

The Impact Of Auditing On Financial Performance Of An Organization. A Case Study Of Kasese Municipal Council

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Abstract

This study focused on the impact of auditing on the financial performance of kasese municipal council. In this study auditing was the independent variable and financial performance (measured by the revenue growth, profitability, liquidity & solvency factors) was the dependent variable. Primary data and secondary data sources were used. Quantitative methods were used to collect and analyze the data. The study objectives included: To investigate how Auditing affect, the financial performance of kasese Municipal Council, to examine the relationship between Auditing and financial performance of kasese Municipal Council and to establish the contribution of Auditing towards the financial performance of kasese Municipal Council. The quantitative methods like questionnaires were used. The research findings shown by correlation analysis generally indicated that there was a significant positive relationship between the auditing measures and the financial performance ($r > .6$; $p = .000$ in all cases). Regression models also indicated that auditing (independent variable) was a better predictor of the variation in the financial performance (dependent variable). The researcher recommended further research into other factors that affect financial performance of kasese municipal council since the regression analysis indicated that only 60.0% variation in the financial performance was accounted for by the independent variable.

Keywords: Auditing, Financial, Performance and Organization

Background of the study

Many organizations now use audit practice because today it is a major factor in creating the quality of an organization's internal control system (Alex & Kazaara, 2023). The organization is also trying to implement more effective management structures and processes. (Innocent et al., 2023). In such a climate, it is no surprise that the audit function is seen as the most qualified group of professionals to assist in such experimentation with better management, as well as supporting the key management of these management strategies and initiatives. (Christopher, 2022) However, to take advantage of this huge increase in demand for their services, private company auditors not only need to commensurately raise their organizational status and profile and integrate appropriately with their respective organizations (Innocent et al., 2023) The audit team was to monitor compliance policies and standards and the effectiveness of the internal control structure throughout the organization. The work was focused on areas of high risk as determined by the risk assessment approach (Kazaara & Christopher, 2023)

In Uganda, factors responsible for poor corporate performance, especially in banks and schools, stem from audit issues such as lack of transparency, accountability and poor ethical behavior (Moses et al., 2023). The audit department is established with the aim of positively influencing management. For an organization to function effectively and efficiently, internal controls must be in place, which requires a strong internal control function within the organization (Julius, 2024). If the audit department works well, then in most cases the profits were high. and has been awarded value for money in terms of economy, efficiency and expediency. Value for money means that efforts must be made to ensure that available

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funds are spent on the provision of goods and services in a way that maximizes the benefit to the users of the services and goods. But if the internal audit department does not work well, then in most cases the profits were low and there was no value for money (Annet et al., 2023). According to the investigation attached to the Municipal Council of Kasese including, which took effect on July 1, 2010 to control the operations of the Municipal Council of Kasese. Despite the audit, which has been carried out regularly for a number of years since the beginning of the Municipal Cashier's office in order to improve the financial performance of the organization in relation to the selected financial resources, the Municipal Cashier (Alex & Kazaara , 2023).

Statement of the problem.

For the past two decades, organizations have been reported as being associated with embezzlement. Audit has come under enhanced security as its role in monitoring the implementation of audit recommendations has been increasingly recognized (Innocent et al., 2023). As such, the city council department of kasese burdened with a heavy financial burden cannot afford to continue losing most of its funds to fraud and embezzlement (Ivan et al., 2023), this requires proper accountability and effective functioning of the private apparatus established to exclude control over private funds (Edgar & Moses , 2023a). Kasese Town Council was visited by the House Anti-Corruption Unit in July 2023 following a corruption scandal (Margaret & Kazaara, 2024). The audit problem concerns both management and the audit department as well as the board of directors. Therefore, we need to discuss to find a solution. In terms of misconceptions, embezzlement, misappropriation and insincerity, these organizations do not perform well due to insufficient auditing, lack of information in the organization hinders the effectiveness of the audit board, inadequate payment of salaries and remuneration of workers in the organization causes fraud, embezzlement and misappropriation of funds by the board, poor the communication existing between management and the audit unit causes a lack of internal control (Alex & Kazaara, 2023). Among other issues, this research work was intensively conducted as part of my effort to find out through methodology and study design whether auditing is a tool to ensure whether the impact of auditing is positive or negative. I believe that this research work was not only to solve the problems but also to highlight the main functions of audit and useful suggestions.

Specific objectives.

1. To investigate how Auditing affect, the financial performance of kasese Municipal Council.
2. To examine the relationship between Auditing and financial performance of kasese Municipal Council.
3. To establish the contribution of Auditing towards the financial performance of kasese Municipal Council.

Methodology

This research used a descriptive research design because it was a method that allowed the researcher to examine the data in detail in a specific context by relying on qualitative data and emphasizing the use of results for insight into problem solving and evaluation strategies (Anwar et al. , 2022). In this study, the target population was the general staff of Kasese Municipal Council. The study was limited to the purchasing, human resources, statistics and finance department of the organization which was selected during the study process in kasese town council (Nafiu, 2012). These categories of respondents were considered due to their relevance and knowledge of the impact of financial accounting audit on the organizational performance of the Kasese Municipal Authority (Nafiu et al., 2013).

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Aczel was satisfied that a sample larger than 30 was good for improving estimates of population parameter values from sample statistics. Additionally, Babbie (2004) considered a sample size of at least 100 to be quite sufficient in many research situations. Mimicking sample sizes from successful researchers conducted on subjects similar to this study, a total of 60 respondents were taken, all of whom are employees of Kasese town council at various levels (A & Ahmed, 2019)

The questionnaire instrument had a closed nature and was self-administered, when the researcher had to fill out a questionnaire in the field of study according to the respondent's answers. This tool was used to collect information from non-supervisors (Olanrewaju et al., 2021). The questionnaire method of data collection consists in the fact that the researcher orally asks questions about the research topic being conducted and the respondent orally answers the question. This method was used because it is inexpensive, collects responses with a minimum of errors and a high degree of confidentiality (Nafiu et al., 2012).

This research used self-administered questionnaires. These were distributed among the employees in their respective departments. The reason for using this tool is that the questionnaires could be easily quantified and analyzed. Additionally, questionnaires were used because the study focused on respondents' opinions, attitudes, feelings and perceptions (Nafiu et al., 2012).

The responses from the questionnaires were edited, coded and entered into the computer to derive meaning and were analyzed in the form of tables, frequencies and percentages using SPSS & STATA (Nelson et al., 2022).

RESULTS

Table : Showing respondents perceptions about internal control system.

Perceptions	Frequency	Percentage
Measures put in place to control mismanagement of items	23	38
Monitoring system that takes place in the organization	18	30
Policies used by an entity to achieve its mission, vision and objectives	19	32
Total	60	100

Source: Field Data, 2024

From the table 1 above, shows that most of the respondents 38% understood internal control systems as the measures put in place to control mismanagement of items. In relation to the Kasese Municipal Council, it meant that the employees have to designed measures in the control of the Kasese Municipal council assets. This could imply that many ways of managing its assets have to develop different strategic measures and communicate them to all employees (Kazaara & Kazaara, 2023).

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Other respondents constituting 32% understood internal control systems as monitoring system that takes place in the organization. This implied that Kasese Municipal council was monitoring its employees in the process of doing the Uganda image. Respondents said that heads of departments supervisors are responsible for monitoring all the activities done by the employee under their supervision (Faith, Kalikola, Kazaara, et al., 2023).

In addition, 30% reported of understanding internal control systems as policies used by an entity to achieve its mission, vision and objectives. Blue prints citing the Kasese municipal council mission, vision and objectives that could help the staff in the process of undertaking the Organization activities.

Table 2: Showing responses on if there are internal control systems in place

Response	Frequency	Percent	Cumulative percent
Yes	60	100	100
No	00	00	
Total	60	100	

Source: Field data, 2024

From table 2 above, according to the study findings as in table 10, all the respondents 100% revealed that there were internal control systems at Kasese Municipal council. Regarding the internal control systems at Kasese Municipal council the study respondents indicated checking the goods entering the Kasese Municipal Council it was revealed by the respondents that goods especially those purchased are checked before they are put to store (Wegulo et al., 2023). Respondents said that the store keeper records all the goods that are brought to be kept and even those leaving Kasese Municipal Council stores for proper accountability to reduce of the demand disparities.

The study also showed checking of people at the building entrance among the controls used by the Kasese Municipal council. It was established by the study that security unit is responsible for checking all the people who come for services. Checking of people at the entrance of the Municipal premises to protect the destruction of the assets by people with bad intentions. It was also revealed by the study that cameras are also put in different parts of the Municipal council to help capture thieves by the help of individual monitoring (Faith, Kalikola, Ariyo, et al., 2023).

Findings on the effectiveness of internal controls used in Kasese Municipal council.

Table 3: Responses on whether there are adequate asset listings done by management.

Response	Frequency	Percent	Cumulative percent
Strongly agree	28	47	47
Agree	24	40	87
Not sure	1	2	89
Disagree	5	8	97
Strongly disagree	2	3	100
Total	60	100.0	

Source: Field Data, 2024

From table 3, results in table above show that 47% Of the respondents strongly agreed that there are adequate asset listings done by management, 40% agreed, 2% were not sure, 8% disagreed and 3% strongly disagreed. Majority of the respondents were in disagreement and this implies that there are inadequate asset listings done by management of Kasese Municipal Council.

Table 4: Responses on whether procedures in place ensure asset additions, disposal, replacement and transfer for prosper accountability.

Response	Frequency	Percent	Cumulative Percent
Strongly agree	29	48	48
Agree	17	28	76
Not sure	1	2	78
Disagree	6	10	88
Strongly disagree	7	12	100
Total	60	100	

Source: Field Data, 2024

From table 4 above, results in table above show that 48% of the respondents strongly agreed that procedures in place ensure asset additions, disposal, replacement and transfers for proper accountability, 28% agreed, 2% were not sure, 10% disagreed and 12% strongly disagreed.

Majority of the respondents strongly agreed and this implies that procedures in place do ensure asset additions, disposal, replacement and transfers for proper accountability in the organization.

Table 5: Responses on whether capital assets purchased are approved by appropriate level of management

Response	Frequency	Percent	Cumulative Percent
Strongly agree	37	62	66
Agree	23	38	100
Total	60	100	

Source: Field Data, 2024

From table 5 above, results in table above indicate that 62% of the respondents strongly agreed that capital assets purchased are approved by appropriate level of management and 38% agreed and this implies that capital assets purchased are approved by appropriate level of management.

Table 6. responses on whether asset numbering is done to show location and protection of the assets

response	frequency	percent	Cumulative percentage
agreed	38	63	63
disagreed	22	37	100
	60	100	

Source. Field data, 2024

From table 6 above, results show that 63% of the respondents agreed that asset numbering is done to show location and protection of assets and 37% disagreed.

Table 7. responses on whether there is free access to cheque books and organization assets.

responses	frequency	percent	Cumulative percent
Strongly agreed	13	22	22
agreed	6	10	32
Strongly disagreed	12	20	52
disagree	29	48	100
total	60	100	

Source field data, 2024

From the above table, 7 above, results in table above indicate that 48% of respondents disagreed that there is free access to cheque books and organization assets.20% strongly disagreed,10% agreed and 22% strongly disagreed. This implies that there is limited access of cheque books and organization assets.

Table 8. Responses on whether a person responsible for inventory management is different from the bookkeeper

responses	frequency	percent	Cumulative percentage
agree	57	95	95
disagree	3	5	100
total	60	100	

Source field date, 2024

From the table above 8, 5% of respondents disagree and 95% of respondents agree that a person responsible form inventory is different from the book keeper at kasese municipal council.

Table 9. Responses on whether stock taking is done following the procedures and in the presence of internal auditor.

responses	frequency	percent	Cumulative percent
agree	28	47	47
disagree	32	53	100
total	60	100	

Source field data,2024

From table 9 above shows that 47% of the respondents agree and 53% of respondents disagree that stock taking is not done following the procedures and in the presence of internal auditor.

Table 10. responses on whether the petty cashier is different from the main cashier

response	frequency	percent	Cumulative percent
Strongly agree	14	23	23
agree	10	17	40
Strongly disagree	24	40	80
disagree	12	20	100
total	60	100	

Source field data, 2024

From the table above 10 above 23% of respondents strongly agree, 17% agree, 40% strongly disagree and 20% disagree. this implies that the petty cashier and the main cashier are not the same at kasese municipal council

Table 11. Responses on whether there are adequate policies to ensure effective collection and following ups of due accounts.

responses	frequent	percent	Cumulative percent
Strongly agree	27	45	45
agree	17	28	73
Strongly disagree	6	10	83
disagree	10	17	100
total	60	100	

Source field data, 2024

From table above 11, 10% strongly disagree, 17% disagree, 28% agree and 45% of the respondents strongly agree that there are adequate policies to ensure effective collection and following ups of due accounts.

The importance of auditing in the financial performance of kasese municipal council.**Meaning of auditing**

During the research study, the researcher felt it imperative to generate various perceptions of respondents about the internal as a key variable of the study. The findings revealed the following;

Majority of respondents 40(67%) indicated that the auditing referred to an independent consultancy aimed at improving the efficiency of an organization (Moses et al., 2023). Other respondents 15(25%) understood internal audit as any activity with the objectives of bringing a systematic design approach to evaluate and improve the effectiveness of risk management.

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The remaining respondents 5(8%) asserted that internal audit is simply any activity designed to improve an organization operation.

Respondents responses on whether they have ever heard of misappropriated private organization funds.

Respondents who were mainly from the general private organization were interviewed on whether they have ever heard of any misappropriated funds that was meant to benefit them in the area. To this more than three quarters of the total respondents from the general private 34(57%) answered NO while the other 6(10%) said YES. Therefore, those who had never heard of any misappropriated funds were the majority an indication that private funds were being put to the designed activities (Edgar & Moses, 2023b).

In relation to the above, those who answered YES were asked on how they came to know about the misappropriated funds in the area and they all say they heard through the press following internal auditor's reports. However, those answered NO advanced several reasons as to why their leaders and other people in authority have effectively used private funds. They include; fear of some employees to be sucked, fear for some politicians to be pointed out by their opponents and above all a vibrant audit system which has designed good strategies for auditors in auditing.

Importance of internal audit in the accountability of private sectors funds in Uganda governments.

The first objective of the study was to establish the role of internal audit in the accountability of organizations funds at kasese municipal council. This research study established that internal audit had great linkage with ensuring transparency and accountability with private offices. Most respondents credited internal audit for a positive transformation and fight against misuse of offices as well as organization funds as shown in the table below.

Conclusions

The study concludes that there are a number of internal control systems for example checking of goods ,people at the building entrance frequent supervision of municipal activities, writing of reports concerning all that has been done under departments ,use of recording system , internal audit system, training and workshop programs to the organization employees, screening of positive employees in addition to the use of budgetary and financial controls at kasese municipal council.

In general, the study concludes that there is a relationship between internal audit function and financial performance of the organization. As majority of study respondents concluded that the relationship was existing between the two variables of internal function and financial performance of the organization.

Recommendations

Basing on the study findings as well as study conclusions, the researcher recommends the following;

The study recommends the organization to always do book keeping and auditing of their creditors in order to improve on their financial performance. This can be done through developing the skills of double entries in their business as well as employing of internal auditors in their day to day activities for improved financial performance in kasese municipal council. The study also recommends human resource in an organization always conceives and adheres to the internal audit functions in a positive way as it's communicated by the workers and follows their contents in the day to day running of the

organization activities. By doing this, negative attitude of the human resource in such business was reduced that resulted into high level of financial performance in terms of profitability level.

The company should employ skilled and competent professional internal auditors to strengthen the internal controls and minimize on fraud. This yielded high profits. With efficient internal controls, cases of fraud, embezzlement and cash mismanagement was controlled hence supplementing on the level of profits in the company.

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