THE EFFECT OF INTERNAL AUDITING ON ORGANIZATIONAL PERFORMANCE CASE STUDY: UAP INSURANCE – UGANDA.

BY

GUNDA MIRIAM SHINGIRAI

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A RESEARCH REPORT PRESENTED TO THE FACULTY OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT FOR THE AWARD OF BACHELORS DEGREE OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

AUG 2009
DECLARATION

I, GUNDA MIRIAM SHINGIRAI, do hereby declare that this research proposal is my original work and has never been submitted to any university or college for any award. Where the works of others have been cited acknowledgement has been made.

Signature.................................................................

GUNDA MIRIAM SHINGIRAI

Date.................................................................

29th July 2009
APPROVAL

I, certify that the research proposal submitted by the candidate was done under my supervision. Her work is ready for submission for the award of the degree of Bachelor of Business Administration.

SIGNATURE

MR BALIRUNO JOHN BAPTIST:

Date: 29/07/07
DEDICATION

I dedicate this work to my children Wayne Kamau and Walter Thuku Kimathi, Oliver Kimathi Kamau, my parents Mr. and Mrs. Isaac Gunda, my siblings Ruth, Tanaka and Josphat my family in Kenya who have always seen potential in me and gave me guidance through writing this project and to all my friend who offered me their support.
ACKNOWLEDGEMENT

I would like to thank God for his blessings every single day of my life in all I do.

I would like to thank my supervisor Mr. Baliruno John Baptist for his support and guidance while writing this project.

My deepest gratitude goes to Mr. Kamau Oliver Kimathi for guiding me, giving me ideas and always believing in me.

My sincere gratitude goes to the employees and management of UAP insurance from where I collected the data. I thank them for the support and advise they gave me.

Last but not least I thank my family and friends for the financial and most importantly moral support they gave me while writing this project.

God Bless.
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<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountants</td>
</tr>
<tr>
<td>UAP</td>
<td>United Assurance Provincial</td>
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CHAPTER ONE

1.0 Introduction

This chapter gives a concrete foundation of the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study, significance of the study and structure of the report.

1.1 Background to the Study

The role of Internal auditing in organizations is now, more than ever, an important aspect in assisting management and the Board to effectively discharge their duties as it is the Board’s responsibility to set policies, and the auditor’s role to independently and objectively analyze, review, and evaluate existing procedures and activities, to report on conditions, and to recommend changes for consideration. To this end, internal auditing furnishes analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations’. It helps an organization to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, (The accountants’ news letter, 2006). Internal auditors are employed extensively by government and non-profit organizations. The principal goal of internal auditors is to evaluate processes that are in place to identify any weaknesses in internal control that might lend themselves to undetected wrongdoing and report such weaknesses to management for corrective action. (MOSERS’ News letter, 2005)

Organizations with strong internal audit department have good risk management and governance processes that monitor risk proactively. However, Benson (2007), noted that some organizations still fail to monitor risk effectively either because they are not watching the right metrics, the reporting is not accurate, or the right people are not
receiving well-balanced reports which impacts activities of organization negatively, which affects their performance.

In Uganda today, the internal auditing departments of many organizations are not being very effective in carrying out their tasks. There is poor time management of employees at work and at times some do not show up at all. There is also scarcity of human resource and this greatly affects the operations of businesses since the employees will be faced with a heavy work load. At times the employees are not qualified and this greatly hinders the organizations success. There has also been a lot of grumbling amongst the employees concerning the disbursement of funds. At times the funds may go missing thus affecting the performance of the operations.

UAP Insurance Uganda Limited is a symbol of success in indigenous investment. The Company which started in 1971 as a creation of 4 people has over the years evolved into a modern institution which stands as the most capitalized and largest privately owned insurance company in Ugandan market today. UAP Insurance Uganda limited as a major player in the development of Uganda's economy, has built up a solid base in Fixed Assets totaling over Ushs.14 Billion. This foundation, coupled with a wealth of technical expertise in our Management team, provides backing to the company's outstanding record in claims settlement; making us the Insurance Company of choice in Uganda today. It offers a large number of insurance policies which include fire and special perils, fidelity guarantee, motor comprehensive, public liability, money cash-in transit, all risks and group and individual life policies. They enjoy a superb relationship with all the top international re-insurers. Their Treaty and Facultative arrangements are the best in the industry. UAP is a large firm and makes use of internal auditing in their organization.

1.2 Statement of the Problem

Despite efforts by many organizations to establish an internal auditing structure, the performance and success of some organizations was still questionable. Failure to emphasize internal auditing has led to increased rate of late coming to offices, delay in completion of assigned tasks and responsibilities, errors and misstatements in the accounts, and misappropriation of organization’s resources in form of purchase or
payment of items such as private mortgages and loans, unauthorized salaries and benefits, financing of personal automobiles, unauthorized travel, and miscellaneous personal items. (MOSERS’ News letter, 2005)

1.3 Purpose of the Study

The purpose of the study was to examine the relationship between internal auditing and performance of organizations.

1.4 Research Objectives

- To establish the nature of internal auditing in organizations.
- To examine the factors affecting performance within organizations.
- To establish the relationship between internal auditing and performance of an organization.

1.5 Research Questions

- What is the nature of internal auditing in organizations?
- What factors affect performance of an organization?
- What is the relationship between internal auditing and performance of an organization?

1.6 Scope of the Study

The study focused on internal auditing employed by UAP Insurance and its relationship to performance of organizations which was measured in terms of quantity of output, quality of output, timeliness of output, presence at work and cooperativeness.
1.7 Significance of the Study

- The findings will benefit business society in general as Managers will be able to know how best they can achieve organizational objectives and how to minimize errors and fraud.

- Students and scholars may utilize the research findings to build on their knowledge in areas discussed and may use research report as a source for secondary data.

- Provide data for policy makers that may assist towards formulating appropriate environment to enlighten people about having the right context and philosophy when evaluating role of internal audit.

- The study will equip the researcher with improved research skills that will be of great help in the future.

- It is also partial fulfillment for the award in business administration I Kampala International University.

- It also adds to the existing body of knowledge.
For the purpose of this research the independent variable was internal auditing and the dependant variable leads to organizational performance. The intervening variables include culture temporal flexibility and innovation and continuous self improvement. Internal auditing has an impact on organizational performance. The intervening variables work with the dependant variables and also have an impact in organizational performance.
1.9 Structure of Report

The research report was organized in five major chapters.

Chapter one covers the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope and significance of the study, the structure of the report and a few definitions of terms used. Chapter two covers methodology, research design, data sources and types, data collection methods, data processing and analysis, limitation and solutions to the limitations. Chapter three looks at literature review on internal auditing, performance of organizations. Chapter four includes the analysis of the study, interpretation and discussion of the findings which was done in respect to the specific objectives and research questions. And finally Chapter five covers the conclusions and recommendations made by the researcher.
2.0 Introduction

This section reviewed the existing literature regarding the relationship between internal auditing and performance of organizations.

2.1 Definition of Key Terms

**Internal Auditing**

Drent (2002) defines Internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. He further adds that 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 processes.

According to Institute of Internal Auditors (1993), internal auditing is an independent appraisal function established within the organization to examine and evaluate its activities as a service to the organization.

In June 1999, the IIA adopted a new definition of internal auditing. Under the old definition, the purpose of internal auditing was to 'examine and evaluate'. Under the new definition it is to 'add value and improve'. This is clearly broader and more inclusive.

**Performance**

According to Robert L. et al (2000), performance is defined as what an employee does or does not do. The aspects of performance may include; quantity of output, quality of output, timeliness of output, presence at work and cooperativeness.

Each job has specific job criteria that identify the elements most important in the job. Job criteria refer to important elements of a job on which performance is measured. Job criteria define what an employee is paid to and thus individual’s performance
should be measured according to the set standards and the results must be communicated to each employee.

2.2 Nature of Internal Auditing

The IIA Code of Ethics has two components: “principles” and “rules of conduct.” The four principles are: \textit{integrity}, \textit{objectivity}, \textit{confidentiality}, and \textit{competency}. The rules of conduct amplify the principles and detail specific internal audit behaviors that are either mandated or prohibited. These principles are defined as follows: (1) the integrity of internal auditors should establish trust and this provides the basis for reliance on their judgment. Their work is to be performed with honesty, diligence and responsibility; (2) Internal auditors are to exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make an assessment of all relevant circumstances and should not be unduly influenced by their own interests or by others in forming judgments; (3) Internal auditors are to respect the value and ownership of information they receive and should not disclose information without appropriate authority, or use the information for personal gain; (4) Internal auditors are to apply the knowledge, skills, and experience needed in the performance of their duties and responsibilities that are necessary to comply with the International Standards for the Professional Practice of Internal Auditing.

The nature of the internal audit function is an important consideration that may potentially affect its value to an organization. Companies may use their own staff (Insource), use an external firm (outsource) or a combination of the two. While outsourcing the internal audit function does not significantly affect users’ perceptions of auditor independence or financial statement reliability (Lowe et al. 1999) or their perception of protection from financial statement fraud (James, 2003), companies that decide to outsource perceive that external providers are technically more competent (Carey et al. 2006). However, a limitation with these prior studies is that they were performed by measuring perceptions not actual performance. Given that many organizations make decisions about whether to in source or outsource their internal
audit function, the quality of performance of these respective functions is an issue that warrants more examination than just “perceptions”.

The internal auditing staff often reports to the audit committee of the board of directors and also to the president or another high executive. This strategic placement, high in the organizational structure, helps to ensure that the internal auditors will be given prompt attention by department heads and other line executives whose work they review. It is therefore imperative that the internal auditors be independent of the department heads and other line executives whose work they review. Thus, it would be generally not desired for the internal auditing staff to be under the authority of the chief accountant. A large part of internal auditors consists of operational audits; in addition, they may conduct numerous compliance audits.

Messier (1997) emphasized that unlike CPA’s who are committed to verify each significant item in the annual financial statements, the internal auditors are not obligated to repeat their audits on an annual basis. However, it should be noted that auditing is not a subdivision of accounting because auditing measures and evaluates the results of accounting applications in business. Thus, it is independent of- or contemporary.

Internal audit is viewed as an important aspect of the corporate governance structure within any organization. It has been identified among the three monitoring mechanisms that are relevant in corporate governance literature. They include external auditing, internal auditing, and directorships (Anderson et al. 1993, Blue Ribbon Committee 1999) as well as the audit committee (Institute of Internal Auditors [IIA] 2003).

In recent years, high profile corporate collapses have focused attention on corporate governance and also emphasized internal auditing as part of the governance process. The IIA sees the objective of internal auditing as both supporting and strengthening an organization’s governance mechanisms and evaluating and improving the effectiveness of risk management and control (IIA 1999).
Ghartey (2006) emphasized that a strong culture of internal auditing is needed to help control the organizational environment with integrity, accountability and transparency which promotes public confidence in the organization’s rational allocation of resources especially where government institutions are involved. It also sets recommendations for more effective and efficient use of these resources. Audit committee effectiveness has also been found to reduce the likelihood that companies are sanctioned for fraudulent financial reporting (Abbott et al. 2000).

Internal auditing helps to assess whether Organization’s objectives are clearly defined and measurable by fully understanding the organization’s objectives, how progress is reported for each objective, and who has the primary responsibility for achieving these objectives. (Benson, 2007)

Jill (2007) seems to believe where a business has not defined how progress is measured, internal auditing can help management identify day-to-day activities and related measures that will help the organization achieve its desired results. This assists to provide management with clear accountability and performance measures that are critical to efficient and effective operations.

Internal auditing gives senior management and boards of directors a better understanding of how the organization manages risk, by helping them assess how they measure risks that could impair progress toward their objectives. (Internal Auditor Publication, 2007)

Internal auditing identifies the goals that are most critical to the organization's success so that it can help managers to achieve these goals. This is done through its role of determining what the goals of the organization are and what processes have been established to meet them. (Steele, 1993)

Benson (2007) seems to believe that a strong internal audit department not only knows how an organization monitors risk, but it also has an opinion about how well the organization does it. Organizations with good risk management and governance
processes monitor risk proactively. Internal auditing identifies problems, makes recommendations, and helps facilitate resolution.

Coram (2004), internal audit adds value to an organization through improving the control and monitoring environment within organizations to detect fraud. He believed that organizations that rely solely on outsourcing for their internal audit function are less likely to detect fraud than those that undertake at least part of their internal audit function themselves.

According to Drent (2002), one challenge faced by internal auditors is that of reconciling their need to make a meaningful contribution to the business with meeting the needs of their key customers -- the audit committee, executive management, and line management. Conflicts arise between internal auditors and their clients when poor communication or unrealistic expectations keep goals from being met.

At times even if a strong internal audit department exists, they may fail to monitor risk effectively because of management inefficiencies such as; not watching the right measures of operation, inaccurate reporting, or the right people are not receiving well-balanced reports. Jill (2007)

Executive and line management do not always appreciate the need for auditors' independence, which stems from the governance process. In the minds of many executives and managers, internal auditing works for them; reporting to the audit committee is a formality to satisfy corporate governance requirements. Management may view internal auditors as not being team players because of their insistence on maintaining their independence. Drent (2002)

Executive management can be inconsistent in defining internal auditing's role. It may encourage internal auditing to be consultative in dealing with line management, but it may also use auditing as a tool to keep the business units in line. It is difficult for auditors to sell their consulting services when executive management uses auditing as a weapon. Drent (2002)
By nature, consulting services take more time than assurance audits. With limited resources and the priority of governance requirements, internal auditing may not have the time to be consultative. Business unit personnel may then view auditing as a "corporate cop" rather than a valued business advisor. Drent (2002)

The audit organization may not be objective when auditing a process that it had a part in designing. Clients will surely demand to know why auditors didn't tell them earlier about any control deficiencies. Will the auditors be willing to risk their reputations -- and perhaps jobs -- to highlight deficiencies that they had some responsibility in creating? Drent (2002)

2.3 Factors Influencing Performance of Organizations

Armstrong (1999) notes performance standards and asserts that there is always a need against which information should be compared. Performance standards define the expected levels of performance, and are targets depending on the approach taken. They define clearly what is essential in establishing standards before work is performed, so that all concerned understand the level of accomplishment expected.

To when a job is successfully completed, you must have indicators or standards for measuring performance. Setting performance standards enables you and your employee to know what you can expect from each other. It also establishes clear and objective measures for evaluating employee’s performance.

An effective performance standard is one that is specific, measurable, and timely. An ineffective performance standard is one that lacks a specific result you want to achieve, objective criteria for measuring progress toward that result and a clear deadline by which the result is to be achieved.

Internal auditing influences performance of organizations. However, there are also other factors that influence the performance of organizations as put below:

Guest (1992) suggested that commitment is thought to result in better quality, lower turnover, a greater capacity for innovation and more flexible employees. In turn these
are seen to enhance the ability of the organization to achieve competitive advantage. He further suggested that commitment is affected by personal characteristics, experiences in the job role, work experiences, structural factors, and personnel policies.

Connock (1992) identifies empowerment as involving greater individual accountability for results with enhanced authority for work teams. He further mentioned the encouragement of innovation and continuous self-improvement as critical to empowering employees to strive for better performance.

Atwater et al. (1991) identifies leadership as a factor influencing performance and defined it by referring to particular traits mostly present in charismatic leaders, such as dynamic, inspiring, outgoing, sociable, insightful and enterprising.

Peters & Waterman see leadership as something that can be learned, Leadership plays a key role to any organization seeking high performance. Leaders create the vision and the strategy and present it and themselves in such a way that employees feel enthusiastic and excited by.

It has been suggested that there is a link between culture and organizational effectiveness, and that there is an assumption that culture will unite all employees behind the stated goals of the business. Some companies have tried to use this link to try to change the culture in an effort to improve organizational performance; we hear of businesses encouraging a ‘performance culture’ or a ‘learning culture’. (Meek, 1992). Scholars such as Shein (1992) also suggested that culture awareness is important in facilitating strategic decisions that affect performance of organizations.

Blyton & Morris (1992) noted the opportunity that temporal flexibility offers to improve the utilization of staff towards better performance. An organization subject to peaks and troughs of demand (such as an ice cream manufacturer) could use annual hours contracts so that more employee hours are available at peak periods and less are used when business is slow which helps reduce resource wastage.
Flexitime systems can benefit the employer by providing employee cover outside the 5 day and over lunch times and can also provide employee benefits by allowing personal demands to be fitted more easily around work demands.

### 2.4 Relationship between internal auditing and performance of organizations

According to Hostyn (2006), many organizations are increasingly relying on their internal audit function to help put their key success factors—including workforce effectiveness, business processes efficiency, and strategic positioning—into meaningful business context. The internal audit functions that provide the greatest value to senior management will be those that have a clear picture of their own value—and a vision for rapidly increasing it.

According to Gibbs (1999), most internal audit professionals argue that an effective internal audit function unequivocally correlates with an organization's success in meeting management objectives. But that can only be possible if internal auditing's role in this process is widely acknowledged. Current management literature must make reference to internal auditing as a potentially powerful tool for enabling organizations to achieve their goals.

Claybrook (2004) believes internal auditing promotes trust between organizations and stakeholders. In light of the recent corporate financial scandals of Enron, WorldCom, organizational trust has become more important than ever to ensuring efficiency of operations. Trust is an essential component for business to be conducted. Trust is vital for innovative work within the organization (project teams), between organizations (strategic alliances, R & D partnerships). The auditing department provides some assurance to stakeholders that organizational performance will not be hampered.

According to the United Nations Development Program (UNDP) auditing promotes good governance in government institutions and ensures institutions are participatory, transparent, accountable, effective, compliant with the rule of law, and responsive to the needs of the people by performing activities for which they were established for.
Internal auditing plays an important role in ensuring that some key attributes of good governance are maintained by the government. By auditing public finances, auditors not only demand accountability of the government but in turn add credibility to the government’s public financial policies and practices. By making their audit findings available to the public, it provides a critical window on transparency in public finance management and assess whether government agencies have complied with national and/or local laws, regulations, and their annual budgets are in accordance with performance requirements.

According to Zain (2005) performance of organizations is greatly influenced by audit committees who play an important role as communication facilitators between the Internal Audit staff and management, especially by providing a candid forum for Internal Audit staff to express their opinions as well as supporting Internal Audit staff’s recommendations based on their findings during audit investigations. Further, the leadership role of the audit committee also tends to assist the internal auditors to better communicate with management and to ensure that management will act upon the internal auditor's recommendations on improving performance levels of the organization.

Conclusion

An organization's system of internal control has a key role in their management of risks that are significant to the fulfillment of its business objectives. A sound system of control contributes to safeguarding the shareholder’s investment and the company’s assets. It encompasses the policies, processes, tasks, behaviors and other aspects of a company that, taken together help ensure the quality of internal reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization.

In addition internal control systems are interrelated to the control environment, which the integrity, ethical values, and competence of an organization’s people. (Ogule, 2005).
CHAPTER THREE
METHODOLOGY

3.0 Introduction
This chapter presents the methodology used in carrying out this research study of the effects of internal auditing on organizational performance in UAP Insurance. The chapter covered research design, research site, population, sampling techniques, size and selection, research instruments, data collection procedure and analysis. The researcher tailored this study in a way that research problem will be diagnosed thoroughly. The major objectives that were addressed in this study are effects of management skill on the organizational performance, practice of autocratic management styles and communication.

3.1 Research Design
The study adopted a case study research design whereby both qualitative and quantitative strategies of data analysis were be used. Through qualitative strategies the researcher used this strategy to collect information about employees’ attitudes, opinions, or habits about phenomenon being investigated. The quantitative strategies were used to formulate numerical data base. The researcher adopted a case study so as to describe the variables in detail in content and holistically. According to “Donald and Delmo 2006” a case study is way of organizing educational data and looking at the object to be studied as a whole.

3.2 Research Site
This study was undertaken in Kampala in Uganda. The study was be centered in a private owned company called UAP Insurance Uganda Limited. The company is located at I Kimathi Avenue in Kampala city. This is one of the leading insurance companies in Uganda which deals in life and non life insurance cover.

3.3 Study Population
UAP Insurance Uganda limited is made of a population of 50 employees.
3.4 Sample size, selection and techniques

Given the population of 50 employees at UAP Insurance Uganda limited as illustrated above, the researcher will draw a sample of 20 respondents from both employees and managers to form the sample as illustrated hereunder.

Table 3.4.1 Sample Selection and Size

<table>
<thead>
<tr>
<th>Categories</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>15</td>
</tr>
<tr>
<td>Managers</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Research conceptualization

From these two categories of workers, the study used random sampling techniques. Both of these two categories of the sample had equal chances of being selected. Selection was random and formed the first category and the second as well. This sample was adopted in order to permit the researcher to apply inferential statistics to the data and hence provides equal opportunity of selection for each element of the population.

3.5 Research Instruments

In collecting data, the researcher utilized three major instruments.

3.5.1 Questionnaire

In attempting to diagnose the research problem and soliciting data to answer the research question stated earlier, the researcher tailored a set of questionnaires both closed and open-ended to collect raw data from the field. The closed questionnaires were incorporated in this study in order to facilitate easy scoring and hence create statistical data base. Open ended were used so as to give the respondents freedom to respond, avoid threats and boredom. Also questionnaires were distributed to the people as shown on the table 3.4.1 depending on the positions they are holding.
3.5.2 Interview

An interview was scheduled to some of the managers and particular employees. The interview was both structured and unstructured and it was self administered as their literacy levels were high as expected.

3.5.3 Documentary Review

Using this research tool, the researcher requested manuals of internal audit with, reports and news papers that enabled the researcher to get data deemed relevant to the topic being investigated.

3.6 Sources of Data

Primary data was collected from UAP Insurance through questionnaire and interview. Secondary and tertiary data was collected from KIU library, journals and other sources.

3.7 Data Analysis and Processing

After collecting data, the researcher corrected errors that might have been identified from the primary data and also eliminate unusable data. After these pre-processes, data was edited, coded and tabulated using frequencies. For the completeness, accuracy and uniformity, editing was done by looking through each of the field responses from both questionnaire and interview guide. The researcher also established how many times each alternative response category was given an answer using tally marks which were then added up to form frequency and from these frequencies percentages were calculated, ready for making interpretation. This data was presented in form of frequency tabulation a chart. Quotations and field notes made where also included.

3.8 Limitations of the study

Time limited and restricted the researcher’s collection of data because of class work and various responsibilities she held in the university. This limited the information collected. The researcher only interviewed a sample of the population in the organization to represent the entire population hence might lead to biased information.
There were delays in the study because gaining access to organizational departments required booking of an appointment in advance.

Lack of resources such as; finance, computers for recording the relevance data hence delayed the results.

There was difficulty in approaching some of the interviewers and some respondents who failed to fill the set questionnaires hence limiting the researcher’s scope of information.

The researcher faced difficulty in formulating mechanisms or scales for measuring the research variables. The researcher did not get adequate information regarding the respondents turn-up; that is some respondents failed to provide the information required by the researcher.
This chapter was about the presentation and analysis of data related to the effects of internal auditing on organizational performance. The study mainly focused on the nature of internal auditing, factors affecting organizational performance and the relationship between internal auditing and organizational performance. Organizational performance was characterized by .........

4.1 To establish the nature of internal auditing on organizational performance.
These findings were based on the research question formulated from specific objective, “what is the nature of internal auditing in UAP?” to make this objective achievable the respondents were asked, how often do they conduct internal auditing in UAP, does internal auditing promote public confidence in the allocation of resources in UAP, they were also asked if the staff in the internal audit unit have any impact on the quality of work in the IA process.

Table 4.1.1 How often is IA conducted in UAP?

<table>
<thead>
<tr>
<th>How often is IA conducted in UAP?</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>0</td>
<td>5</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Percentages</td>
<td>0</td>
<td>25%</td>
<td>75%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Respondents
source: from the respondents of the company

The results from table 4.1.1 reveal that 15 of the respondents (75%) were of the opinion that IA is conducted quarterly, 5 respondents (25%) were of the opinion that it is carried out weekly while no respondent was of the opinion that it is carried out weekly. The above analysis therefore indicates that many respondents think that IA is conducted quarterly and a few think that it is conducted weekly. This is an indicator that the IA process in UAP is inconsistent since employees working in the same organization do not have the same response of the period I is carried out. However this is also an indicator that however much it is inconsistent it is carried out in UAP. Majority of the respondents supported their responses by citing that IA is conducted quarterly because they are often asked to give departmental reports quarterly. The 25% researcher noted were coming from managerial positions and were expected to give departmental reports monthly.

Table 4.1.2 Opinion of whether IA promotes public confidence in the allocation of resources in UAP

<table>
<thead>
<tr>
<th>Does IA promote public confidence in allocation of resources</th>
<th>YES</th>
<th>NO</th>
<th>NOT SURE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>12</td>
<td>5</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Percentages</td>
<td>60%</td>
<td>25%</td>
<td>15%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: respondents
From the result of opinions in table 4.1.2 above showed that 12 respondents (60%) think it promote public confidence in allocation of resources, 5 respondents 25% were of the opinion that it does not promote public confidence and 3 of the respondents 15% were not sure. The majority agreed that IA is proving to be a promoter of public confidence in the organization’s rational allocation of resources. The researcher found out that it is in agreement with GharTEY (2006), who believes that IA helps control the organizational environment with integrity, accountability and transparency. Auditors have the responsibility to build confidence in financial statements, fraud and error, thereby building on lasting relationships with their stakeholders for instance shareholders who want proper record of profits made to establish dividends to be received from their events in the company. The respondents who answered no argued usually the public is motivated by things, like profit and did not bother with the intermediate things like internal auditing which make the profit goal achievable.
The respondents were also asked through the interview to give their own opinion as to whether the staff in the internal audit unit has an implication for the quality of work in the IA process.

To get this opinion the researcher interviewed 12 out of the 20 respondents and they gave these views. One respondent stated that the proportion of staff with prior audit experience within the internal audit unit is likely to affect the quality of IA activities. Other respondents agreed that auditors should have appropriate qualifications and prior experience if they are to lead or conduct good quality audit.

The researcher can therefore conclude that IA unit staff which has required applications and are well trained are better able to provide valuable input and face multi tasking and complex situations compared to staff with no knowledge and or little prior audit experience is likely to perform its function more effectively than an internal audit unit with a low proportion of staff with audit experience.

4.2 Findings on factors influencing performance of organizations.

This objective was to examine the factors influencing organizational performance in UAP. These findings were based on the research question formulated from the specific objectives, “What factors affect performance of an organization.” To make this objective achievable the respondents were asked to respond to; is good leadership viewed as a key player to high performance to high performance in UAP, corruption is a plague that affects all companies has it affected the organizational performance in UAP? The respondents were also asked other factors affecting organizational performance.
Table 4.2.1 Opinion on whether good leadership is viewed as a key player to high performance in UAP.

<table>
<thead>
<tr>
<th>Is good leadership key to high performance</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>13</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>Percentages</td>
<td>65%</td>
<td>35%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: respondents

The results in the diagrams above showed that 13 respondents 65% were of the opinion that good leadership is viewed as a key player to high performance in UAP and 7 respondents 35% were of the opinion that it was not viewed as a key player in the performance of UAP. From this the researcher can therefore conclude that leadership is a key to high performance in UAP. These findings are in agreement with Atwater et al (1991) who defined leadership through particular traits mostly present in charismatic leaders. As though comparing charismatic leaders and uncharismatic leaders the researcher found that charismatic leaders were different in terms of being dynamic,
inspiring outgoing, sociable, insightful and enterprising. The 7 respondents who were of the opinion that leadership is not a key player in the performance of UAP supported Peters and Waterman who viewed leadership as something that can be learned as straightforward observation of everyday events. It only makes question how much it can be learned and how much depends on innate personal qualities or capacities developed when young.

Table 4.2.2 Opinion of whether corruption has affected organization performance in UAP

<table>
<thead>
<tr>
<th>Has corruption affected organizational performance</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequencies</td>
<td>4</td>
<td>14</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Percentages</td>
<td>20</td>
<td>70</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: respondents
From the results of the diagrams 4.2.2 above showed that 4 respondents (20%) think that corruption has affected organizational performance, 14 respondents (70%) do not think so and 2 respondent (10%) are not sure. The researcher can therefore conclude that though corruption is a plague that present in all countries affecting performance of organizations in varying degrees. It has however not had much effect on the performance of UAP. It is sufficient to say that corruption can be controlled- and its debilitating effect on organizations minimized- by the development of strong institution of governance. The researcher realized that such institutions are present in framework and institution of UAP. The respondents who answered yes said that there had been random instances where the clients had asked for bribes or offered them bribes. The respondents who were not sure said they were relatively new in the organization and though they had not witnessed any corruption they could not rule it out completely.

Other factors affecting organizational performance in UAP.
The respondents were asked through an interview to state other factors which affect organizational performance in UAP.

The respondents stated that they are various factors which also affect organizational performance. A respondent in managerial position said that sources of funds are an important variable to organizational performance. This is because in all organizations sources of funds for operations must be available. Where the funds are not enough to carry out operations performance of that organization will be compromised.

Other respondents said that job satisfaction was a key player in performance of an organizational as well. The highly satisfied employees perform their jobs with greater efficiency and therefore improve organizational performance compared to unsatisfied staff.

An analyst in the company cited that economic conditions cannot as they influence organizational performance. Where the economy is in boom stage the performance of any organization is expected to be at a high. The scenario is reverse during a depression; as this known not to favor organizations achieve high performance levels. UAP is no exception it is affected by the factors stated above.
4.3 To establish the relationship between internal auditing and performance of an organization.

The objective was to establish the relationship between internal auditing and performance of an organization. These findings were based on the research question formulated from the specific objective, What is the relationship between IA and performance of an organization? To make this objective achievable the respondents were asked to respond to, Does IA affect performance of UAP, What impact does IA reports have on management decisions, lastly the respondents were asked IA as a function of management how effective is it in maintaining high performance?

Table 4.3.1 response to whether IA affects performance of UAP

<table>
<thead>
<tr>
<th>Does IA affect performance of UAP</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>16</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Percentage</td>
<td>80</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: respondents

![Bar chart showing frequency and percentage of responses]

Source: respondents
The results in the diagrams 4.3.1 above show that 16 respondents (80%) were of the opinion that IA affects performance of UAP, and 4 respondents (20%) did not think that IA affected organizational performance. IA has been shown to add value (Carcello et al 2005) and reduce detected errors by external auditors. It is also considered an important tool to protect corporations from internal criminal (Nestor 2004). Further, the professional literature suggests that internal is a vital tool in fraud detection when assets are misappropriated by employees or outsiders (Edwards 2005) which when done in excess greatly undermine future performance of organizations. The researcher concluded that a strong relationship between internal auditing and performance of organizations was found to exist.

Table 4.3.2 Response to the impact IA reports has on management decisions.

<table>
<thead>
<tr>
<th>Impact IA reports have on mgt decisions</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>17</td>
<td>85</td>
</tr>
<tr>
<td>Low</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: respondents
The results of the diagrams above show that 17 respondents 85% were of the opinion that IA had a high impact on management decisions and 3 respondents 15% were of the opinion that the impact was low. The researcher found out that key executives in the organization and their audit committee expect value form their internal audit. In addition, internal audit leaders believe their department can benefit form increased support from senior management or their audit committees. If the internal audit reports do not show that they can add value then the recommendations may not be implemented. The internal audit reports can give guidelines on how to mitigate risks. A co-developed approach to assessing risk, project planning that involves both the internal audit department and management, and vetting recommendations with the audit committee and senior management would increase the success of internal audit departments in showing value to the organization especially in the decision making process. The respondents who thought the impact was low stated that IA processes are not 100% fool proof and can at times contain mistakes either intentional or otherwise.

<table>
<thead>
<tr>
<th>Effectiveness of IA in maintaining high performance</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Very poor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>9</td>
<td>7</td>
<td>6</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Percentage</td>
<td>45</td>
<td>35</td>
<td>30</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

Source: respondents
The diagrams 4.3.3 show that 9 respondents (45%) were of the opinion that IA maintenance of high performance was good, 7 respondents (35%) thought it was fair, 6 respondents thought it was poor and none thought it was very poor. The study found out that high corruption levels affecting performance of organizations is due to poor internal controls as fraud detection controls are inhibited from performing their duty to capture and report to relevant bodies for corrective action (Coram, 2006). Any type of fraud within government is always taken seriously. The impact of fraud, waste and abuse of taxpayer money is devastating to the indispensable trust and respect that the public has for government leaders. To preserve the trust and respect that the public has for the governing process, government agency leaders should take the necessary steps to minimize the risk of fraud, waste and abuse occurring within their agency. The establishment of a strong internal control environment where written policies and procedures are enforced, internal controls are appropriately implemented and employees are educated about fraud and its consequences is one of the best deterrents and methods of curtailing fraud. For internal controls to be effective, they must be constantly evaluated for effectiveness and changed as business processes are changed or altered.
CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This chapter contains a summary of major findings, conclusions and recommendations that were proposed by the researcher, which can help improve the relevance of internal auditing to organizational performance.

5.1 Conclusions
From the findings it was discovered that a sound system of internal controls reduces, the possibility of poor judgment in decision making, human error, and manipulation of control processes by employees, management overriding controls and the occurrence of unforeseeable circumstances. This provides reasonable assurance that the company will achieve its business objectives in an orderly and legitimate manner without much hindrance hence improving performance. For organizations to increase their performance and attain their objectives, they need to make sure that internal audit procedures are followed accordingly and emphasized as required by the law.

Performance variations are the result not of individual differences, but of the systems that are implemented and controlled by managers-factors that are outside the control of the individual. There was a time when performance was seen primarily in terms of individual motivation and performance, the focus has now shifted to emphasize performance of the organization as a whole. Findings highlight this critical perspective on the importance of systems, processes, and culture for ultimate organizational performance.

Findings show a relationship between internal audit and performance of organizations. Findings suggest that senior management's expectations on organizational performance have a significant influence on internal audit and that internal audit, generally, is able to meet most of these expectations. Senior management wants internal audit to compensate for the loss of control affecting
performance that they experience resulting from increased organizational complexity. Senior management expects internal audit to fulfill a supporting role in the monitoring and improvement of risk management and internal control, and wants them to monitor the corporate culture. Furthermore, they expect internal audit to be a training ground for future managers. On the other hand, internal audit expects senior management to take the first steps in the formalization of the risk management system if their work of improving performance is to be made easier. They are looking for senior management support, as this benefits their overall acceptance and organization as a whole.

5.2 Recommendations

The researcher feels that inspite of the views mentioned during the conduct of the research there should be improvement in order to fully realize results of internal auditing to performance of organizations.

Internal audit needs to understand the expectations of its primary stakeholders - senior management and the audit committee - and align its activities accordingly. This alignment ensures that internal audit functions and key stakeholders share the same priorities when it comes to applying internal audit resources to risk management and control. For example, do the key sponsors, management and internal audit have the same view of the role of internal audit? Once internal audit aligns itself with the priorities of its key stakeholders, the function needs to establish solid lines of communication with senior management and/or the audit committee if one is established. By maintaining good communication, internal audit can also ensure that its priorities continue to match those of its key stakeholders as they evolve.

An effective internal audit function should also operate in compliance with professional standards, principally those of the Institute of Internal Auditors. (IIA revised standards, 2004)

According to the revised standards, internal audit should seek to improve the governance process by promoting appropriate ethics and values, ensuring
organizational performance management and accountability, communicating risk and control information within the organization.

The structure and reporting lines adopted for the internal audit function should promote independence, objectivity, consistency and business understanding. This can be achieved by combining the concept of a clear reporting line to the board/audit committee with an organizational structure that allows internal audit to operate independently of other functions within the organization.

Internal auditors need to deal with more and more financial data, developing new auditing procedures and using the new technology and evaluation methods are clearly in need, such as: sampling audit, feasibility study, and computer-assisted audit.

When considering the reporting lines for internal audit it is prudent to keep the following independence guidelines in mind:
- The internal audit function must be independent of the activities being audited and must also be independent everyday internal processes.
- The internal audit must be free to report its findings and appraisals and to disclose them internally.
- The head of internal audit department must have clear authority to communicate directly and on his or her own initiative to the board, the chairman of the board, or the chairman and members of the audit committee.

The head of the internal audit should meet privately with the board/audit committee without the presence of management. This will reinforce the independence and direct nature of the reporting relationship. The reporting should be to someone with sufficient authority to provide internal audit sufficient support to accomplish its day-to-day activities. The reporting line should enable adequate communications and information flows so that internal audit receives adequately and timely info concerning the activities plans and business initiatives of the organization. Budgetary
controls and considerations imposed by the administrative reporting line should not impede internal audit in accomplishing its brief

5.3 Areas of Further Research

From the study, the researcher recommended that further research be done in the following areas;

❖ Auditing and Corporate governance
❖ Auditing and Fraud detection
❖ Risk Management and Internal Auditing
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Appendix A: Questionnaire

Dear Respondents,

This questionnaire attempts to obtain information pertaining to a study titled, “effect of internal audit on the organizational performance.” This study is conducted as a partial fulfillment of the requirement of bachelor degree of business administration of Kampala International University. All the information provided will be used only for the purpose of this field research and will be treated with maximum secrecy and confidentiality.

Thank you for your cooperation.

Instructions

(i) Please in case of blank spaces fill them.

(ii) Where boxes are given, tick appropriate

**Part A**

1. Sex
   - Male □ Female □

2. What is your period of service in UAP Insurance Uganda Limited
   ……………………………

3. Marital status
   - Single □ Married □ Divorced □ Widowed □

4. Educational Level
   - Diploma Holder □
   - Degree Holder □
   - Masters Degree Holder □

**Part B**

5. How often do you conduct internal audit in UAP?
   - Weekly □ Monthly □ Quarterly □
Do you think the management internal auditing has led to better organizational performance?

Yes □ No □
If no specify ..........................................................................................................................
........................................................................................................................................
........................................................................................................................................

6. Does IA promote public confidence in the allocation of resources in UAP

Yes □ No □ Not Sure □

7. Comment on internal audit process.................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

8. Is good leadership viewed as a key player to high performance in UAP

Yes □ No □

9. Corruption is a plague that affects most companies, has it affected the performance in UAP?

Yes □ No □ Not sure □

10. Do you ever hold joint meeting with the management to discuss the findings of the internal audit?

Yes □ No □
11. Do you think your internal audit results have reinforced employee commitment?

Yes ☐  No ☐

12. What other factors affect organizational performance..............................

13. Does IA affect performance of the organization?

Yes ☐  No ☐

14. Are there challenges you face from when carrying out the internal audit?

Yes ☐  No ☐

If other specify..............................................................................................

15. What impact does IA have on management decisions?

High ☐  Low ☐

15. IA as a function of management how effective is it in maintaining high performance?

Good ☐  Fair ☐  Poor ☐  Very poor ☐
Appendix B: Interview Guide.

1. Does the staff in an IA unit have any implication on quality of work in the internal audit process ........................................................................................................................................
2. Comment on the internal audit process ...........................................................................................................................................................................................
3. Do you think internal audit is used in the organization to utilize your potential as an employee ...........................................................................................................................................................................................
4. Does IA improve control and monitoring of the organization by detecting fraud ....

What other factors affect organizational performance ........................................
Appendix C: Proposed budget

<table>
<thead>
<tr>
<th>Item</th>
<th>Amt in UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typing and printing</td>
<td>150,000</td>
</tr>
<tr>
<td>Literature collection</td>
<td>100,000</td>
</tr>
<tr>
<td>Data collection</td>
<td>250,000</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>600,000</strong></td>
</tr>
</tbody>
</table>

Appendix E : The time frame of the study

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>proposal writing</td>
<td>March 2009</td>
</tr>
<tr>
<td>Data collection</td>
<td>May 2009</td>
</tr>
<tr>
<td>Dissertation writing</td>
<td>June 2009</td>
</tr>
<tr>
<td>Project submission</td>
<td>July 2009</td>
</tr>
</tbody>
</table>
OFFICE OF THE DEAN
SCHOOL OF BUSINESS AND MANAGEMENT

Date: 8th May, 2009

Our Ref: KIU/SBM/RL/002-05/09-3

THE HUMAN RESOURCE MANAGER,
UAP INSURANCE UGANDA LIMITED,
UGANDA.

Dear Sir/Madam,

RE: GUNDA MIRIAM SHINGIRAI REG.NO.BBA/9522/61/DF
The above mentioned is a bonafide student of Kampala International University
pursuing a Bachelor of Business Administration programme (Finance and Banking
option) in the School of Business and Management of the University.

She is currently conducting field research and the title of the Research project is "THE
EFFECTS OF INTERNAL AUDITING ON ORGANISATIONAL PERFORMANCE" A
CASE STUDY OF UAP INSURANCE UGANDA LIMITED. As part of her studies
(research work) she has to collect relevant information through questionnaires,
interviews and other relevant reading materials.

The purpose of this letter is to please request you to avail her with the necessary
information she may need.

All and any information shared with her will be used for academic purposes only and
we promise to share our findings with your institution.

Any assistance rendered to her in this regard will be highly appreciated.

Yours Sincerely,

[Signature]

DR. ALFRED NUWAGABA
DEAN SCHOOL OF BUSINESS AND MANAGEMENT