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**External Audit And Financial Performance Of Organizations, A Case Study Of Centenary Bank,  
Kalungu District.**

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**Abstract**

The purpose of the study was on external audit and financial performance of organizations. It was based on the following study objectives; to evaluate the impact of Audit evidence on the financial performance of centenary bank, to assess the effect of financial reporting transparency on the profitability of centenary bank and to find out the consequences of internal control effectiveness of centenary bank. The study used descriptive approach with correlation design. These were non-experimental that described the characteristics of particular individual or of a group. It dealt with the relationship between variables, testing of hypothesis and development of generalization and use of theories that have universal validity. According to the findings, institutional corrective actions exist in the bank, yet they are insufficient and ineffectual to stop fraud, money laundering, stealing of funds, corrupt practices, and corruption, among other things, despite the outside audit evidence, control effectiveness, financial reporting and transparency, and existence of external control measures. This could be as a result of staff personnel failing to follow the accounting guidelines and accounting procedures or being careless when doing their duties. Furthermore, a strong audit committee should be established, training of external auditors should be done, the capacity of the internal auditors should be increased, even if more are recruited from college graduates, the reports of the external auditors should be sent to the shareholder board and an audit committee, other than the supervising.

**Keywords: External Audit, Financial Performance and Organizations**

**Background of the study**

Centenary Bank was a prominent financial institution in Uganda with a widespread presence in both urban and rural areas. It has become the focus of various research studies due to its role in providing financial services to underserved communities (Akankwasa et al., 2022). External audits, which were an independent evaluation of a bank's financial statements, are a crucial aspect of ensuring transparency and accountability in the banking sector (Ivan et al., 2023b). Research on the external audit and financial performance of Centenary Bank, focusing on a specific case study in Kalungu District, provides valuable insights into the effectiveness of audit practices in the context of a developing nation's banking industry (Innocent et al., 2023). In Ghana, the relationship between external audit and bank financial performance is very important given the unique challenges and opportunities facing the continent's banking sector. Centenary Bank, as a leading financial institution in Uganda, presents an interesting case study (Alex et al., 2023). Africa is witnessing a growing emphasis on financial sector development, with banks such as Centenary playing a vital role in promoting economic growth and financial inclusion (Moses et al., 2023). Against the background of the economic and regulatory complexities specific to the region, research on the impact of external audit on the financial performance of Centenary Bank can shed light on how audit practices affect the stability and growth of African financial institutions (David et al., 2023).

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In Tanzania, where Centenary Bank operates, research into the relationship between external audit and the financial performance of organizations such as Centenary Bank is of paramount importance. Tanzania is experiencing significant economic growth and a dynamic financial services sector (Frank et al., 2023). As these areas continue to develop, there is a growing need for strong financial institutions to support the region's economic activities. External audits play a vital role in ensuring transparency and accountability of financial institutions (Moses et al., 2023). In East Africa, where regulatory and governance frameworks are evolving, understanding how external audits impact Centenary Bank's financial performance can shed light on the broader regional financial environment.

Centenary Bank, a leading financial institution in Uganda, has long been a subject of research interest, particularly in relation to external auditing and its impact on financial performance. Established in 1983, the bank has played a vital role in the economic development and financial stability of the country (Kinyata & Abiodun, 2020). As one of the leading commercial banks in Uganda, it faced the same challenges and opportunities that financial institutions in emerging economies often face. The focus on external audit in the context of Centenary Bank is not only crucial for the bank itself, but also for the wider national financial environment (Racheal et al., 2023). The researchers acknowledged that understanding the relationship between external audit practices and bank financial performance can shed light on the effectiveness of regulatory mechanisms in the Ugandan banking sector.

In Uganda, research on Centenary Bank's external audit and financial performance contributes to the broader discourse on financial accountability, transparency and compliance in the Ugandan banking industry (Akankwasa et al., 2022). Findings from such research can be helpful in shaping policies and guidelines for auditing practices and financial reporting in a country. In addition, the results of this research may affect the confidence of the general public and investors in the financial sector, which will ultimately affect economic stability and growth at the national level. As Uganda continues to pursue economic development, understanding how external audits affect the financial performance of key institutions such as Centenary Bank is a critical area of study with direct implications for the country's financial resilience and competitiveness (Turyatamba et al., 2022). Centennial Bank operates several branches and service points in the district serving both urban and rural communities. Because of its importance, the financial performance of Centenary Bank is of considerable importance to the economic stability of the district. The external audit and financial performance research of Centenary Bank in Kalungu District aims to assess the financial health of the bank and its impact on the local economy (Musaibah et al., 2023). This study could clarify how the bank's operations affect the economic development of the district and offer insight into the effectiveness of external audits in ensuring financial transparency and accountability.

#### **Statement of the problem**

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The current business environment and the more recent economic recession has made the top management of many organizations pay attention to how to make their company's financial statements look better to attract investors by manipulating the data in their financial statements by either increasing or decreasing the numbers depending on what they want to achieve at a given moment through aggressive or creative accounting, otherwise known as financial statement fraud (Ivan et al., 2023a). In recent times, fraud has been identified as a major threat to financial institutions. Nowadays, fraud has become commonplace in most institutions because of the way it spreads, and auditors' inability to prevent and detect it has made conventional audits and investigations fruitless (Moses et al., 2023). The failure of both internal and external audit to prevent and detect fraud in financial institutions has led to the use of external auditors as a fraud detection option. The Center for External Studies (2023) stated that only an external audit that is well applied can possibly be used to change the trend of leakages that led to failure (Ivan et al., 2023b) stated that exceeding audit standards was found that although While the efforts of audit regulators in the fight against fraud are undeniable, little attention has been paid to the responsibility of external auditors, especially in addressing the root cause of financial irregularities and implementing proactive measures to prevent such cases (Alex & Kazaara, 2023). A more comprehensive approach is needed that goes beyond mere compliance and focuses on the effectiveness and strategic impact of external audits in supporting financial stability and integrity within organizations.

#### **Purpose of study**

The main purpose of this study was to bridge the knowledge gap generally new ideas and validate other researcher's findings through examining the impact of External audit and financial performance of centenary bank. A case study of Kalungu District.

#### **Specific objectives of the study**

1. To evaluate the impact of Audit evidence on the financial performance of centenary bank
2. To assess the effect of financial reporting transparency on the profitability of centenary bank.
3. To find out the consequences of internal control effectiveness of centenary bank.

#### **Methodology**

The survey method was selected for the purpose of this study in order to collect a sufficient amount of primary data, and it is questionnaire method (Nafiu et al., 2012). Questionnaire method is the most widely used data collection technique in the survey (A & Ahmed, 2019). The study used descriptive approach with correlation design. These were non-experimental that described the characteristics of particular individual or of a group. It dealt with the relationship between variables, testing of hypothesis and development of generalization and use of theories that have universal validity (A & Ahmed, 2019). This research approach is used in describing variables that is measured in qualitative terms like the respondents' opinions, attitudes and reactions to working capital practices (Jallow et al., 2022). The target population included 1 proprietor, 15 finance officers, 2 managers, 18 workers and this sum up to 36 people from each department or management (Maiga et al., 2021). In view of the nature of the target population where both managers and appropriator were concerned. A sample is to be taken from each category (Nafiu et al., 2013). The Slovenes formula below is used to determine the minimum sample size.

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$$n = N / 1 + N(e)^2$$

Where n= sample size

e= margin of error desired

N= population size

This study employed a non-probability sampling technique in respondent's section (Nafiu et al., 2017). The technic purposive based on different criteria amongst the following; qualifications, area of specialization, duration in service, training acquired and frequency of training (Lu et al., 2013). The frequency of percentage distribution was used to determine the demographic characteristics of respondents. The mean item analysis was used to evaluate the level of the role of external auditing based on indicators of strength and weakness (Jallow et al., 2021). A multiple correlation coefficient to test the hypothesis on correlation at 0.05 level of significance using t-test was employed (Olanrewaju et al., 2021). Data was analyzed in form tables, frequencies and percentages using SPSS & STATA (Nelson et al., 2022).

## RESULTS

### Findings on the audit evidence on the performance of centenary Bank.

Tables 1. showing the findings

|                                                   | ranking | 1  | 2 | 3  | 4  | 5  |       |
|---------------------------------------------------|---------|----|---|----|----|----|-------|
| Statement                                         |         | SD | D | U  | A  | SA | Total |
| Void manipulation of accounts                     | Freq    | 2  | 0 | 0  | 10 | 7  | 19    |
|                                                   | %       | 11 | 0 | 0  | 53 | 37 | 100   |
| Guards against improper use of assets             | Freq    | 1  | 1 | 4  | 6  | 7  | 19    |
|                                                   | %       | 5  | 5 | 21 | 32 | 37 | 100   |
| Measures proper recording and valuation of Assets | Freq    | 0  | 1 | 3  | 9  | 6  | 19    |
|                                                   | %       | 0  | 5 | 16 | 47 | 32 | 100   |
| Ensure arithmetic accuracy of the accounts        | freq    | 0  | 0 | 1  | 12 | 6  | 19    |
|                                                   | %       | 0  | 0 | 5  | 63 | 32 | 100   |

|                                                          |      |   |   |    |    |    |     |
|----------------------------------------------------------|------|---|---|----|----|----|-----|
| Detects frauds and errors if any in financial statements | freq | 0 | 0 | 2  | 10 | 8  | 19  |
|                                                          | %    | 0 | 0 | 11 | 53 | 42 | 100 |

|                           |      |   |   |    |    |    |     |
|---------------------------|------|---|---|----|----|----|-----|
| Total number of responses | freq | 3 | 9 | 18 | 83 | 61 | 174 |
|---------------------------|------|---|---|----|----|----|-----|

|                         |   |   |   |    |    |    |     |
|-------------------------|---|---|---|----|----|----|-----|
| Percentage of responses | % | 2 | 5 | 10 | 48 | 35 | 100 |
|-------------------------|---|---|---|----|----|----|-----|

**Data source: Primary data.**

According to the above figures, responses on audit evidence and performance the bank were, 48% conceded/agreed with a frequency of 83, 35% strongly agreed with a frequency of 61, 10% were uncertain with a frequency of 18, 5% disagreed with a frequency of 9 and 2% strongly disagreed with a frequency of 3 hence stipulating a total frequency of 174.

**Table 2: shows the finding on Internal control effectiveness on the Performance of centenary bank.**

| Statement                                                                       | Ranking | 1 | 2 | 3 | 4  | 5  | Total |
|---------------------------------------------------------------------------------|---------|---|---|---|----|----|-------|
|                                                                                 |         | S | D | U | A  | SA |       |
| Enables the bank to carry out its activities in an orderly and efficient manner | Freq    | 1 | 0 | 1 | 9  | 8  | 19    |
|                                                                                 | %       | 5 | 0 | 5 | 47 | 42 | 100   |

|                                         |      |   |   |   |    |     |
|-----------------------------------------|------|---|---|---|----|-----|
| Ensures adherence to management polices | Freq | 0 | 0 | 1 | 12 | 19  |
|                                         | %    | 0 | 0 | 5 | 63 | 100 |

|                                    |      |   |   |    |    |     |
|------------------------------------|------|---|---|----|----|-----|
| Safeguards the organization assets | Freq | 1 | 1 | 14 | 4  | 19  |
|                                    | %    | 5 | 5 | 74 | 21 | 100 |

**Data source: Primary data.**

According to the above table, the responses on internal control effectiveness on the performance of the bank were, 53% of the respondents with a frequency of 71 agreed, 30% with a frequency of 40 strongly agreed, 10%

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with a frequency of 13 were uncertain, 4% with a frequency of 5 disagreed and 3% with a frequency of 4 strongly disagreed. This implies that internal control is of great effect on the performance of the bank.

**Table 3: Illustration of the responses on the effect of financial reporting transparency on the profitability of centenary bank.**

|       | RESPONSE               | FREQUNCE | PERCENTAGE |
|-------|------------------------|----------|------------|
| 1     | Strongly Disagree (SD) | 5        | 16.7%      |
| 2     | Disagree (D)           | 6        | 20%        |
| 3     | Uncertain (U)          | 8        | 26.6%      |
| 4     | Agree (A)              | 5        | 16.7%      |
| 5     | Strongly Agree (SA)    | 6        | 20%        |
| TOTAL |                        | 30       | 100%       |

From table 3, 26 .6% of the respondents were uncertain about the effect of financial reporting transparency on the profitability of the bank, these were the majority of the respondents with a frequency of 8. These were followed by those who both disagreed and strongly agreed with a percentage of 21%, their frequency was 6 respondents, and 16% of the respondents strongly disagreed and agreed and this shows that respondents who were uncertain strongly affected the profitability of the bank

#### **Discussion of the findings.**

The findings on sex of the respondents revealed that, 67% of the respondents were of male sex, and 33% were female. This implied that the bank employed more male staff than the female; this was because male staffs were regarded to be more productive than female.

The results showed that, 13% of the respondents were between the age group of 20-25, 20% were in the age bracket of 25-30 years, 40% belonged to the age bracket of 30-35, while 10% of the respondents were between the age of 30-35 years and 17% belonged to the age bracket of 40 and above years.

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The majority 73.3 of the respondents of centenary bank were married staffs. This implied that married staffs were more responsible and devoted at work than the unmarried.

The findings reflected that 26.6% of the respondents were Degree holders, 53.3% were Diploma holders and 20% of the respondents had other qualifications

The study results on the audit evidence from table 4.5 showed that, 48% conceded/agreed with a frequency of 83, 35% strongly agreed with a frequency of 61, 10% were uncertain with a frequency of 18, 5% disagreed with a frequency of 9 and 2% strongly disagreed with a frequency of 3 hence stipulating a total frequency of 174.

The findings on the effect of internal control from table 4.6 revealed that, 53% of the respondents with a frequency of 71 agreed, 30% with a frequency of 40 strongly agreed, 10% with a frequency of 13 were uncertain, 4% with a frequency of 5 disagreed and 3% with a frequency of 4 strongly disagreed.

From table 3, 26.6% of the respondents were uncertain about the effect of financial reporting transparency on the profitability of the bank, these were the majority of the respondents with a frequency of 8. These were followed by those who both disagreed and strongly agreed with a percentage of 21%, their frequency was 6 respondents, and 16% of the respondents strongly disagreed and agreed and this shows that respondents who were uncertain strongly affected the profitability of the bank

### **Conclusion**

The majority of the respondents agreed on the statements of audit evidence therefore, this implies that audit evidence has a great impact on profitability of centenary bank.

According to the results for the findings on the effect of internal control, there a strong impact on the profitability of centenary bank that exist due to enacting of internal control in the bank. This is because majority of the respondent agreed on the matter.

There is a less influence on the profitability of centenary bank that is realized from putting in place the financial reporting transparency practices in the activities of the bank.

### **Recommendations**

The study recommends that centenary bank should fully reconcile their accounts more frequently in order to reduce the cases of more incidences of frauds. The study also recommends that centenary bank should put in place stronger financial governance control measures through more frequent meetings among the members of the risk management committee and also finance and investment committee. Another recommendation made by the study is that centenary bank should reduce the variances in budgets through better reporting and budgetary control measures as it will reduce cases of frauds.

Top management should give input for external audit planning in money transfer in the bank. To improve assurance of financial reporting, internal auditing could employ the self-assessment questionnaire technique to staff in order to detect areas of failed controls as a result assure management and the board that systems are effective.

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