

---

**EXTERNAL AUDITING PRACTICES AND FRAUD MANAGEMENT IN AN ORGANISATION. A CASE STUDY OF MITYANA TOWN COUNCIL****1 Kizuula Shafik, 2 Irumba Alex****1, 2 Metropolitan International University****ABSTRACT**

The study aimed at evaluating the relevance of external auditing practices on fraud management in an organisation and it was guided by the following objectives; To examine the relationship between accounting data and fraud management, to examine the relationship between record examination and fraud management and to assess the impact of internal control review to fraud management. The study focused on the relevance of external auditing practices on fraud management in an organization in the light of accountability and transparency in Uganda by focusing on organization in Mityana town council. The region has about twenty (20) organizations operating in various projects and programs. Out of the twenty (20), ten (10) operate within the Mityana township and its environs. The study focused on these 10 organizations in addition to some selected beneficiaries. Statistical Package for the Social Sciences (SPSS) version 17.0 was employed for data analysis. Findings from respondents as from the study, 74.42% answered that there was accuracy in assets records whilst 18% said no. But only 4% answered that they were not sure. Majority of the respondents agreed that there was accuracy in assets records. External Auditors should not be hired by management of organizations but by the Board of Directors or Donors so the external auditors will report to the Board or the donor or funding agency and not management of organizations.

**Key words: external auditing practices, fraud management and organisation**

**Background of the study**

According to Chow (1982), controlling the conflict of interests among firm managers, shareholders and bondholders is a major reason for engaging auditors (Moses et al., 2023). Evaluating Effectiveness of External Auditors' Report In essence, auditing is an independent function by means of an ordered and structured series of steps, critically examining the assertions made by an individual or organization about economic activities in which they have engaged and communicate the results in the form of a report to the users (Phionah et al., 2023). The audit profession is crucial to current economies because of the assurances that auditors provide to users of financial statements (Alex & Kazaara, 2023). Auditing increases the reliability of financial information provided to investors, owners, creditors and other users. In nut shell, the auditor's duty is detection fraud and errors (Ramadhan et al., 2023). Which the results of audit practice are appear in audit report. If they do not do work according to guidelines or they issue wrong report, it leads bad condition to audit profession. In other word, auditors are buffeted by two forces (Alex et al., 2023). One hand, they are subject to pressure from their client's statements in the most favorable light. On the other hand, auditors are subject to lawsuits from investors and face legal liability for overstatement. The primary

**Received: 14.10.2023****Accepted: 20.10.2023****Published on: 30.10.2023**

---

***Corresponding: Author: [research.miu.ac.ug/publications](mailto:research.miu.ac.ug/publications)***

---

product of an audit by an independent certified accountant (CPA) is an audit report, which serves as a major vehicle of communication between the auditor and those who use this work. In the report, the auditor indicates the scope of his examination and the conclusions drawn about the appropriateness of the financial statements presentations (the audit opinion) (Alex et al., 2023). Low-quality audits can mislead investors and result in misallocated resources. The negative and cancer worm spread of fraud in corporate organizations has rendered traditional auditing inefficient and ineffective (Innocent et al., 2023). The number of frauds committed is continuously on the increase both in private and public sector institutions, and it cuts across the globe. Fraud is a worldwide problem as no nation is resistant, although countries that are developing and their various states suffer the most pain. In spite of the activities of both internal and external auditors in corporate organizations cases of fraudulent practices seems to be common and on the upward trend (Pdu et al., 2023).

### **Statement of the Problem**

Different panels of inquiries has been set up in Uganda for the investigation of cases of fraudulent practices and such panels usually end up with minor or no result (Christopher, Moses, Muhindo, & Nturanabo, 2022). Fraud and fraudulent activities have gone so complex and sophisticated as a result of technological advancement. The advancement in technology has made it easier for fraudsters to perpetrate fraud but complicated to unearth the fraud (Christopher, Moses, Muhindo, & Muhammad, 2022). However, Goldstein, Jacob (February 28, 2016), stated that there are several impacts of having an external audit conducted by an independent firm to determine your entity's financial status and reputational strength (Akankwasa et al., 2022). i.e. Ensures Tax Compliance provides Independent Credibility, Allows Critique of Internal Processes, Allows Quality Control of internal Audit (Micheal et al., 2023), It exhibits true and fair view of the state of affairs and it avoids manipulation of accounts hence detection of fraud and errors. Despite the fact that Mityana Town council is characterized by high level of poverty and poor development in the District (Godfrey et al., 2023). This is caused by; Embezzlement of funds, fraudulent Activities, Misappropriation of funds that are sent by the government to the district, poor tax compliance by the business ventures in the district, poor credibility of the local government, ineffective internal controls or checks in the local government, Corruption and negligence (Faridah et al., 2023).

### **Specific objectives**

- To examine the relationship between accounting data and fraud management.
- To examine the relationship between record examination and fraud management.
- To assess the impact of internal control review to fraud management.

### **Methodology**

**Study Design**

The researcher would use mixed approaches which consist of both qualitative and quantitative research methods. Qualitative analysis according to (Borrego et al., 2009) is characterized by the collection and analysis of textual data which are surveys, interviews, focus groups, conversational analysis, observation on the context within which the study occurs. It allows the researcher to make connection between the study and the situation. Due to this research being an explanatory-research, both quantitative and qualitative analysis were needed. The qualitative results serve to explain the quantitative results according to (Borrego et al., 2009). The choice of the survey strategy allows for the collection of large amounts of data from the population.

**Study Population**

The study focused on the relevance of external auditing practices on fraud management in an organization in the light of accountability and transparency in Uganda by focusing on organization in Mityana town council. The region has about twenty (20) organizations operating in various projects and programs. Out of the twenty (20), ten (10) operate within the Mityana township and its environs. The study focused on these 10 organizations in addition to some selected beneficiaries. The beneficiaries include heads of schools, opinion leaders and Assembly Men in various areas.

**Sampling Techniques**

This study essentially targets Top management staff of these aforementioned offices and personalities. The researcher therefore would use purposive sampling techniques to selecting interview respondents. This ensured that only people with relevant information are sampled.

Simple random sampling. Is a sampling method used in market research studies that falls under the category of probability sampling? This means that when employed, simple random sampling gives everyone in the target population an equal and known probability of being selected as a respondent in the sample group. Probability sampling. It is the probability of becoming part of the sample during the drawing of a single sample.

**Sample Size**

Staff of the organizations was contacted for all needed information in order to achieve the study target. Forty (40) respondents would be selected from organization which 20 comprises of 2 staff each to be selected from each organization and twenty (20) respondents from the selected beneficiaries.

**Data Collection Procedure**

Both questionnaire and interview would be used for data collection. Questionnaires were the main data collection instrument to be used for the study. The questionnaire was appropriate because it is assumed that staffs of organizations are literate and for that reason, they could be able to respond to the questions unaided. The researcher would also interview some selected beneficiaries' respondents to collect data for the study. The interviews would

**Received: 14.10.2023****Accepted: 20.10.2023****Published on: 30.10.2023**

---

*Corresponding: Author: [research.miu.ac.ug/publications](mailto:research.miu.ac.ug/publications)*

cover the Assembly Men, Heads of Schools, Opinion Leaders in the Communities and Town council Assembly focal person. Each interview was likely to take approximately fifteen (15) minutes.

### Data Analysis

The researcher would use both quantitative and qualitative techniques to analyze the data. The data that would be obtained from the field would be analyzed using frequencies and percentages, as well as inferential statistics. Statistical Package for the Social Sciences (SPSS) version 17.0 was employed for data analysis (Nelson et al., 2022). The use of this version was because there was need for data reduction through factor analysis, for the purposes of regression and correlation analysis. Percentages would be used to determine sample distribution across various demographic variables while mean scores of the variables. Standard deviation would also be used in the analysis. Frequency distribution tables and pie charts would be used to present the data.

### RESULTS

**Table 1 Accuracy in assets records**

| S/N      | Number | Percentage of respondent |
|----------|--------|--------------------------|
| Yes      | 64     | 74.42                    |
| No       | 18     | 20.93                    |
| Not Sure | 4      | 4.65                     |
| Total    | 86     | 100.00                   |

Source: Field survey, 2022

Findings from respondents as from the table above, 74.42% answered that there is accuracy in assets records whilst 18% said no. But only 4% answered that they were not sure. Majority of the respondents agreed that there is accuracy in assets records.

**Table 2 Compliance with applicable laws and regulations**

| S/N      | Number | Percentage of respondent |
|----------|--------|--------------------------|
| Yes      | 12     | 13.95                    |
| No       | 68     | 79.07                    |
| Not Sure | 6      | 6.98                     |
| Total    | 86     | 100.00                   |

Source: Field survey, 2022

Findings from respondents as from the table above revealed that 79.07% that there is compliance with applicable laws and regulations 12% agreed whilst 6% were not sure. This reveals that compliance with applicable laws and regulations are weak with organizations.

Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

**Table 3 Transactions are recorded in the books of accounts**

| S/N      | Number | Percentage of respondent |
|----------|--------|--------------------------|
| Yes      | 54     | 62.79                    |
| No       | 28     | 32.56                    |
| Not Sure | 4      | 4.65                     |
| Total    | 86     | 100.00                   |

**Source: Field survey, 2022**

Findings from respondents revealed that **62.79 %** transactions are recorded in the books of accounts whilst **28 %** disagreed. But only **4%** still maintained that they were not sure.

**Table 1: Correlation between external auditing practices and fraud management in an organisation**

|                                                              |                     | external auditing practices | fraud management |
|--------------------------------------------------------------|---------------------|-----------------------------|------------------|
| external auditing practices                                  | Pearson Correlation | 1                           | .769**           |
|                                                              | Sig. (2-tailed)     |                             | .000             |
|                                                              | N                   | 85                          | 85               |
| fraud management                                             | Pearson Correlation | .769**                      | 1                |
|                                                              | Sig. (2-tailed)     | .000                        |                  |
|                                                              | N                   | 85                          | 85               |
| **. Correlation is significant at the 0.01 level (2-tailed). |                     |                             |                  |

**Source; Primary Data, 2022**

The correlation coefficient (0.769) shows a strong relationship between external auditing practices and fraud management in an organisation. This was statistically significant at 0.05 level of significance since the probability value (0.00) was less than 0.05 and therefore we rejected the null hypothesis and concluded that there was a significant relationship between external auditing practices and fraud management in an organisation (Nelson et al., 2023).

### Conclusion

From the research work carried out, the following conclusions were arrived at. 55.81% of the total respondents disagree that there is effectiveness in external audit on organization in the pursuit to be transparent and accountable. While 44.19 agree with the assertion that there is effectiveness in external audit. There is therefore more to be done for external audit report to be effective in the organization. It was revealed also that the audit reports of organizations are not discussed with the key players and recommendations are not enforced and

**Received: 14.10.2023****Accepted: 20.10.2023****Published on: 30.10.2023**

**Corresponding: Author: [research.miu.ac.ug/publications](mailto:research.miu.ac.ug/publications)**

---

implemented and as such contributes nothing to accountability and transparency thereby further reinforcing the assertion that corrupt practices is pervasive on organization activities.

### Recommendations

Project end evaluation should not be only narrative as has been the case in most evaluations but should include audited financial statement to be signed by the external auditor.

External Auditors should not be hired by management of organizations but by the Board of Directors or Donors so the external auditors will report to the Board or the donor or funding agency and not management of organizations.

### References

- Akankwasa, A., Akakikunda, T., Ntirandekura, M., Murezi, C. M., & Christopher, F. (2022). *Effect of Capital Budgeting on Development of Organizations Empirical Studies of Kashinge Child Development Centre Kisoro District*. 6(9), 5–10.
- Alex, I., & Kazaara, A. G. (2023). *Internal Controls and Financial Performance of Saccos in Wakiso District*. 7(3), 47–56.
- Alex, I., Kazaara, A. G., Lukman, P. N., & Edris, P. (2023). *CORRUPTION PRACTICES AND PUBLIC FINANCE MANAGEMENT IN*. 2(5), 754–767.
- Christopher, F., Moses, N., Muhindo, M. E., & Muhammad, M. (2022). *Rewards and Employee Performance in an Organization : A Case Study of African College of Commerce and Technology in South Western Uganda*. 6(4), 414–428.
- Christopher, F., Moses, N., Muhindo, M. E., & Nturanabo, M. (2022). *The Influence of Intrinsic and Extrinsic Motivation on Employees ' Performance : A Case Study of African College of Commerce and Technology in South Western Uganda*. 6(4), 321–329.
- Faridah, K., Jacob, K., Barigye, G. B., Kazaara, A. G., & Nelson, K. (2023). *The Role of the Non-Government Organizations in Poverty Alleviation in Uganda : A Case Study of Bugiri Municipality Local Government*. 7(2), 99–111.
- Godfrey, S., Matovu, K., & Ismail, L. (2023). *Effect Of Youth Unemployment And Crime Rates In Uganda , A Case Study Of Mityana Distrist*. 7(3), 325–334.
- Innocent, A., Kazaara, A. G., Nelson, K., Catherine, M., Micheal, T., & Deus, T. (2023). *Internal Auditing and Fraud Prevention in Organizations a Case Study of Nssf Kampala Area*. 7(2), 150–157.
- Micheal, T., Nicholas, K., Kazaara, A. G., & Nelson, K. (2023). *The Effect of Teacher ' s Motivation on Academic*

---

*Performance of Students in Kole District a Case Study of Alito Sub-County. 7(2), 64–72.*

Moses, K., Kazaara, A. G., Kazaara, A. I., & Ismail, L. (2023). *External Auditing and the Financial Performance of Marianum Press Limited , Kisubi. 7(3), 258–266.*

Nelson, K., Christopher, F., & Milton, N. (2022). *Teach Yourself Spss and Stata. 6(7), 84–122.*

Nelson, K., Kazaara, A. G., & Kazaara, A. I. (2023). *Teach Yourself E-Views. 7(3), 124–145.*

Pdu, A. C. O., Government, M. L., Gracious, A., & Kazaara, A. I. (2023). *Corruption Practices on Service Delivery in the Public Sector in. 7(3), 312–319.*

Phionah, N., Kazaara, A. G., Bafaki, G., Ruth, N., & Kazaara, A. I. (2023). *The Role Played By Social Media on Curbing Corruption Practices In Uganda a Case Study of Kawempe Division. 7(3), 246–250.*

Ramadhan, B., Alex, I., Kazaara, A. G., Nelson, K., Deus, T., & Pascal, T. (2023). *Taxation and the Development of Small Businesses in Uganda , a Case Study of Iganga District. 7(2), 136–149.*