this can be determined by factors such as internal controls, conduct of ethics, governance policies, and other factors. The study also concluded that SDLG has effective financial system; financial system is tested on factors such timely reporting of financial reports, quality of financial statements, and liquidity levels. The study finally concluded that there is a strong positive relationship between internal controls and financial performance.

The study finally recommends that in order to maintain and probably advance on internal audit, then SDLG should make efforts towards establishing an independent internal audit committee such that the quality of work done is not compromised. More internal controls such as monitoring and evaluation of government projects should be established to strengthen and minimize losses such that financial performance is enhanced. The district should in future establish a risk assessment committee in order to reduce damages caused by taking uncalculated risks. The district should enhance its financial performance through maintenance of proper books of accounts, timely financial reporting, proper record keeping, following the national and international standards of financial reporting and employment of competent staff to minimize losses that affect financial performance.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This chapter provides information on the background of the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the study, definition of key terms and the conceptual framework.

1.1 Background of the Study

Internal audit function serves as an important link in the business and financial reporting processes of corporations and not-for-profit organizations. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management. The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism (Kakinda, 2007). Internal Audit has four main components that is verification of written records, analysis of policy, evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies and reporting recommendations for improvements to management (Morin, 2003). The subject is worthy of attention because internal auditors are important, even crucial, in an economy that relies upon independently produced information. Indeed, Internal Audit has become an indispensable management tool for achieving effective control in both public and private organizations (Kamel, 2005).

With the implementation in the United States of the Sarbanes-Oxley (SOX) Act of 2002, the profession's exposure and value was enhanced, as many internal auditors possessed

the skills required to help companies meet the requirements of the law. However, the focus by internal audit departments of publicly traded companies on SOX Act related financial policy and procedures derailed progress made by the profession in the late 20th century toward Larry Sawyer's vision for internal audit. Beginning in about 2010, the IIA once again began advocating for the broader role internal auditing should play in the corporate arena, in keeping with the IPPF's philosophy. Internal audit has facilitated reliability of financial and management reporting compliance with the laws and regulations, safeguarding of assets in the United States (Takahiro 2012).

Kenya's internal audit system was established in 1962. Over the next few years it became apparent that lack of internal audit contributed greatly to laxity in the management of public resources. In compliance with the relevant laws, regulations, procedures, and in internal controls the system was reintroduced in 1984. Thus the Modern audit takes a risk-based approach, it involves high-level risk profiling of the audit portfolio over time, based on the International Standards for the Professional Practice of Internal auditing. Internal auditing in Kenya aimed at increasing accountability of government ministries by ensuring transparency, validating resources against key risks. In Kenya, however the internal auditors concentrated solely on the compliance testing and pre-audit activities (Aasmand 2010).

Internal Audit in Sironko District is charged with the responsibility of providing independent objective assurance services and their key roles are to prevent and detect fraud and error to all procedures of to financial accounting and reporting, ensure reliability and integrity of financial and operational data, ensure conformity of operational and financial policies, to conduct values for money audits to determine the

economy efficiency and effectiveness of operations in Sironko District (Internal audit manual 2009).

Internal audit function comprises of risk management, that entails the identification, analysis, assessment and avoidance, minimization of un acceptable risks, control, that is the power to influence or direct people's behavior or the course of events and governance process which is the rules, norms and actions are provided, sustained, regulated and accountable. These components are used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions. It is commonly used in broad forms as individual scorecards that contain measures to manage performance; those scorecards may be operational in an organization(Kakinda, 2007).

Financial performance is a function of the interplay of the organizations unique motivation, it's organizational capacity and the focuses in the external environment, further continued that over the past 30 years there have been many attempt to define performance accepts generally and to apply performance accepts to various organizations types(Morin, 2003).On the other hand however, financial performance can be assessed in three domains, which are efficiency, effectiveness and adaptability within which the organizations activities are carried out regarding effectiveness the organizational goals and objectives provide the starting point for the performance, measures and effective

Measures of financial performance include; Profitability measure for example Return On Capital Employed (ROCE) which shows net profit that is generated from assets employed and reveals how much a company earns in relation to its sales, Return On Assets (ROA

determines an organization's ability to make use of its assets and Return On Equity (ROE) reveals what return investors take for their investments (Lazaridis, 2006).

Liquidity measures, a company can be profitable but at the same time encounter cash flow problems. Liquidity ratio gives some indication of the company's liquidity. For example current ratio measures the company's ability to meet its short term liabilities as they fall due.

Financial gearing is the long term debt as a percentage of equity. A high level of gearing indicates that the company relies heavily on debt to finance its long term needs. This increases the level of risk for public sector since there no obligation to make payments to equity. The ratio could be improved by reducing the level of long term debt and raising long term finance cost (Pratibha, 2012).

1.2 Statement of the Problem

In spite of the role that internal audit function plays in as far as the financial performance of an organization is concerned there are still a lot of challenges that are encountered on the financial performance of Sironko District Local Government for instance during the Audit Report (2010) there was a mismanagement of Ug.Shs 71 million allocated for the construction of Buwalasi H.C III, maternity ward and this left the construction incomplete.

As noted in Quarterly Report (2014)Ug.Shs 10 million that was accounted for by some staff did not match the actual activity done, a times records are not kept for evaluation purposes, this has led to misappropriation of the money that was directed for the construction of twin house for the staff.

In a related development event, the District Chairman commented on the nature of the roads made yet a lot of money is being directed to maintain the roads (General annual meeting 2010).He said a total of Ug.Shs855 million was directed towards road maintenance, however some roads were not given attention and sub-standard work was also done on some. It's against this back ground that this research was called for so as to investigate on the effectiveness of internal function on financial performance of Sironko District Local Government.

1.3 The General Objectives of the Study

The general objective of the study is to examine the effect of internal audit on financial performance of district local governments focusing on Sironko District Local Government as a case study.

1.4 Specific Objectives

The study was guided by the following specific objectives:

1. To examine the effectiveness of the internal audit in Sironko District Local Government.
2. To examine the effectiveness of financial performance in Sironko District Local Government.
3. To establish the relationship between the internal audit and financial performance.

1.5 Research Questions

The following research questions guided the study:

1. How effective is internal audit financial in Sironko District Local Government?
2. How effective is the financial performance in Sironko District Local Government?
3. What is the relationship between Internal audit and financial performance?

1.6 Scope of the Study

This covered the time scope, content scope and geographical scope.

1.6.1 Time Scope

The study covered a period of five years from 2010 to 2015 because it is the time period when the SDLG was experiencing challenges specifically in financial performance and this research took a period of six months from January-June 2016

1.6.2 Content Scope

The study basically covered the following contents effectiveness of the internal audit and this covered risk management, control and governance process, effectiveness of financial performance of Sironko District Local Government under this liquidity and accountability were looked at.

1.6.3 Geographical Scope

Sironko District Local Government is located in the eastern region of Uganda, and boarded by the following Districts, Kumi in the North, Mbale in South, Bududa in the south west and it has a total land area of 426km² evidenced by the general geological map of Uganda (Scale 1:20,000,000) the geology of Sironko District Local Government is relatively complex consisting of volcanic soils associated with erosion sediments

The vision of Sironko District Local Government is to increase household incomes by transforming the peasantry farming into oriented faming. The mission is to serve the community through the coordinated delivery of service, which focus on national priorities and significant local needs in order to provide sustainable development of the district.

Sironko District is managed and administered in accordance with the constitution of the Republic of Uganda 1995 and the Local Government Act 1997 as amended in 2010. It is administered through politically established and civil service structures. The political wing is headed by the elected Local Council five (LCV) Chairmen who head the Council which is the highest political authority with both legislative and executive powers and the technical wing is headed by a Chief Administration Officer who supervises all the civil servants in the District.

The District Council exercises all political executive and legislative functions provides services as it deems fit except the powers and services received for the central Government protects the constitution and other laws of Uganda. Below the Council is the District Executive committee which comprises of the Chairperson, Vice Chair person and Secretaries responsible for Education and Health, Community services, Works and General purposes and Finance and Planning. The technical wing also comprises of Production and Marketing, Natural Resources and Engineering department.

1.7 Significance of the Study

The following might benefit from the findings, conclusions and recommendations of the study: the Administrators of SDLG, Policy makers and Academicians among others. The findings of the study may benefit the following, policy makers,

Policy makers

The study may help the stakeholders in government to reassess and redesign the internal function of local government to ensure better financial management.

Administrators of Sironko District Local Government

The research may be significant to administrators as they will be able to recognize the strong correlation between internal audit function and financial performance and this will enable them to put more emphasis on their system and be able to improve where necessary.

Researchers

It is hoped that the study findings will benefit other researchers in universities, colleges and others to enrich their knowledge and research work, as it will act as a reference.

The researcher findings may assist the planners to make decisions in a bid to ensure proper management control system in Sironko Local Government.

The findings of the study may be of help to the internal auditors in that they will be in position to identify the weakness and devise measure on how to overcome them for better governance.

Other organizations may be able to understand the various issues affecting the effectiveness of the internal audit and consequently this will help them redesign their modes of operation in a bid to achieve their objectives.

1.8 Definition of Key Terms

Auditing

According to Mainoma (2007) is an independent examination and the expression of an opinion on the financial statements of an enterprise by an appointed auditor, in accordance with his terms of engagement and the observance of statutory regulations and professional requirements).

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 process (Brink & Witt 2002).

Financial Performance

Financial performance refers to the degree to which financial objectives are being or has been accomplished that is to say the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Trivedi, 2012).

Accountability

Accountability refers to the acknowledgment and assumption of responsibility for actions, decisions and policies including the administration, governance and

implementation within the scope of the role and encompassing the obligation to report.
(Plescia, Joseph, 2001)

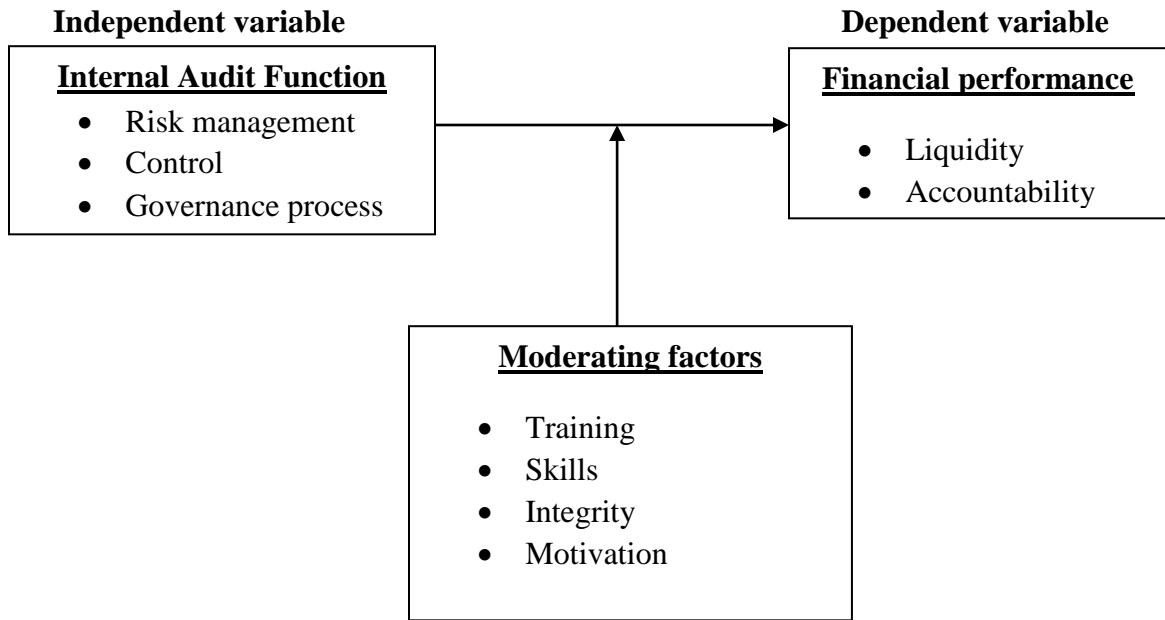
Local Government

These are local councils established under sec 3(2) to 5 of the Local Government Act Cap 243 which include District councils, City councils, Municipal councils, Towncouncils and sub-county council.

1.10 The Conceptual Framework

The following Conceptual Framework shows the relationship between interdependent variable (internal Audit) and the dependent variable (financial performance).

Figure1.1: The Conceptual Framework shows the relationship between internal audit and financial performance.



Source: Researcher (2016)

Explanation

Figure 1.1 is a conceptual framework that shows the relationship between independent variable (internal audit) and dependent variable (financial performance) intervening. Internal audit comprises of risk management, control and governance process, the dependent variable comprises of liquidity, accountability and revenue management and the moderating variable comprises training, skills, integrity and motivation.

Risk management entails the identification, analysis, control and elimination of un acceptable risk is essential in ensuring effective internal audit function operation, however effective risk management can only be achieved is trained and capable

personnel are used and this will enable proper financial performance by promoting accountability in the organization.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature relating to internal audit and financial performance. The section was organized to cover the theoretical and empirical literature on the study objectives.

2.1 Theoretical Review

In the last three decades, several theories have been used to explain internal audit and this includes; the agency theory, stewardship theory and stakeholder's theory.

2.2.1 The Agency Theory

The agency theory was proposed by Mackling and Jesan (1976). It was also propounded by Adams (1994). The theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors and financial consultants.

Other related reviews include the Sarbanes Oxley act of 2002 which requires companies to report on the effectiveness as part of an overall effort to reduce fraud and restore integrity to the financial reporting process.

Ross (2001) is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency. Ross (2001) introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an

incentives problem. Mitnick (2001) introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationships. That is behavior never occurs as it is preferred by the principal because it does not pay to make it perfect. But society creates institutions that attend to these imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams to see the incentives as well as the institutional structures.

Cobalt and Jahera (2011) proposes that agency theory not only helps to explain the role and predict the existence of internal audit but also it helps to explain the role and responsibilities assigned to internal auditors by the organization and predicts how the internal audit functions is likely to be effected by organizational changes.

2.2.2 Stewardship Theory

Stewardship theory was proposed by Davis, Schoorman and Donaldson (1997) it has its roots from psychology and sociology. A steward protects and maximizes shareholders wealth through firm's performance, because by so doing, the steward's utility functions are maximized.

Unlike agency theory, stewardship theory stresses not on the perspective of individualism but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Agyris (1999) argues that while agency theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations, on the other hand Donaldson and Davis

(2001) argues that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders returns are maximized.

2.2.3 Stakeholder Theory

This theory was originally detailed by Freeman (1984) in the book *Strategic Management: A Stakeholder Approach* and identifies and models the groups which are stakeholders of a corporation. It is a theory of organizational management and business ethics that addresses morals and values in managing an organization.

In the traditional view of the firm, the shareholder view, the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them. Stakeholder theory argues that there are other parties involved, including employees, customers, suppliers, communities, governmental bodies, political groups, trade associations, and trade unions.

2.3 Empirical Review

This reviews literature on the internal audit and financial performance basing on the effectiveness of internal audit on financial performance, effects of financial performance in local governments and the relationship between internal audit function and financial performance.

2.3.1 The Effectiveness of the Internal Audit

Audits are performed to ascertain the validity and reliability of information; also to provide an assessment internal audit. Due to constraints, an 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 (numerical) and qualitative factors(McKenna & Francine, 2011).

Touche (2004) noted that the traditional effect of internal audit is to assess controls, bring value, and improve operations, is as applicable today as it ever was. In this current era of the Sarbanes-Oxley Act of 2002 (USA), it has the objective of assurance on financial control and compliance. Some of the peak performance indicators are: reports issued on time, staff training and certifications, internal audit turnover, internal audit transfers, internal audit employees survey measuring professional staff satisfaction, internal audit staff utilization, and hours of training. They conclude that adaptability and flexibility will stand out as key characteristics of successful internal audit. An optimised internal audit will tailor its activities to areas of greatest risk and opportunities for greatest value. Such firms can then attain the benefits of sustainable compliance.

Ejoh, NdifonOjong (2000) carried out a study on the effect of internal audit on the financial performance of tertiary institutions in Nigeria. The objective of the study was to establish the relationship between internal audit and financial performance. Data was collected using questionnaires, and interview guide as well as review of available

documents and records. The study used a survey design. The study however found out that there is a significant effect of IAF on financial performance

Aaron Cohen and Gabriel Sayag (2010), carried out a study on the effectiveness of internal auditing: An empirical examination of its determinants in Israeli Organization. The study however concluded that internal auditing provides information on problems in the activity or control systems in the organization.

Beyanga (2011), examined the effectiveness internal audit on firm's performance. He looked at the following objectives to examine the effect of internal audit on firms' performance, to establish the relationship between internal audit and firm's performance, he found out that internal audit in particular, helps reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the performance of an organization.

Malbok (2003) examined the roles of internal audit on financial performance. The study based on the following objectives to establish the effect of internal audit on financial performance and to establish the relationship between internal audit and financial performance. The study concluded that internal audit helps to assist the management, board and/or its Finance & audit committee in discharging its governance responsibilities by delivering reviews of operational and financial performance and make recommendations for more effective and efficient use of resources, the study also found out that internal audits helps to detect fraud and any mal-practice in the organisation.

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 audits is to assist members of the organization in the effective discharge of their responsibilities in local government.

Hermanson and Rittenberg (2005) argued that the existence of an effective internal audit is associated with superior organizational performance.

Reinford (2004), affirms that the main Internal Audit activity is to build a strong System of the Internal Controls. Its mission states that it has to provide independent, objective assurance and consulting services designed to add value and improve the operations of the Company. Management of revenue is one of the operations of most public and private companies. Internal auditing helps the company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes..

2.3.2 The Effectiveness of Financial Performance

Financial Performance in organization is usually measured using the set targets for every budget (Rosen (2005). Financial accountability of local governments is often evaluated by measuring success in meeting the budget. When the budget management is successfully implemented, the local government objectives will be realized and once this has been done the organization is said to have achieved a better financial performance (Turyakira, 2004).

The ability to draw trends and comparisons from financial year to financial year is important because it demonstrates patterns in management and delivering and informs

advocacy interventions which is only possible through; Effective strategic planning and budgeting, Effective financial management and controls, Accountability to oversight bodies value for money, Effective handling of misconduct, corruption and maladministration and The quality of reporting information and public access to information (Vitsha, (2002).

Break spear (2008) observed that internal audit reports should be timely compiled and circulated to all respective units after completion of the audit. Delay in reporting may worsen analready bad situation or make an opportunity that could have been taken pass. If there is any expected delay in internal audit reporting, this should be communicated to the relevant authorities and the effect of this delay assessed. Delaying of audit reports may have a negative effect on operations and activities in the organization which may in turn adversely affect the firm's financial performance.

2.3.3 The Relationship between Internal Audit Function and Financial Performance

Ejoh, NdifonOjong (2000) carried out a study on the effect of internal audit on the financial performance of tertiary institutions in Nigeria. The objective of the study was to establish the relationship between internal audit function and financial performance. Data was collected using questionnaires, and interview guide as well as review of available documents and records. The study used a survey design. The study however found out that there is a significant effect of IAF on financial performance

Nawhera (2012) carried out a study on internal audit and financial performance of a public organization, a case study of NSSF, Uganda to determine whether the internal

audit impacts the performance of NSSF. The specific objectives were to examine the internal audit in NSSF, assess the financial performance of NSSF, and establish the relationship between internal audit performance of NSSF. Descriptive and analytical research designs were used to examine the findings to come up with conclusions. A cross sectional research survey design was used to employing both qualitative and quantitative techniques. Qualitative data was gathered using questionnaires while quantitative data was by extracts from secondary data for a period of 2010-2011. The total population was 30 respondents. Stratified sampling was used and all the population was sampled. Data was analyzed by use of SPSS. The effect of internal audit on performance was performed. The main findings were that internal audit had a significant positive effect on performance in terms of control environment, risk assessment, control activities, information and communication, monitoring and advisory services.

Prawitt, Smith and Wood (2009) examined the association between internal audit Function and earnings management. This study obtained sufficient data to estimate abnormal accrual models for 528 firm-year observations (218 unique companies) for the fiscal years 2000 to 2005. It used OLS regression to test the association between independent variables and dependent variable. The finding shows that a relationship between experiences of internal audit and earning management.

Accordingly, Meletta (2004) audit committees and management teams are now looking for improvement opportunities within the audit department and internal audit leaders are searching for new ways to manage ongoing performance. This can be achieved by designing an effective performance measurement framework, implementing quality assurance programs and embedding import initiatives in department workflow.

Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and firm performance in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual reports. It involved 60 firms which were listed on Malaysia Bursa in 2003. This study used multiple regression analysis to test the association between internal audit and firm performance and found a significant relationship between experience of internal audit quality and firm performance.

2.3 Summary

This chapter presented literature review on effect of internal audit function on financial performance. The chapter presented the theoretical review and Agency theory that explains and predicts the appointment and performance of external auditors and financial consultants, Stewardship theory argues that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. and Stakeholder's theory also argues that there are other parties involved, including employees, customers, suppliers, communities, governmental bodies, political groups, trade associations, and trade unions, it also presents the empirical review and this was organized under the effectiveness of internal audit , effects of financial performance and the relationship between internal audit and financial performance. The findings revealed that internal audit function plays a significant role on financial performance; the study also revealed the effectiveness of financial performance in that financial performance lies on budgeting and the capacity of meeting the organizational expenses. The study also revealed that internal audit has a positive effect on performance in terms of control environment, risk assessment, control activities, information and communication.

However, the above literature did not bring forward factors that may hinder the effectiveness of an internal audit function and what may result into persistent poor financial performance despite having an internal audit function in place.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents the research design, the population of the study, the sample size, the sampling methods or techniques, the data collection methods, the data collection instruments, quality control measures, data management and processing, data analysis, ethical considerations and the limitations of the study.

3.1. Research Design

The study used a case study design where quantitative approach was used in data collection. A case study design was used for this study purpose so as to enable the researcher collect relevant information for the study in an agreed period of time. For this study purpose Sironko District Local Government was chosen.

Quantitative approach was used to help obtain respondents opinions on the study topic. This method helped the researcher collect in-depth information using questionnaires and also in numerical quantification of data into tables.

3.2 Study Population

The study population consisted of 50 respondents; this was selected from following departments. Finance and planning, Administration and management, production and marketing, education and community based services

Table 3.1: Distribution of Respondents of the Study

Departments	Population
Finance and planning	11
Administration and management	8
Production and marketing	10
Education	9
Community based services	12
Total	50

Source: Primary data(2016)

3.3 Sample Size

The sample size of 44 respondents was selected from the target population of 50 respondents. The 44 respondents was distributed to the number of employees according to each department the sample size was got using Morgan Rule table. $n=N/1+N(e)^2$

Where n - Sample Size

N-Total population

e-is a constant which is $(0.05)^2$

Table 3.2: Sample Size

Departments	Population	Sample Size
Finance and planning	11	10
Administration and management	8	7
Production and marketing	10	9
Education	9	7
Community based services	12	11
Total	50	44

Source: Primary data (2016)

The sample size was determined using Slovene's formula:

$$n = \frac{N}{1+N(e)^2} = \frac{50}{1+50(0.05)^2} = \frac{50}{1+0.125} = \frac{50}{1.125} = 44.44 = 44$$

Where; n __ sample size.

e __Proportion of sampling error or confidence level (0.05).

N __The estimate of the population size.

$$= 44.44 = 44 \text{ (sample size).}$$

3.4 Sampling Techniques

The study used random and Purposive sampling techniques to obtain respondents to use in the study.

Table: 3.3: Sampling Techniques

Departments	Population	Sample	Sampling techniques
Finance and planning	11	9	Purposive sampling
Administration and management	8	7	Purposive sampling
Production and marketing	10	9	Simple random
Education	9	8	Simple random
Community based services	12	10	Simple random
Total	50	44	Simple random

Source: Primary data (2016)

Data Collection Methods

Two sources of data was contacted that is Primary and secondary data sources.

Primary source method which involved use of, face-to- face interview and self administered questionnaires. The questionnaires had both categorical and continuous variables. The secondary data was used and this involved exploring literature written by others through books, magazines, journals and so forth.

3.6 Data Collection Instruments

The instruments comprised of the questionnaire, interview guide and documentary review.

The study adopted five – point Likert – style rating scale method of questionnaire to obtain information from respondents. The Likert style rating scale method of questionnaire design enables researchers to ask respondents on how strongly they agree or disagree with a statement or a series of statements on a five point scale, e.g. 5(strongly agree), 4 (agree), 3(undecided), 2(disagree), 1(strongly disagree).This formed most of the categorical variables for the study in the respondent questionnaire.

Questionnaire

Self-Administered Questionnaires (SAQS) was used to collect data from respondents. The questionnaire was constructed and given to the supervisor in order to get expertise judgment on validity.

The questionnaire contained structured questions with provision of ticking the most appropriate answer. This provided for each person to be asked to respond to the same set of questions in a predetermined order

Interview Guide

The researcher had a dialogue with some of the respondents. Personal interviews were carried out hand in hand with the questionnaire to increase the response rate. Interview was used because of its flexibility in enabling probing especially where specific answers are needed and where the respondent is unable to understand the questions.

3.7 Quality Control Methods

This include the following: Validity and Reliability

Validity

In order to ensure validity for this study purpose the instruments will be given to the supervisor to comment on ambiguity, difficulty and relevancy of questions to ensure construct content and face validity.

Reliability

Reliability was used to measure the degree to which the questionnaires will produce consistent results under the same conditions and this was obtained by carrying out a pre-test of the questionnaire.

3.8 Data Management and Processing

After collecting the questionnaires and numbering them, the researcher will scrutinize and edit them to eliminate errors. The data was then coded and grouped according to the study parameters.

3.9 Data Analysis

Data collected was analyzed according to the way the respondents answered the questionnaires.

To assess the relationship between Internal Audit and Financial Performances of Sironko District Local Government, frequencies, tables, charts, and person correlation method were used to analyze data.

Quantitative Analysis

Quantitative data was collected, edited and coded. This data was analyzed by calculating the mean and average mean. The analyzed data was presented in tables for making precious interpretation and conclusion.

3.10 Ethical Considerations

The researcher sought for permission from the top management of Sironko District Local Government to allow the study to be conducted. Participants will receive full disclosure of the nature of the study, the risks, benefits and alternatives, with an extended opportunity to ask questions regarding the research. All quotations that were used and sources that were consulted was clearly distinguished and acknowledged by means of references.

3.11 Limitations to the Study

There was a problem of inadequate finance since the researcher has to pay for transport to move from one place to the other in search of data and also paying for secretarial services, however many sources were contacted for financial help and this problem was solve.

SDLG is so critical about security and disbursement of information pertaining to their operations. There was a limitation in terms of accessing information that was considered classified by SDLG. The respondents especially staff were hesitant to disclose information about their departments. However with the introduction letter from the university and an honest discussion on the significance of the study a harmonious

environment was created and that enabled the researcher to attain information for the study.

Some of the respondents were busy and it was difficult to find ample with them for discussion and to complete the questionnaire, however this was solved by making up appointments with the respondents and frequently reminding them to complete the questionnaire.

There was a serious problem of non response by the respondents which may actually prompted the researcher to use different data collection methods in order to enable him arrive at valid conclusions about the findings.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter involved presentation , analysis and discussion of findings which were in line with the objectives of the study ; the effectiveness of internal audit in SDLG , the effectiveness of financial performance in SDLG, the relationship between the internal audit and financial performance, and the demographic data of the respondents.

4.1 Demographic Data of Respondents

While designing the research questionnaire a section was allocated purposely to collect the bio data of the respondents, they include Gender of the respondents, Age bracket, academic qualifications, Position held in SDLG, and the number of years employed by SDLG. Below were the findings from the field basing on various responses from the respondents?

Table 4.1 Gender of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	23	52.3	52.3	52.3
Female	21	47.7	47.7	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

The findings from the study shows that 52.3% of respondents were male whereas 47.7 were female .This reveals that there was gender balance in the study, this helps reduce on biasness and increases the reliance of the research findings.

Table 4.2 Age bracket

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 35 years Below	20	45.5	45.5	45.5
35-45 years	15	34.1	34.1	79.5
45 and above	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Table 4.2 above shows that majority of the respondents 45.5% were below the age of 35, 34.1 % between 35-45 years and 20.5% 45 and above years. Overall the findings show that the workforce is mixed, it has both the mature and the youths, and this enables sharing of ideas and experience between the mature and young hence enhancing efficiency and effectiveness.

Table 4.3 Academic Qualifications

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	17	38.6	38.6	38.6
Degree	15	34.1	34.1	72.7
Masters	7	15.9	15.9	88.6
Others	5	11.4	11.4	100.0
Total	44	100.0	100.0	

Source Primary data (2016)

Level of academic qualification is important as it enables the respondents to clearly understand the research questions, and give correct answers when they have understood the questions well. The findings from the field show that 38.6% had attained diplomas, 34.1% of them had degrees, 15.9 % had masters degrees, while 11.4% had other qualifications. In general all the

respondents had attained some level of education; this made it easier for the respondents to understand the questions hence increasing accuracy and reliability of the information given.

Table 4.4 Position Held in SDLG

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Driver	7	15.9	15.9	15.9
Administrator	17	38.6	38.6	54.5
Accountant	6	13.6	13.6	68.2
Planner	3	6.8	6.8	75.0
Others	11	25.0	25.0	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Research findings from the field shows 15.9% of respondents were drivers, 38.6% administrators, 13.6 % accountants, 6.8% planners while 25% held other positions. the majority of them were in administration(38.6)

Table 4.5 Number of Years employed by SDLG

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 year	9	20.5	20.5	20.5
2 years	14	31.8	31.8	52.3
3 years	9	20.5	20.5	72.7
4 years	7	15.9	15.9	88.6
5 years and above	5	11.4	11.4	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

The majority of the respondents had been employed at the district at least for more than one,31.8% for 2 years, 20.5% ,15.9% for 4years,11.4% while only 20.5% were had been their

for one year , the findings reveal that the respondents had enough experience to enable give a correct views that enhanced the reliability of the information given.

4.2 Effectiveness of internal audit in SDLG

The first objective of the study was to find out the effectiveness of internal audit in SDLG, which was divided into three variables that is to say risk management, control and governance process and below were the findings

Effectiveness of internal audit in SDLG

Table 4.6 Descriptive Statistics(The mean, average mean, and standard deviation of the variables)

Variables entered	N	Minimum	Maximum	Mean	Std. Deviation
Management sets limit to the acceptable amount of risk inherent in the organization	44	1	5	3.82	.843
Management usually checks the effectiveness of its risk	44	1	5	3.50	1.000
Risk management objectives are clearly set out	44	1	5	3.18	1.018
The district has in place a system for close monitoring of various departments	44	1	5	3.52	1.067
Management adequately instructs the relevant departments	44	1	5	3.50	.976
The organization has a chart that clearly defines lines of authority and responsibility	44	1	5	3.55	1.229
There is an internal audit manual in use	44	1	5	3.82	.995
Management creates awareness of the importance of control among employees	44	1	5	3.68	1.052
Persons authorized to approve expenditures are clearly identified	44	1	5	3.48	.976
There are adequate internal controls in place	44	1	5	3.95	1.011

The district has a governing code and policies	44	1	5	3.68	1.052
The district has in place a code of ethics	44	1	5	3.48	.902
The district has a designated officer responsible for ensuring compliance with the governance policies	44	1	5	3.00	1.294
There is authorization of activities	44	1	5	3.41	1.064
There is an internal audit committee in place	44	1	5	4.07	.950
Valid N (list wise)	44				
Average mean				3.58	

Table 4.6 above shows the mean, standard deviation and the mean average of the various responses under effectiveness of internal audit in SDLG. After computing the averages mean of the variables,(research questions under effectiveness of financial performance) it was found out that after computing the average mean of all respondents was (3.58). This implies that on average 3.58 of responses were in agreement. This level of average mean is high implying internal audit in SDLG are effective. Factors such as governing policies, code of ethics, clear defining of lines of authority and internal controls of an organization determine the effectiveness internal audit. Presence of these factors leads to an effective internal audit in an organization.

Break spear (2008) observed that internal audit reports should be timely compiled and circulated to all respective units after completion of the audit. Delay in reporting may worsen an already bad situation or make an opportunity that could have been taken pass. If there is any expected delay in internal audit reporting, this should be communicated to the relevant authorities and the effect of this delay assessed. Delaying of audit reports may have a negative effect on operations and activities in the organization which may in turn adversely affect the firm's financial performance.

4.2.1 Risk management

Under risk management the following questions were asked; whether management sets limit to the acceptable amount of risk inherent in the organization, management usually checks the effectiveness of its risk management, risk management objectives are clearly set out. The district has in place a system for close monitoring of various departments, the management adequately instructs the relevant departments and below were the research findings from the field.

Table 4.7 Management sets limit to the acceptable amount of risk inherent in the organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	2.3	2.3	2.3
Disagree	2	4.5	4.5	6.8
Neutral	8	18.2	18.2	25.0
Agree	26	59.1	59.1	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Table 4.6 above shows that 59.1% of the respondents agreed, 15.9% of respondents strongly agreed that management sets limit to the acceptable amount of risk inherent in the organization with 18.2% being neutral while only 2.3% strongly disagreed and 4.5% disagreed. Majority of the respondents agreed on this matter. Risk taking is important to any organization be it profit making or non profit making ,actually one of the roles of the internal auditors is to ensure companies or organizations take reasonable /acceptable level of risk in order to minimize financial losses which are caused by taking un realistic risks. These findings are in line with kakinda (2007) who stated that internal audit standards comprises of risk management which entails the analysis, assessment, avoidance and minimization of unacceptable risks.

Table 4.8 Management usually checks the effectiveness of its risk

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	3	6.8	6.8	6.8
Disagree	2	4.5	4.5	11.4
Neutral	14	31.8	31.8	43.2
Agree	20	45.5	45.5	88.6
Strongly Agree	5	11.4	11.4	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

From table 4.8, it can be revealed that 45.5% and 11.4% of respondents agreed and strongly agreed that management usually checks the effectiveness of its. In auditing for example, risk analysis is important as it identifies main areas where errors or misstatements are likely to occur, it important always to take a calculated risk as this reduces the level of damage caused. Internal auditing helps the company/organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management (Reinford,2004)

Table 4.9 Risk management objectives are clearly set out

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	4	9.1	9.1	9.1
Disagree	5	11.4	11.4	20.5
Neutral	16	36.4	36.4	56.8
Agree	17	38.6	38.6	95.5
Strongly Agree	2	4.5	4.5	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

The findings from the field shows that a remarkable number of respondents were neutral on this subject matter, whereas 38.6%and 4.5% of the respondents agreed and strongly agreed respectively. This implies SDLG has in place well set out objectives of risk management which is an effective tool of internal audit.

Table 4. 10The district has in place a system for close monitoring of various departments

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Strongly Disagree	4	9.1	9.1	9.1
	Disagree	2	4.5	4.5	13.6
	Neutral	10	22.7	22.7	36.4
	Agree	23	52.3	52.3	88.6
	Strongly Agree	5	11.4	11.4	100.0
	Total	44	100.0	100.0	

Source: Primary data (2016)

The findings of the study shows 52.3%and 11.4% of the respondents agreed and strongly agreed that the district has in place a system for close monitoring of various departments. Monitoring is key to the success any project. Monitoring enables an organization to assess the progress of given projects, and in case of short falls to improve on them .Failure to monitor progress of activities has been one of the key factors that has led to failure of government programmes especially in local government.

Table 4.11 Management adequately instructs the relevant departments

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	4.5	4.5	4.5
Disagree	2	4.5	4.5	9.1
Neutral	19	43.2	43.2	52.3
Agree	14	31.8	31.8	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Table 4.11 above shows that the 43.2% of the respondents were neutral , 31.8% agreed ,15.9% strongly agreed, where as only 4.5% strongly disagreed and disagreed respectively .The findings show that there was mixed responses on this matter others disagreed , majority were not sure , so the researcher wasn't in position to derive a right/clear answer on this subject.

4.2.2 Control

Control was the second variable under the effectiveness of internal audit, the following questions were asked under control; the organization has chart that clearly defines lines of authority and responsibility, there is an internal audit in use, management creates awareness of the importance of control among employees , person authorized to approve expenditures are clearly identified ,there are adequate internal controls in place and below were the findings

Table 4.12The organization has a chart that clearly defines lines of authority and responsibility

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	5	11.4	11.4	11.4
Disagree	4	9.1	9.1	20.5
Neutral	5	11.4	11.4	31.8
Agree	22	50.0	50.0	81.8
Strongly Agree	8	18.2	18.2	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Overall majority 68.2% (50+18.2)% of the respondents strongly agreed and agreed respectively that SDLG has a chart that clearly defines lines of authority and responsibility. Clearly stating line of authority, and allocation of responsibilities enables organizations reduce conflicts associated with authority and control hence improving on service delivery.

Table 4.13 There is an internal audit manual in use

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6.8	6.8
	Disagree	2	4.5	11.4
	Neutral	2	4.5	15.9
	Agree	30	68.2	84.1
	Strongly Agree	7	15.9	100.0
	Total	44	100.0	100.0

Source: Primary data (2016)

68.2% and 15.9% of the respondents agreed and strongly agreed that there is an internal audit manual in use while 4.5 disagreed and were neutral as well, and 6.8% of them strongly disagreed. This enables employees read and be in position to conceptualize various audit activities in the organization.

Table 4.14 Management creates awareness of the importance of control among employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6.8	6.8
	Disagree	2	4.5	11.4
	Neutral	9	20.5	31.8
	Agree	22	50.0	81.8
	Strongly Agree	8	18.2	100.0
	Total	44	100.0	100.0

Source: Primary data (2016)

Majority of the employees 50% and 18.2% strongly agreed that management creates awareness of the importance of control among employees. Control enables employees to understand their

authority and where it ends, the chain of command and their responsibilities, if this is achieved, then the internal audit function which have no challenges on delivery of its services

Table 4.15 Persons authorized to approve expenditures are clearly identified

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	6.8	6.8	6.8
Disagree	4	9.1	9.1	15.9
Neutral	8	18.2	18.2	34.1
Agree	27	61.4	61.4	95.5
Strongly Agree	2	4.5	4.5	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Table 4.15 above shows that majority 61.4% and 4.5% of the employees agreed and strongly agreed that persons authorized to approve expenditures are clearly identified .This is one of the factors of effective internal audit as it makes accountability easier. It is easier to deal with an individual than dealing with a group of people because is difficult to tell who is on the wrong.

Table 4.16 There are adequate internal controls in place

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	6.8	6.8	6.8
Disagree	1	2.3	2.3	9.1
Neutral	2	4.5	4.5	13.6
Agree	27	61.4	61.4	75.0
Strongly Agree	11	25.0	25.0	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Field findings shows 61.4% and 25.0% of the respondents agreed and strongly agreed that internal controls are in place. If a control is either ineffective or not, the management should therefore establish and monitor controls to ensure they are effective.

Internal controls produce the financial statements and the external auditors giving an opinion on the truth and fairness of those financial statements and the only the auditor will know if they are true and fair is by testing them, if the internal controls are strong then we can have the confidence in the financial statements produced Millicham (2006)

4.2.3 Governance process

This was the third and last variable under the effectiveness of internal audit and the following questions were asked; the district has a governing code of ethics, district has in place a code of ethics, the district has a designated officer responsible for ensuring compliance with the governance policies, there is authorization of activities, and there is an in audit committee in place.

Table 4.17The district has a governing code and policies

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	6.8	6.8	6.8
Disagree	3	6.8	6.8	13.6
Neutral	6	13.6	13.6	27.3
Agree	25	56.8	56.8	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary data

The findings show that SDLG has a governing code and policies since majority of the respondents 56.85 and 15.9% agreed and strongly agreed when asked on whether the district has

a governing code and policies. Governing code and policies provide a frame work for implementation of government programmes, and in case one deviates from them, then disciplinary action can be taken based on the defined rules and regulations. This enhances effectiveness of the internal audit.

Table 4.18The district has in place a code of ethics

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	4.5	4.5	4.5
Disagree	3	6.8	6.8	11.4
Neutral	14	31.8	31.8	43.2
Agree	22	50.0	50.0	93.2
Strongly Agree	3	6.8	6.8	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Research findings also shows that SDLG has in place a code of ethics with majority 56.8% (6.8+50) of the employees agreeing and strongly agreeing. A code of ethics is one of the futures of an effective internal audit and itsas well one of the factors that defines an organization from others.

users need to believe that assurance practitioners act in accordance with the code of ethics and the practitioner needs a code of ethics to make sure that he or she is worthy of that level of trust in order to be trusted , the auditor needs to be independent of their client. Independence is defined in APB Ethical standard as freedom from situations and relationships which make it probable that a reasonable and informed third party would conclude that objectivity either is impaired or could be impaired.

However objectivity in local governments has always been hindered by factors such as self interest, self review, familiarity threat and intimidation.

Table 4.19The district has a designated officer responsible for ensuring compliance with the governance policies

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	7	15.9	15.9	15.9
Disagree	10	22.7	22.7	38.6
Neutral	8	18.2	18.2	56.8
Agree	14	31.8	31.8	88.6
Strongly Agree	5	11.4	11.4	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

From research findings above 15.9% of the respondents strongly disagreed,22.7% disagreed, 18.2% were neutral , 31.8% agreed, where as 11 .4% of the respondents strongly agreed on whether the district has a designated officer responsible for ensuring compliance with the governance process, there were mixed responses and as such the researcher did not draw any conclusions on this matter.

Table 4.20 There is authorization of activities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	5	11.4	11.4	11.4
Disagree	2	4.5	4.5	15.9
Neutral	9	20.5	20.5	36.4
Agree	26	59.1	59.1	95.5
Strongly Agree	2	4.5	4.5	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Table 4.19 above shows that there is authorization of activities in SDLG since majority of the respondents 59.1% and 4.5% of respondents agreed and strongly agreed respectively.

Authorization enhances effectiveness of internal audit function

Table 4.21 There is an internal audit committee in place

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	4.5	4.5	4.5
Disagree	1	2.3	2.3	6.8
Neutral	3	6.8	6.8	13.6
Agree	24	54.5	54.5	68.2
Strongly Agree	14	31.8	31.8	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

When asked on whether there is an internal audit committee in place, majority of the employees 86.3(31.8+54.5) strongly agreed and agreed implying there is an internal audit committee in SDLG.

Internal auditors play an important role in organization management for instance ensuring that systems are operating effectively, internal controls are effective, laid down procedures are being followed and financial information is reliable.

However in executing their work, the internal audit committee faces a number of challenges such as independence in reporting, this is because those they report to such as the chief financial officer (CFO) are the ones who appoint the audit committee, so this compromises independence, therefore to ensure independence, the internal auditor should report to the audit committee.

4.3 The effectiveness of financial performance in SDLG

This was the second objective of the study and it was divided into two variables; liquidity and accountability and below were the findings

The effectiveness financial performance in SDLG

Table 4.22 Descriptive Statistics(mean, average mean & standard deviation of the variables under effectiveness of financial performance)

	N	Minimum	Maximum	Mean	Std. Deviation
The district always pays its utility bills , procurement supplies and other expenses in time	44	1	5	3.36	1.183
The district has enough cash to meet its daily expenses	44	1	5	3.59	1.085
The allocated cash/funds are always enough to meet the budgeted expenditure	44	1	5	3.77	1.138
Receipts are properly kept	44	1	5	4.02	.821
Invoices are first approved before procurement	44	1	5	3.84	.888
There is proper maintenance of books of accounts	44	1	5	3.77	.912
The DLG uses the relevant books of accounts	44	1	5	3.57	1.065
The district files its annual financial reports in time	44	1	5	3.68	1.116
The monthly & end of year financial reports produced are free and fair and are in line with national & international accounting standards	44	2	5	3.89	.655
Valid N (list wise)	44				
Average mean				3.72	

Table 4.31 above shows the mean, standard deviation and mean average of variables under effectiveness of financial performance in SDLG. After computing the mean and average mean of variables under effectiveness of financial performance, the mean average was high enough (3.72) , implying financial performance in SDLG is effective .

Sparks (2011) analyzed the importance of timely audit reporting in enabling the organization to perform its duties effectively. The audit reports according to Sparks should have insight into the changes that are taking place and the effect these changes can have on the organization. This then should be timely communicated to the management for action to be taken. When audit reports are provided to top management in a timely manner, they can serve as an effective communication tool which is critical in enabling the organization achieve its performance goals. Further, Soh and Martinov-Bennie (2011) adds that when audit reports are released late, they are of little value and their contributions towards organizational goals are.

Financial accountability of local governments is often evaluated by measuring success in meeting the budget. When the budget management is successfully implemented, the local government objectives will be realized and once this has been done the organization is said to have achieved a better financial performance (Turyakira, 2004).

The ability to draw trends and comparisons from financial year to financial year is important because it demonstrates patterns in management and delivering and informs advocacy interventions which is only possible through; Effective strategic planning and budgeting, Effective financial management and controls, Accountability to oversight bodies value for money, Effective handling of misconduct, corruption and maladministration and The quality of reporting information and public access to information (Vitsha, (2002).

Factors such as effective internal controls, monitoring and evaluation, risk management, financial planning, governance policies like code of ethics, conduct, internal audit standards, independence of internal auditors determine the effectiveness of financial performance, failure to observe these factors may lead decreasing financial performance of a given institution.

4.3.1 Liquidity

The following questions were asked under utility; The district always pay its utilities bills, supplies, and other expenses in time, the district has enough cash to meet its daily expenses and the allocated cash/funds are always enough to meet the budgeted expenditure, below were the findings

Table 4.23The district always pays its utility bills , procurement supplies and other expenses in time

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	5	11.4	11.4	11.4
Disagree	6	13.6	13.6	25.0
Neutral	5	11.4	11.4	36.4
Agree	24	54.5	54.5	90.9
Strongly Agree	4	9.1	9.1	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

With the majority of the respondents 63.6% (54.5%+9.1) strongly agreeing and agreeing that the district pays its utility bills , procurement supplies and other expenses in time, it shows financial system is effective, if planning is done well , it avoids cases of financial short falls due to unplanned expenditure

Table 4.24The district has enough cash to meet its daily expenses

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	9.1	9.1
	Disagree	3	6.8	15.9
	Neutral	5	11.4	27.3
	Agree	27	61.4	88.6
	Strongly Agree	5	11.4	100.0
	Total	44	100.0	100.0

Source: Primary data (2016)

Table 4.22 shows that the cash available is enough to meet the daily expenses since majority 61.4%, 11.4% of the respondents agreed and strongly agreed that the district has enough cash to meet the daily expenses. This is an indicator of an effective financial performance.

Table 4.25The allocated cash/funds are always enough to meet the budgeted expenditure

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4.5	4.5
	Disagree	6	13.6	18.2
	Neutral	4	9.1	27.3
	Agree	20	45.5	72.7
	Strongly Agree	12	27.3	100.0
	Total	44	100.0	100.0

Source: Primary data (2016)

Table 4.23 above shows that the allocated are always enough to meet the budgeted expenditure since a remarkable of employees were in agreement with this matter, 45.5% agreeing and 27.3% of them strongly agreeing.

4.3.2 Accountability

This was the second and last variable under effectiveness of financial performance and the following questions were asked; receipts are properly kept, invoices are first approved before procurement, there is proper maintenance of books of accounts, DLG files its annual and monthly in time, the monthly and end of year financial reports are free and fair , the findings were as follows .

4.26 Receipts are properly kept

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	2.3	2.3	2.3
Disagree	1	2.3	2.3	4.5
Neutral	5	11.4	11.4	15.9
Agree	26	59.1	59.1	75.0
Strongly Agree	11	25.0	25.0	100.0
Total	44	100.0	100.0	

Source : Primary data(2016)

The findings of the study revealed that 59.1% and 25.0% of the respondents agreed and strongly agreed that receipts are properly kept, this is an indicator of good and effective financial practice .Receipts if kept well makes accountability and preparation of financial reports easier.

Table 4.26 Invoices are first approved before procurement

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	4.5	4.5	4.5
Disagree	1	2.3	2.3	6.8
Neutral	6	13.6	13.6	20.5
Agree	28	63.6	63.6	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary data(2016)

Table 4.25 shows that only 4.5% and 2.3% of the respondents strongly disagreed and disagreed, 13.5% were neutral, where as 63.6% and 15.9%of the respondents agreed and strongly agreed that invoices are first approved before procurement.

If invoices are not first approved, then chances of fraud are high which can easily lead to financial losses.

Table 4.27There is proper maintenance of books of accounts

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	4.5	4.5	4.5
Disagree	2	4.5	4.5	9.1
Neutral	6	13.6	13.6	22.7
Agree	28	63.6	63.6	86.4
Strongly Agree	6	13.6	13.6	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Field findings show that majority 63.6% and 13.6% of the employees strongly agreed and agreed that the district maintains proper books of accounts. Maintenance of books of accounts increases efficiency, accuracy and effectiveness in financial reporting and simplifies the work of external auditors.

Table 4.28The DLG uses the relevant books of accounts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	3	6.8	6.8	6.8
Disagree	3	6.8	6.8	13.6
Neutral	11	25.0	25.0	38.6
Agree	20	45.5	45.5	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Table 4.28 shows that SDLG uses the relevant books of accounts since majority of the respondents 45.5% and 15.9% agreed and strongly agreed on this matter .This an indicator of a good financial system.

Table 4.29The district files its annual financial reports in time

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	4	9.1	9.1	9.1
Disagree	3	6.8	6.8	15.9
Neutral	3	6.8	6.8	22.7
Agree	27	61.4	61.4	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

Research findings show that the district prepares its annual financial reports in time since the majority of the respondents were in agreement (61.4%). Preparation of financial statements avoids penalties associated with late submission

Table 4.30The monthly & end of year financial reports produced are free and fair and are in line with national & international accounting standards

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	3	6.8	6.8	6.8
Neutral	3	6.8	6.8	13.6
Valid Agree	34	77.3	77.3	90.9
Strongly Agree	4	9.1	9.1	100.0
Total	44	100.0	100.0	

Source: Primary data (2016)

The biggest percentage of employees agreed (77.3%) that the monthly and annual reports are free and fair and are in line with the national and international accounting standards. One of the free and fairness are one of the qualitative characteristics of financial statements.

4.4 Relationship between internal audit and Financial performance

4.4.1 Correlation Analysis

Table 4.31 Correlations

		Adequate internal Audit	Financial performance(allocated funds to meet the budgeted expenditure)
	Pearson Correlation	1	.537**
Adequate internal Control	Sig. (2-tailed)		.000
	N	44	44
Financial Performance (Allocated cash/funds are always enough to meet the budgeted expenditure)	Pearson Correlation	.537**	1
	Sig. (2-tailed)	.000	
	N	44	44

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

Coefficient of Correlation

Statistical correlation is measured by what is called coefficient of correlation (r). Its numerical value ranges from +1.0 to -1.0. It gives us an indication of the strength of relationship.

In general, $r > 0$ indicates positive relationship, $r < 0$ indicates negative relationship while $r = 0$ indicates no relationship (or that the variables are independent and not related). Here $r = +1.0$ describes a perfect positive correlation and $r = -1.0$ describes a perfect negative correlation.

Closer the coefficients are to +1.0 and -1.0, greater is the strength of the relationship between the variables. As a rule of thumb, the following guidelines on strength of relationship are often useful (though many experts would somewhat disagree on the choice of boundaries).

Value of r **Strength of relationship**

-1.0 to -0.5 or 1.0 to 0.5 Strong

-0.5 to -0.3 or 0.3 to 0.5 Moderate

-0.3 to -0.1 or 0.1 to 0.3 Weak

-0.1 to 0.1 None or very weak

Positive correlation exists if one variable increases simultaneously with the other, i.e. the high numerical values of one variable relate to the high numerical values of the other.

Negative correlation exists if one variable decreases when the other increases, i.e. low numerical values of one variable relate to the low numerical values of the other.

From the table above the Pearson correlation coefficient is (0.537), implying that there is a strong positive relationship between internal audit and financial performance. As internal audit standards change, financial performance also changes. This means that if you increase internal audit by a given percentage, it will cause a percentage increase in financial performance.

Correlation is only appropriate for examining the relationship between meaningful quantifiable data.

4.4.2 Regression Analysis

Table 4.32 The Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.698 ^a	.488	.463	.867

a. Predictors: (Constant), There is a governing code and policies , There are adequate internal controls in place (Independent Variable)

The field findings in table 4.32 above indicate that the adjusted R squared (co-efficient of determination) was 0.463 signifying that there was variation of 46.3% on financial performance of SDLG, due to changes in the governing code of ethics and adequate internal audit,

This shows that 46.3% of changes in financial performance in SDLG are caused by changes in the internal audit and the governing code and policies. 46.3% is enough to prove that there is a strong positive relationship between internal audit and financial performance.

However, the findings also show that 53.7 % (100-46.3%) of changes in financial performance is affected by other factors such as Economic conditions, Taxation, environmental factors other than internal audit.

Table 4.32 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.008	.582		.013	.990
1 There are adequate internal audit in place	.767	.152	.655	5.036	.000
The district has a governing code of ethics and policies	.088	.146	.078	.599	.552

a. Dependent Variable: Financial performance (The district always pays its utility bills , procurement supplies and other expenses in time)

AIC= Adequate Internal Control

GCE= Governing Code of ethics

C= 0.008

The established regression equation was

$$Y=0.008+0.767AIC+0.88GCE$$

From the regression equation above, it shows that holding internal Audit, Governing code of ethics to a constant zero, financial performance in SDLG would stand at 0.008, a unit increase in internal controls would lead to increase in financial performance in SDLG by a factor of 0.767, unit increase in governing code of ethics would lead to increase in financial performance by a factor of 0.88.

4.5 The effect of internal audit on financial performance in SDLG

Further discussion of the findings

The study findings revealed that there is a greater variation in financial performance in SDLG caused by changes in internal audit, governance policies and risk management, this clearly shows that changes in internal audit standards, governance policies could lead to change in financial performance in SDLG.

The study further revealed that there is a strong relationship between internal audit standards and financial performance in local governments $R=0.463/46.3\%$. Meaning internal audit alone contributes to 46.3% of financial performance, the remaining percentage is determined by other factors

A unit increase in internal audit, governance police would lead to a would lead to increase in financial performance.

The findings from other researchers and criticisms

Mutua (2012) concluded that risk based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and

concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

A survey, by Ernst & Young, found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance. An equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issues.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This was the last chapter of this research study; it presents the summary of the findings, and conclusion and recommendations, of the study in line with the objectives of the study.

5.1 Summary of the Major Findings

The major objective of the study was to examine the effect of internal control on financial performance in SDLG. It was split into three specific objectives ; to examine the effectiveness of internal audit in SLDG, to examine the effectiveness of financial performance and to establish the relation between internal audit and financial performance.

5.1.1 The effectiveness of Internal Audit Function

After computing the descriptive statistics , average mean of the variables, it was found to be (3.58). This level of average mean is high enough for the researcher to conclude that internal controls in SDLG are effective. Factors such as governing policies, code of ethics, clear defining of lines of authority and internal controls of an organization determine the effectiveness internal audit. Presence of these factors leads to an effective internal audit in an organization.

5.1.2 Effectiveness of financial performance in SDLG

After computing the mean and average mean of variables under effectiveness of financial performance, the mean average was high enough (3.72) ,implying financial performance in SDLG is effective.

5.1.2 The relationship between internal audit and financial performance

The study further revealed that there is a strong positive relationship between internal audit standards and financial performance in local governments $R=0.463/46.3\%$. Meaning internal audit alone contributes to 46.3% of financial performance, the remaining percentage is determined by other factors

A unit increase in internal audit, governance police would lead to increase in financial performance.

5.2 Conclusions

Basing on the field findings the researcher can now derive the following conclusions

The study concluded that SDLG has an effective internal audit system, this can be determined by factors such as internal controls, conduct of ethics, governance policies, and other factors

The study also concluded that SDLG has effective financial system, this is determined by quality and accuracy of financial statements produced.

The study also concludes that there is a strong positive relationship between internal audit and financial performance in local governments.

5.3. Recommendations

The study made the following recommendations basing on the research findings.

In order to maintain and probably advance on internal audit, the SDLG should make efforts towards establishing an independent internal audit committee such that the quality of work done is not compromised. More internal controls such as monitoring and evaluation of government projects should be established to strengthen and minimize losses such that financial performance is enhanced.

The district should undertake training of its staff to equip them with modern skills of financial reporting.

The district should in future establish a risk assessment committee in order to reduce damages caused by taking uncalculated risks.

The district should enhance its financial performance through maintenance of proper books of accounts, timely financial reporting, proper record keeping, following the national and international standards of financial reporting and employment of competent staff to minimize losses that affect financial performance.

5.4. Suggested Areas for Further Study.

Further research can be carried out in the following fields

Internal audit function and quality of financial statements

Risk management and financial performance in limited companies

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APPENDIX I

UGANDA MARTYRS UNIVERSITY

Faculty of Business Administration and Management

BAM Research Project

Dear respondent,

RE: REQUEST TO COMPLETE A RESEARCH QUESTIONNAIRE

I am a student of Business Administration and Management at Uganda Martyrs University conducting a study on internal auditing function and financial performance in Sironko District Local Government. You have been chosen as a suitable respondent in this study.

This is therefore to request you to fill this questionnaire with utmost honesty and sincerity as your opinion counts a lot towards the success of this study. Your opinion will not only be respected but also treated with utmost anonymity and confidentiality. The responses you will give will strictly be used for the purpose of this study.

Thanks.

Yours sincerely,

Kamiti Edrina

SECTION A: Background Information

Tick (√) where appropriate

1. Gender

1) Male

2) Female

2. Age Bracket

1) 35 years below

2) 35- 45years

3) 45 and above

3. Academic Qualifications

1) Diploma

2) Degree

3) Masters

4) Doctorate

5) Others

4. Position held in SDLG

1) Driver

2) Administrator

3) Procurement Officer

4) Accountant

5) Planner

6) Others

5. Number of years employed by SDLG

1) 1 year

2) 2years

3) 3 years

4) 4 years

5) Above 5 years

SECTIONS: B TO C

In this section you are required to tick (√) on a response option ranging from Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), Strongly Agree (SA).

SECTION B: INTERNAL AUDIT FUNCTION

SN	Risk Management	SD	D	U	A	SA
6	Management sets limit to the acceptable amount of risk inherent in the organization					
7	Management usually checks the effectiveness of its risk management					
8	Risk management objectives are clearly set out					
9	The district has in place a system for close monitoring of various department					
10	Management adequately instructs the relevant departments					
	Control					
11	The organization has a chart that clearly defines lines of authority and responsibility.					
12	There is an internal audit manual in use					
13	Management creates awareness of the importance of control among employees					
14	Persons authorized to approve expenditures are clearly identified.					
15	There are adequate internal controls in place					
	Governance Process					
16	The district has a governing code and policies					

17	The district has in place a code of ethics					
18	The district has in a designated officer responsible for ensuring compliance with the governance policies					
19	There is authorization of activities					
20	There is an internal audit committee in place					

SECTION C: FINANCIAL PERFORMANCE

SN	Liquidity	SD	D	U	A	SA
21	The district always pays its utilities bills, supplies and other expenses on time.					
22	The district has enough cash to meet its daily expenses					
23	The allocated cash/ funds are always enough to meet the budgeted expenditure					
	Accountability					
24	Receipts are properly kept					
25	Invoices are always approved before procurement					
26	There is proper maintenance of books of accounts					
27	The District Local Government uses the relevant books of account					
28	The district files its annual financial reports in time					
29	The monthly & End of year financial reports produced are free and fair and are in line with national and international standards of financial reporting					

Thanks for your cooperation, God bless you