

INTERNAL AUDIT ACTIVITIES AND ORGANIZATIONAL PERFORMANCE, A CASE STUDY OF CENTENARY BANK

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ABSTRACT

The study aimed at internal audit activities and organizational performance with a case study of centenary bank and it was guided by the following objectives; To examine the relationship between risk assessment and organizational performance of Centenary Bank, to find out the role of quality management on organizational performance of Centenary Bank and to evaluate the role of control activities on the organizational performance of Centenary Bank. The study employed a descriptive correlation and cross-sectional survey design. The study adopted a survey research design because data was collected from respondents at a particular time. This research survey design according to among (2015) was helpful to the researcher to attain systematic data from the sample. From the findings, the constant 2.439, shown that keeping all other factors constant, performance of Centenary Bank will on average increase by 2.439. The coefficient 6.875 shown that a unit increase in the risk assessment would lead on average to 6.875 increases in the performance of an organization. The p-value (0.00) <0.05 (is statistically significant at 95% confidence level); this implied that; risk assessment has a significant impact on organizational performance expressed in form of profitability. The coefficient 1.049 shown that a unit increase in risk assessment would lead to an average 1.049 increase in sales volume. The researcher therefore recommends that Centenary Bank should implement an effective internal auditing department to ensure that it never declines in their organizational performance.

Key words: internal audit activities, organizational and performance

Background of the study

Globally, the internal auditing profession evolved steadily with the progress of management science after World War II (Alex & Kazaara, 2023). It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities (Ramadhan et al., 2023). While some of the audit technique underlying internal auditing is derived from management consulting and public accounting professions, the theory of internal auditing was conceived primarily by Lawrence Sawyer (1911–2002), often referred to as "the father of modern internal auditing; and the current

philosophy, theory and practice of modern internal auditing as defined by the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors owes much to Sawyer's vision (Paul et al., 2023).

Countries in the East African region have established internal audit functions that differ in size, structure and mandate. In some countries, all internal auditors in central government and sub national governments are employees of the Ministry of Finance (MoF) (Alex et al., 2023). In other countries, they are employed by the ministries in which they work. In all countries

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except Eritrea, there is a central internal audit unit in the MoF responsible for supervising government-wide internal audit services and providing guidance on good practices, training and other support (Emmanuel et al., 2023). Significant overlap exists between the work of integrity institutions and the work of internal auditors in government. Some member countries have inspection units as part of MoF's internal audit function while in others inspection is a separate function (Derrick et al., 2023). Some countries have an anti-corruption body that is mandated to carry out investigations and has prosecuting powers that have not been accorded to government internal auditors (Faridah et al., 2023).

Statement of the problem

Internal Auditing has become crucial in understanding the accounting maneuvers that have emerged in financial statements. This has been compromised of checking accuracy of financial statements, counting assets, prepayment verification and control and reporting to various types of management (Zowena et al., 2023).

Trotman and Trotman (2015) find out that, internal auditing plays an important role in the disclosure and reporting of greenhouse emissions and energy consumption. According to Ma'ayan and Carmela,

(2016), while the prevention and identification of fraud cases can be achieved through direct action of internal audit, the indirect influence of promoting the ethical culture in organisations also part of this added advantage (Brighton, Deus, Kazaara, Nelson, Catherine, et al., 2023). Ideally Internal auditing as part of the company's Internal control system, assessed the efficiency, effectiveness and fairness in realization of tasks and prompts effectiveness of risk management with the aim of enhancing growth at Centenary Bank (T. Christopher, 2022). Despite the fact that Centenary Bank has been subjected to Internal auditing, it has registered financial mismanagement due to poor accountability and bureaucracy in the accounting department as well as corruption thus resulting into a financial loss (Polycarp et al., 2023). According to Micha Asiku and Albert Mwesigwa (scorecard report FY 2018/2019), Centenary Bank has been subject of poor monitoring of credit programs, delayed execution of duties and limited follow up of its customer needs and inquiries. Thus if these issues are not addressed they will lead to poor service delivery to its customers (Gracious, 2023). Therefore, this study aims at evaluating the role of internal auditing on organizational performance at Centenary Bank.

Objectives of the study

1. To examine the relationship between risk assessment and organizational performance of Centenary Bank.
2. To find out the role of quality management on organizational performance of Centenary Bank.
3. To evaluate the role of control activities on the organizational performance of Centenary Bank.

Methodology

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Research design.

The study employed a descriptive correlation and cross-sectional survey design. The study adopted a survey research design because data was collected from respondents at a particular time. This research survey design according to among (2015) was helpful to the researcher to attain systematic data from the sample. Correlation was necessary to explain the relationship between variables. Purposive sampling was used to ensure that respondents with the right information were selected to participate in this study. Quantitative and qualitative approaches were used because they would help to ensure that the data collected was quantitatively analysed and descriptively interpreted.

Study population.

The study population comprised of 40 respondents purposively selected from the management and employees of Centenary Bank in Uganda.

Sample size.

The sample size of the study was determined according to Slovene's formulate of sample determination. Under this, a target population of 40 but was zeroed down to a sample size of 35 respondents respectively as stated by Slovene's (1978).

Table 1: Sample size of Respondents and Sampling Technique

Respondents	Population size	Sample size	Technique
Staff members	30	27	Simple random
Auditors	10	08	Purposive sampling
Total	40	35	

Research collection instrument.**Questionnaire.**

A questionnaire is an instrument used in research that contains closed ended questions with choices that aim sat collecting data from participants in the study (Amin 2015). The questionnaire in this research undertaking was used to gather data among the staff of Centenary Bank. The researcher distributes the questionnaire among the sampled respondents and they were given time to fill them at their own convenience and later the researcher went back to collect the filled tools.

Data analysis.

Data analysis involved arranging, sorting and organizing data and later attached meaning to create a sensible meaning that reflects findings, Patton (2017). This study involved both qualitative and quantitative data and each was analysed

Quantitative data analysis.

In analysing quantitative data, the data was sorted as per it's allocated codes and entered into a statistical package known as statistical package for social scientists, (SPSS) (Nelson et al., 2022) to generate both descriptive and inferential statistics that created the mean, mode and median; the variance, standard deviation,

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frequencies and percentages. These were arranged in the table and later explained by the researcher on what they were meant as per the set objectives and their implications in the study, (Oso & Onen, 2018).

Qualitative data analysis.

Through use of content and thematic analysis, qualitative data were analysed and the findings were related to the study objectives and findings. The verbatim captions were tabulated in shorter sentences and pulling out key words that explained a certain phenomenon, (Sekaran, 2013). These key words were used by the researcher to explain the occurrences that the study found out to answer the concerns that were raised in form of study objectives and answering research questions.

RESULTS

Correlation analysis

Table 1 Shows the relationship between risk assessment and organizational performance of Centenary Bank

		Risk assessment	Organizational Performance
Risk assessment	Pearson Correlation	1.000	.823**
	(2-tailed)		.000
	N	63	63
Organizational Performance	Pearson Correlation	.823**	1.000
	(2-tailed)	.000	
	N	63	63

Source: Statistical Package for Social Scientists (SPSS)

The relationship between the variables was tested using Pearson correlation coefficient. This was used because the risk assessment and organizational were assigned numerical values. From the table above, it is clearly indicated that there is a strong relationship between risk assessment and organizational performance in Centenary Bank. This is indicated by positive results of Pearson Correlation, where $r = 0.823$, $p < .01$. It therefore implies that risk assessment strongly affects organizational performance in Centenary Bank.

The leadership of Centenary Bank should therefore continue assessing its risks to ensure smooth running and excellent performance of the organization (Nelson et al., 2023).

Regression Analysis

Table 3: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.816(a)	.666	.334	4.107

a Predictors: Risk assessment.

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b Independent Variable: Internal auditing.

The R-square measures the goodness of fit. Therefore, the R-square 0.666 shows that 66.6% of the variations in the performance of an organization can be explained by risk assessment while only 33.4% can be explained by other factors. Therefore, since R-square $0.666 > 0.5$, hence a good fit.

Table 4: **Coefficients (a)**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.439	3.343		730	.468
Profitability	6.875	.637	.815	10.790	.000
Increased sales	1.049	.882	-.089	4.189	.001
Service delivery	.252	.462	.041	2.545	.018
Other factors	4.875	.437	.615	8.790	.234

a. Dependent Variable: Organizational Performance

The constant 2.439, shows that keeping all other factors constant, performance of Centenary Bank will on average increase by 2.439. The coefficient 6.875 shows that a unit increase in the risk assessment would lead on average to 6.875 increases in the performance of an organization. The p-value (0.00) < 0.05 (is statistically significant at 95% confidence level); this implies that; risk assessment has a significant impact on organizational performance expressed in form of profitability. The coefficient 1.049 shows that a unit increase in risk assessment would lead to an average 1.049 increase in sales volume. The p-value (0.00) < 0.05 (is statistically significant at 95% confidence level) (Mark et al., 2023); this implies that; risk assessment has a significant positive relationship with the sales volume of an organization.

The coefficient 0.252 shows that a unit increases in risk assessment would lead on average 0.252 increases in the service delivery of an organization. The p-value (0.00) < 0.05 (is statistically significant at 95% confidence level); this implies that; risk assessment has a significant positive relationship with efficient service delivery (F. Christopher et al., 2022).

Effect of quality management on organizational performance

Table 5 showing the effect of quality management on organizational performance

Response	Response
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	Strongly agree		Agree		Not sure		Disagree		Strongly disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Centenary Bank has policies that allow continuous quality improvement	13	37	15	43	3	8	1	4	3	8	35	100
Centenary Bank offers training to staff on quality improvements	23	65	12	35	-	-	-	-	-	-	35	100
Centenary bank compares its processes and products with the market leaders	20	57	12	33	-	-	3	10	-	-	35	100
Centenary bank has policies for handling customer complaints	13	37	18	51	1	4	-	-	3	8	35	100
Customer care is given a priority by the management of Centenary bank	13	37	15	43	3	8	1	4	3	8	35	100
Centenary bank compares its customer service with other firms in the industry	23	65	12	35	-	-	-	-	-	-	35	100
The top management recognizes quality management	20	57	12	33	-	-	3	10	-	-	35	100
The top management trains the staff on quality of products and services	13	37	18	51	1	4	-	-	3	8	35	100

Source: Primary data 2021

From table 5 above, it can be observed that 13 (37%) of the respondents strongly agreed to the assertion that Centenary Bank has policies that allow continuous quality improvement, 15 (43%) agreed, 3 (8%) were not sure, 1 (4%) disagreed while 3 (8%) strongly disagreed. This implies that indeed Centenary Bank has policies that allow continuous quality improvement to ensure excellent organizational performance (Isaac et al., 2023).

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Respondents were also asked whether Centenary Bank offers training to staff on quality improvement. 23 (65%) strongly agreed, 12 (35%) agreed, and none neither disagreed nor strongly disagreed nor were not sure. Since all of the respondents strongly agreed and agreed to the assertion, it can therefore be stated that Centenary Bank offers training to staff on quality improvement (Ntirandekura, Ainebyoona, et al., 2022).

Further still, 20 (57%) strongly agreed to the assertion that Centenary Bank compares its processes and products with the market leaders, 12 (33%) agreed and 4 (10%) disagreed. Neither of the respondents were not sure nor strongly disagreed. This vividly implies Centenary Bank compares its processes and products with the market leaders services so as to improve its performance (Tasha et al., 2023). Respondents were asked whether Centenary Bank has policies for handling customer complaints; 13 (37%) strongly disagreed, 18 (51%) agreed, 1 (4%) were not sure, none disagreed while 3 (8%) strongly disagreed to the assertion. It can therefore be stated that Centenary Bank has policies for handling customer complaints. This enables the bank to evaluate the quality of its services based on customer feedback (Rashid et al., 2023).

Respondents were also required to comment on whether or not customer care is given a priority by the management of the bank 13 (37%) of the respondents strongly agreed to the assertion that the bank gives priority to customer care, 15 (43%) agreed, 3 (8%) were not sure, 1 (4%) disagreed while 3 (8%) strongly disagreed. This implies that indeed customer care is a very important element of quality management of an organization (Moses et al., 2022).

Respondents were also asked whether Centenary Bank compares its customer service with other firms in the industry. 23 (65%) strongly agreed, 12 (35%) agreed, and none neither disagreed nor strongly disagreed nor were not sure. Since all of the respondents strongly agreed and agreed to the assertion, it can therefore be stated that Centenary comparing an organization's customer service with the competitors in the industry makes a good component of quality management of an organization (Ntirandekura, Ainebyoona, et al., 2022). Further still, 20 (57%) strongly agreed to the assertion that top management recognizes quality management, 12 (33%) agreed and 4 (10%) disagreed. Neither of the respondents were not sure nor strongly disagreed. This vividly implies that quality management is only possible when management is committed to quality management. Finally, respondents were asked whether top management trains staff on quality of products and services; 13 (37%) strongly disagreed, 18 (51%) agreed, 1 (4%) were not sure, none disagreed while 3 (8%) strongly disagreed to the assertion. It can therefore be stated that quality management involves training of staff on quality of product services to ensure excellent performance of the organization (Ntirandekura, Friday, et al., 2022).

Table 6: Role of control activities on organizational performance.

Role of control activities on	Response
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organizational performance	Strongly agree		agree		Not sure		Disagree		Strongly disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Centenary bank maintains physical controls of all assets	23	65	12	35	-	-	-	-	-	-	35	100
Equipment in use are properly maintained and controlled	20	57	12	33	-	-	3	10	-	-	35	100
Information processing is accurately controlled	13	37	14	41	3	10	1	4	3	10	35	100
Physical controls of assets have improved organizational performance	23	65	12	35	-	-	-	-	-	-	35	100
Physical control of facilities and equipment are efficient and effective	20	57	12	33	-	-	3	10	-	-	35	100
Information processing control enhances organizational performance	23	65	12	35	-	-	-	-	-	-	35	100

Source: Primary data 2021

Table 6 above shows that 23 (65%) strongly agreed to the assertion that Centenary Bank maintains physical controls of all assets, 13 (33%) agreed, and none neither disagreed nor strongly disagreed nor were not sure. Since all of the respondents strongly agreed and agreed to the assertion (Akankwasa et al., 2022), it can therefore be stated that for a company to perform well, it is paramount to establish and maintain physical controls like perimeter walls, security guards, biometric systems, checkpoints. Further still, 20 (57%) strongly agreed to the assertion that all equipment in use are properly maintained and controlled, 12 (33%) agreed and 3 (10%) disagreed (Seth & Ntirandekura, 2022). Neither of the respondents were not sure nor strongly disagreed. It can therefore be stated that equipment like cars, etc should be properly maintained and controlled to avoid wastage and misuse and improve organizational performance. Furtherstill, 13 (37%) strongly disagreed to the assertion that information processing is accurately controlled, 16 (41%) agreed, 4 (10%) were not sure, none

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disagreed while 4 (10%) strongly disagreed to the assertion that information processing should be accurately controlled so that documents like receipts, vouchers and correspondents are executed by the mandated officials, to ensure positive organizational performance. Respondents were asked to respond as to whether physical controls of assets have improved organizational performance. 26 (65%) of the respondents strongly agreed (Brighton, Deus, Kazaara, Nelson, Alex, et al., 2023); and 14 (35%) agreed to the assertion. None respondents disagreed nor were unsure. This implies that indeed, physical controls are paramount in ensuring that the organization's performance is not interrupted by outside violators like thieves, climatic hazards, access of property and assets by unauthorized individuals, etc. Respondents were further asked whether the physical controls of Centenary Bank are effective and efficient., 23 (57%) of the respondents strongly agreed that physical controls of Centenary Bank are effective and efficient, 13 (33%) agreed while 4 (10%) were not sure. None of the respondents disagreed (Wegulo et al., 2023). This implies that indeed efficient and effective physical controls are paramount for the efficient performance of an organization. Respondents were finally asked whether information processing control enhances organizational performance 23 (65%) strongly agreed to the assertion that Centenary Bank maintains controls on information processing, 13 (33%) agreed, and none neither disagreed nor strongly disagreed nor were not sure. Since all of the respondents strongly agreed and agreed to the assertion, it can therefore be stated that for a company to perform well, it is paramount to establish and maintain physical controls on its information processing to curb fraud and other dangers (Faith et al., 2023).

Conclusions

Findings reveal that there is a positive relationship between risk assessment and organizational performance. The study further concludes that organizations should manage their risk strategically to avoid loss of business to their competitors.

The researcher also concludes that internal auditing which includes risk assessment, quality management and internal control activities are paramount for the survival and profitability of the organization.

Recommendations

The researcher therefore recommends that Centenary Bank should implement an effective internal auditing department to ensure that it never declines in their organizational performance.

The study recommends that organizations should be cautious when accumulating the internal controls because it may affect its profitability in the long run.

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