
**INTERNAL AUDIT PRACTICES AND FINANCIAL PERFORMANCE IN PUBLIC ENTITIES. A CASE
STUDY OF MASINDI DISTRICT LOCAL GOVERNMENT.**

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ABSTRACT

The performance of an internal audit department must function in a manner that is in accordance with applicable professional standards such as Standards for the Professional practice of Internal Auditing and the quality of the internal control systems. This study looks at the internal auditing practices and performance of internal audit departments. Using data from 250 auditing practitioners, this study suggests that independence, scope of audit work, audit reporting, audit programs, management of internal audit department, performance of audit work, audit reviews, objectivity and professional proficiency are important internal auditing practices from the perception of internal auditors. This study also suggests that risk assessment, control activities, control environment, information and communication and monitoring are important quality of internal control system from the perception of audit committee. From the findings, 50% of the respondents strongly agreed, 27.5% agreed, 12.5% were not sure, 10% disagreed and none of the respondents strongly disagreed with help management of the organization in its present and future growth. Provide advisory services to provide assurance to the CAO about operation had 25% of the respondents who strongly agreed, 45% agreed 5% were not sure, 10% disagreed and 15% strongly disagree. The study also shows that the management of internal audit department, performance of audit work, audit program and audit reporting significantly influence the risk assessment of the quality of the internal control system.

Key words: internal audit practices, financial performance and public entities.

Background of the study

Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals and conducting post investigation fraud audits to identify control breakdowns and establish financial losses (Alex & Kazaara, 2023). Internal auditors are not responsible for execution of company activities; they advise management and board of directors (or similar oversight body) regarding how to execute their responsibilities better. As a result of their broad scope of involvement, internal auditors may have a variety of higher education and professional background (Alex et al., 2023).

According to Financial Analysis Conceptual Framework, Financial performance is the process of measuring firm's policies and operations in monetary terms in order to evaluate fanatical condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful

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tools for measuring financial performance is ratio or index (Ramadhan et al., 2023). Ratios can be classified into four broad groups on the bases of items used: liquidity ratio, capital structure/ leverage ratio, profitability ratio and activity ratio but these are in private setting (Reid, 2012). Internal auditing is a long-standing function and an effective tool of management in many organizations. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (N. Moses et al., 2022). 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. Internal auditing is catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes (Rashid et al., 2023). With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice.

Statement of the problem

Internal Auditing has become crucial in understanding the accounting maneuvers that have emerged in financial statements (Innocent et al., 2023). This has been compromised of checking accuracy of financial statements, counting assets, prepayment verification and control and reporting to various types of management. Trotman and Trotman (2015) finds out that, internal auditing plays an important role in the disclosure and reporting of greenhouse emissions and energy consumption (K. Moses et al., 2023). 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. 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 Masindi District Local Government (Winny et al., 2023).

Despite the fact that Masindi District Local Government 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 (Kazaara et al., 2023). According to Micha Asiku and Albert Mwesigwa (scorecard report FY 2018/2019), Masindi District Local Government has been subject of poor monitoring of government programs, delayed execution of duties and limited follow up of government programs. Thus, if these issues are not addressed (Wegulo et al., 2023), they will lead to poor service delivery to people of Masindi. Therefore, this study aims at evaluating the role of internal auditing on financial performance at Masindi District Local Government (Racheal et al., 2023).

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Objectives of the study

1. To examine the relationship between risk assessment and financial performance of Masindi District Local Government.
2. To find out the role of quality management on financial performance of Masindi District Local Government.
3. To evaluate the role of internal controls on the financial performance of Masindi District Local Government.

Methodology**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 helped to ensure that the data collected was quantitatively analyzed and descriptively interpreted.

Study population.

The study population comprised of 50 respondents purposively selected from the management and employees of Masindi District Local Government in Uganda.

Sample size.

The sample size of the study was determined according to Slovene's formula of sample determination. Under this, a target population of 50 but was zeroed down to a Sample size of 35 respondents respectively as stated by Slovene's (1978). The Slovene's formula below was used to determine the minimum sample size.

$$n = \frac{N}{1 + \frac{Ne}{2}} = \frac{50}{1 + \frac{50(0.05)}{2}} = 45 \text{ Respondents}$$

n = number of samples
N = total population
e = level of significance 0.05

Table 1: Sample size of Respondents and Sampling Technique.

Respondents	Population size	Sample size	Technique
Staff members	40	37	Simple random

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Auditors	10	08	Purposive sampling
Total	50	45	

Sampling techniques and procedures.

The participants in the study were selected using purposive sampling method and simple random sampling. Purposive sampling was the best because it involves selecting participants that possess the required characteristics and qualities as defined by researcher (Gay, 2016)

Purposive sampling

Purposive sampling, is a form of non-probability sampling in which researchers rely on their own judgment when choosing members of the population to participate in their surveys. It involves choosing the groups that the researcher relies on in his research to interview and fill questionnaires.

Simple random sampling

Random sampling is a part of the sampling technique in which each sample has an equal probability of being chosen. It is done by generating a simple random sample through obtaining an exhaustive list of a large population and then selecting at random a certain number of individuals to compromise a certain sample.

Research collection instruments.**Questionnaire.**

A questionnaire is an instrument used in research that contains closed ended questions with choices that aim at collecting data from participants in the study (Amin 2015). The questionnaire in this research undertaking was used to gather data among the staff of Masindi District Local Government. The researcher distributed 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 using Pearson correlation analysis using the formula below.

Quantitative data analysis.

In analyzing quantitative data, the data was sorted as per its allocated codes and entered into a statistical package known as statistical package for social scientists, (SPSS) to generate both descriptive and inferential statistics that created the mean, mode and median; the variance, standard deviation, frequencies and percentages (Nelson et al., 2022). These was arranged in the table and later explained by the researcher on what they meant as per the set Objectives and their implications in the study, (Oso & Onen, 2018).

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Qualitative data analysis.

Through use of content and thematic analysis, qualitative data was analysed and the findings was 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 will find out to answer the concerns that was raised inform of study objectives and answering research questions.

RESULTS**Table 2: Response on the roles of internal auditing on financial performance.**

Roles of internal audit	Strongly Agree (%)	Agree (%)	Not sure (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Demonstrates accountability in use of public money.	50	20	15	5	10	100
Improves organization performance.	52	13	10	10	5	100
Gains competitive advantage.	40	15	7.5	20	7.5	100
Better service delivered to citizens	37	18	15	10	20	100
Reduces risk of losing funds thus increase profits.	75	10	5	5	5	100

Source: Primary Data (2019)

Results in Table (2) present findings on the respondents about the role of internal auditing on financial performance of MDLG, 50% of the respondents strongly agreed, 20% agreed 15% were not sure, 5% disagreed and 10% strongly disagreed the statement that internal auditing demonstrates accountability in use of public money. Improved organization performance had 52% of the respondents who strongly agreed, 13% agreed, 10% were not sure 10% disagreed and 5% strongly disagreed (Winny et al., 2023).

Gain competitive advantage had 40% of the respondents who strongly agreed, 15% agreed, 7.5 disagreed 20% were not sure and 7.5 strongly disagreed. 35% of the respondents who strongly agreed, 15% were not sure 10% disagreed and 35% strongly disagreed with the statement that internal auditing promotes better services delivered to citizens

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(Collins et al., 2023). Reduce risk of losing funds thus increase profit and 75% of the respondents who strongly agreed, 10% agreed, 5% were not sure, 5% disagreed and 5% strongly disagreed.

Generally, the findings on the roles of internal auditing on financial performance were; it reduced risks of losing funds thus increase profits was most identified by respondents indicated by 85% who agreed with it followed by it demonstrates accountability in use of public money with 70% the respondents who supported it, improved organization performance with 65%, then gains competitive advantages and better service delivered to citizens both had 55% respondents who identified it (Allan et al., 2023). This implies that internal auditing has a role on financial performance of local governments in Uganda.

Role of quality management on financial performance at MDLG.

The second objective of the study was to examine the role of quality management on financial performance at MDLG.

Table 2: Showing response on the roles of internal audit on non-financial. Performance.

Roles of quality management on financial performance.	Strongly Agree (%)	Agree (%)	Not sure (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Ensures effectiveness and extent to which staff of internal audit meets its obligation.	40	30	5	25	5	100
Good public image about company.	50	25	5	12.5	7.5	100
Helps managers in public sector to meet their responsibilities within environment.	35	45	5	10	5	100
Better strategies to improve management.	50	30	5	5	10	100
Helps cut costs operation.	35	30	12.5	2.5	25	100

Source: Primary Data (2019)

Results in table (2) present the responses of respondents on results on the role of internal auditing on non-financial performance at MDLG. Ensures effectiveness and extent to which staff of internal audit meets its obligation

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involved 40% of the respondents who strongly agreed, 30% agreed, 5% the respondents were not sure and strongly disagreed, and 25% respondents disagreed. 50% of the respondents strongly agreed with Good public image about company, 25% agreed, 5% were not sure, 7.5% of the respondents strongly disagreed and 2.5% disagreed (Isaac et al., 2023).

Helps managers in public sector to meet their responsibilities within environment had 35% of the respondents who strongly agreed, 45% agreed, 10% of the respondents disagreed, 5% of the respondents were not sure 5% strongly disagreed (Victoria et al., 2023).

50% of the respondents strongly agreed with better strategies to improve management, 30% agreed, 5% disagreed and 5% of the respondents were not sure and 10% of respondents strongly disagreed. Helps cut costs in operation had 35% respondents who strongly agreed, 30% agreed, 12.5% were not sure, 2.5 respondents disagreed and 25% strongly disagreed (Frank et al., 2023). To sum up the role of quality management on financial performance; statement of better strategies to improve management and it helps managers in public sector to meet their responsibilities within environment where highly supported both with 80%, followed by good image with 75%, then ensures effectiveness and extent to which staff of internal auditing meets its obligation with 70% lastly helps cut costs in operation with 65%.

Table 4: Internal controls on financial performance MDLG

Roles of internal audit controls on financial performance.	Strongly Agree (%)	Agree (%)	Not sure (%)	Disagree (%)	Strongly Disagree (%)	Total (%)
Improvement in the process of stakeholder engagement.	55	25	7.5	0	12.5	100
Conformance reporting requirement	50	27	7.5	2.5	12.5	100
Help in implementing quality assurance.	40	30	10	15	25	100
Identifies those functional and operational areas where management has failed to achieve results.	37	35	12.5	10	0	100
Helps management of the	50	27	13	10	0	100

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organization in its present and future growth.						
Provides advisory services to provide assurance to the CAO about operation.	25	45	5	10	15	100

Source: Primary Data, 2019

The findings in table about the role of internal auditing on managerial performance at MDLG show that improvement in the process of stakeholder engagement had 55% of the respondents who strongly agreed, 25% agreed, 7.5 were not sure, and none of the respondents disagreed while 12.5 strongly disagreed (Innocent et al., 2023).

50% of the respondents strongly agreed with conformance with reporting requirement, 27.5 agreed, 7.5% were not sure, 12.5% strongly disagreed and 2.5% of the respondents disagreed.

Help in implementing quality assurance had 40% of the respondents who strongly disagreed, 32.5% agreed 10% were not sure, 15% of the respondents disagreed and 2.4% of the respondents strongly disagreed. Identifies those functional and operational areas where management has failed to achieve results had 37.5% of the respondents who strongly agreed, 35% agreed, 12.5% were not sure, 15% of the respondents disagreed and none strongly disagreed (Tasha et al., 2023).

50% of the respondents strongly agreed, 27.5% agreed, 12.5% were not sure, 10% disagreed and none of the respondents strongly disagreed with help management of the organization in its present and future growth. Provide advisory services to provide assurance to the CAO about operation had 25% of the respondents who strongly agreed, 45% agreed 5% were not sure, 10% disagreed and 15% strongly disagree (Ronet et al., 2023). In conclusion, the researcher found out that internal controls has roles on financial performance of public entities in Uganda using a case study of MDLG as the following were identified on the statement in the questionnaire; improvement in the process of stakeholder engagement had 80% of respondents who agreed with it, followed by conformance with reporting requirement had 77% respondents who identified it, then helps in implementing quality assurance and provide advisory services to provide assurance to the CAO about operation had 70% of the respondents who accepted both statements, 72% of respondents agreed with the statements (Services et al., 2023), 72% of respondents agreed with the statement that it helps in identifying functional and operational are where management has failed to achieve results intended.

Table 5: Determining the Relationship between internal Auditing and Performance of public entities.

ANOVA

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Model	Sum of squares	Df	Mean square	F	Sig.
Regression	50.087	1	50.087	3.733	.004
Residual	576.913	43	13.417		
Total	627.000	44			

Dependent variable: Performance of Local Governments

Predictors: (Constant), internal auditing

The criteria are that we accept H_0 that there is no significant relationship between internal auditing and performance of local governments in Uganda if the P value is greater than 0.05. since the P value is equal to 0.04 less than 0.05, we reject H_0 and accept H_a that there is a significant relationship between internal auditing and performance of local governments in Uganda.

Table 6: Correlation analysis.

Correlation	X	Y
Person	1	0.75**
Internal correlation		
Auditing sig. (2-tailed)		.004
N	45	45
Pearson	0.75**	1
Performance Correlation		
of MDLG Sig (2-tailed)	.004	
N	45	45

** Correlation is significant at the 0.05

There is a strong positive correlation of 0.75; this means that internal auditing has a strong positive impact on the overall performance of local governments in Uganda.

Regression analysis

Table 7: Regression analysis

Coefficients

Model	Unstandardized Coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		

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(Constant)	50.23	2.018		10.081	.000
Internal Auditing	0.85	0.048	0.352	2.917	.004

Dependent variable: Performance of Local Governments.

Performance = 50.23 + 0.85 Internal Auditing

Interpretations: 50.23 means that without the impact of internal auditing, there is a positive change in the performance of local governments of 50.23 and 0.85 means that a unit change in internal auditing improves the performance of local government by 85% (Nelson et al., 2023).

Conclusion

The study assessed the role of internal auditing on performance of public entities in Uganda a case study of Lwengo District Local Government. It answered three study objectives that included: To find out the role of internal auditing on financial performance, to examine the role of internal auditing on non-financial performance at MDLG and the role of internal auditing on managerial performance at MDLG.

Recommendation

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

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