

**INTERNAL AUDIT FUNCTION AND FINANCIAL PERFORMANCE OF  
PARASTATALS IN UGANDA: A CASE STUDY OF NATIONAL  
WATER AND SEWERAGE CORPORATION MAIN  
BRANCH, KAMPALA**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS  
AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE  
BACHELORS DEGREE IN BUSINESS  
ADMINISTRATION OF KAMPALA  
INTERNATIONAL  
UNIVERSITY**

**OCTOBER, 2019**

**DECLARATION**

I declare that this research report is my original work and has never been submitted to any other University for assessment or award of a degree.

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## **DEDICATION**

This research work is dedicated to parents Mr. Batambuze Bernard and Naigaga Pheibe who have valued all the aspects of my life and tirelessly struggled to color my life by doing all the possibilities to educate me. My brother and sisters

Finally to all my lifetime friends for the unfailing support and encouragement in all my life endeavors.

## ACKNOWLEDGEMENTS

I first and fore most, thank GOD who has protected me and given me the gift of life, for the spirit, strength, wisdom, and power He has given me to complete this study. This is the far He has brought me and this justifies His word; “even in the darkness He remains the Lord.”

In the process of conducting this study and preparation of this report, I received support and encouragement from a number of people to whom I shall always be grateful.

I am particularly grateful to my supervisor Dr JOSEPH B.K. KIRABO for his endless and regretless commitment and efforts towards my research report. His encouragement, steady, parental and unlimited guidance, relevant comments and good spirit all of which has made this study a substance and complete success. May GOD bless you.

I wish to extend my thanks to my friends Rashid Emmanuel, Mwema Paul, Nalubowa Aidah and Timothy plus past and present friends and relatives, many of whom may find their own ideas and approaches in these pages.

Great thanks go to my beloved respondents who willingly gave me the information that made this study a success. May GOD reward you abundantly.

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## LIST OF ACRONYMS

BOD	Board of Directors
BOU	Bank of Uganda
CEO	Chief Executive Officers
CVI	Content Validity Index
NWSC	National Water and Sewerage Corporation
ROA	Return on Assets
ROE	Return on Total Equity
ROI	Return on Investment
SACCOs	Saving and Credit Corporations
SPSS	Statistical Package for Social Sciences

## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter entails background of the study, statement of the problem, purpose of the study, objectives, research objectives, scope and significance of the study and operational definition of key terms.

#### **1.1 Background to the study**

##### **1.1.1 Historical perspective**

The key is acknowledgement that business as usual is a mindset of the past and that the future was to require a new approach to the management of water companies. Utilities must take a holistic approach that accounts for the ecosystem services affecting water use and delivery.

Those companies that consider all of the technical, financial, physical and regulatory practices that affect water resources was to be more successful at providing sustainable and economical water services thus enhancing their performance, implementation of strong internal function helps position water companies for future success. An entity should put in place its own system of function in order to achieve its objectives have to demonstrate accountability in the use of shareholders money and efficiency in the delivery of services. Organizations now demand great competency and professionalism from internal audit, and scarce resources must be deployed more efficiently to minimize and manage risks.

Technological advancement makes it possible to track and analyze data with continually increasing speed thus making it essential for organizations to be well advised by the internal audit department. Internal audit varies from one organization to another, and making change to modern internal audit can be a substantial undertaking. The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organizational changes. In National Water and Sewerage Corporation institutions staff is poorly

paid and unmotivated, ethical standards are weak, and governance practices are ineffective leading to asset mismanagement (Ramamoorti, 2003).

According to Robertson (1976) Internal Auditing may be defined in several ways depending upon what purpose is to be served. Pickett (1976) stated that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. 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. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

Internal Audit is an objective and independent appraisal service within an organization on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organization's agreed objectives. In addition, internal audit's findings are beneficial to the Board of Directors and line management in the audited areas. The service applies the professional skills of internal audit through systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization's objectives, and through recommendations for improvement .

There are many aspects of the performance of organization that can be analyzed. Muga (2012) stated that the importance of the organization profitability can be appraised at the micro and macro levels of the economy. At the micro level, profit is the essential prerequisite of a competitive organizational institutions and the cheapest source of funds. It is not merely a result, but also a necessity for success of the organization in a period of growing competition on financial markets. Hence the basic aim of every NWSC management is to maximize profit, as an essential requirement for conducting business. At the macro level, a sound and profitable NWSC sector is better able to withstand negative shocks and contribute to the stability of the financial system. NWSC profits provide an important source of equity especially if re-invested into the business. This should lead to safe water, and as such high profits could promote financial stability.

Schiama (2003) mentioned accounting based performance using three indicators: return on assets (ROA), the return on total equity (ROE) and Return on Investment (ROI). These are widely used to assess the performance of firms, including national water and Sewerage Corporation. Organization regulators and analysts have used ROA and ROE to assess industry performance and forecast trends in market structure as inputs in statistical models to predict NWSC failures and mergers and for a variety of other purposes where a measure of profitability is desired. The main purpose of this study was to examine if internal audit can actually enhance NWSC financial performance.

Most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. According to Beyanga (2011), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance of an organization. He also stated that internal audit is an invaluable tool of management for improving performance. Fadzil et al (2005) also noted that internal auditors help run a company more efficiently and effectively to increase shareholders value.

Finally Herman son and Rotenberg (2005) argued that the existence of an effective internal audit function is associated with superior organizational performance. At the empirical level, a survey conducted by KPMG (1999) found that the internal audit function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

### 1.1.2 Theoretical perspective

The study was to adopt various theories on internal audit and financial performance. They include Agency theory; contingency theory and Lending credibility theory. These are discussed below:

Agency Theory, Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). A reputable auditor is therefore appointed not only in the interest of third parties, but also in the interest of management. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Contingency Theory, the contingency theory of leadership and management states that there is no standard method by which organizations can be led, controlled and managed. Organizations and their functions depend on various external and internal factors. The functions of audits are themselves, types of organizations that are affected by various factors in the environment. The presence of such factors is why auditing can be managed by applying the contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors. Daft (2012) in his book writes: Contingency means: one thing depends on other things and Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project.

Lending Credibility Theory, Volosin, (2007) in his book mentioned that the lending credibility theory is similar to the agency-theory and it states that audited financial statements can enhance stakeholders faith in management's stewardship. The business world consists of different groups that are affected by, or participate in, the financial reporting requirements of the regulatory agencies. They are shareholders, managers, creditors, employees, government and other groups. The major recipients of the annual reports are the shareholders, including individuals with relatively small shareholding and large institutions such as insurance companies. Their decision is usually based on the financial reporting and the performance of the company's management, who have a responsibility to act in the interests of investors, thus the purpose of the financial statements.

### **1.1.3 Conceptual perspective**

In this research, we study about the relationship between the independent and dependent variables. The independent variable was conceptualized as Auditing practices and the dependent variable as financial performance.

**Auditing practices** is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. 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. Auditing practices is further conceptualized as: Risk identification, Risk analysis and evaluation and Risk control and report. The above concepts assist the organization in risk assessment and minimization of losses in the organization.

**Financial performance** is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance is also further conceptualized as: Profitability, Accountability, Service delivery and Shareholder performance



#### **1.1.4 Contextual perspective**

There are many aspects of the performance of business organizations that can be analyzed. Muga (2012) stated that the importance of business profitability can be appraised at the micro and macro levels of the economy.

At the micro level, profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Hence the basic aim of every bank management is to maximize profit, as an essential requirement for conducting business. At the macro level, a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Bank profits provide an important source of equity especially if re-invested into the business. This should lead to safe banks, and as such high profits could promote financial stability.

Schiama (2003) mentioned accounting- based performance using three indicators: return on assets (ROA), the return on total equity (ROE) and Return on Investment (ROI). These are widely used to assess the performance of firms, including commercial banks. Bank regulators and analysts have used ROA and ROE to assess industry performance and forecast trends in market structure—as inputs in statistical models to predict bank failures and mergers—and for a variety of other purposes where a measure of profitability is desired. The main purpose of this study was to examine if internal audit can actually enhance business financial performance in Kampala Central Division.

#### **1.2 Statement of the Problem**

Water service provision is poorly managed in the developing countries. Lack of management structures and corporate governance has resulted in poor performance of these entities. Water utilities and service providers in Uganda are plagued with severe deficiencies in the delivery of services remaining poor in general. The sectors worrying performance is caused, among other reasons, by financial and capacity constraints, including the absence of a commercial orientation to services, institutional deficiencies, and the lack of systemic incentives to deliver ongoing quality services (Ray and Kurt, 2011).

In addition the incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the company's ability to effectively deliver service but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. The management of a company should familiarize themselves with internal audit procedures that ensure was to effective service delivery and the desired financial performance (Efozie, 2010). Odei (2011) examined the internal audit procedures in Papso Ghana limited, to assess the effectiveness of internal audit in papso Ghana limited, Jean (2014) undertook a study to determine if internal audit lead to the business growth, Carl (2013) examined whether the results of external audits may be used as an objective measure of internal audits benefits, Mbuti (2014) determined the effect of internal audit reporting on financial performance of SACCOs, Ondieki (2013) determined the effect of internal audit on financial performance in commercial banks in Uganda. As observed from the reviewed previous empirical studies, there are limited studies that focus on internal audit in national water and Sewerage Corporation in Uganda. A contextual knowledge gap therefore exists, it is against this background that this study sought to evaluate the effect of internal audit on financial performance of national water and sewerage corporation in Uganda.

### **1.3 Research Objective**

The overall objective of this study e was to establish the function of internal audit on financial performance of national water and sewerage corporation main branch Kampala

### **1.4 Specific Objectives**

- i. To establish the extent to which professional competence of internal audit affect the financial and performance of national water and Sewerage Corporation in Uganda.
- ii. To establish the function of monitoring and control activities on performance of national water and sewerage corporation in Uganda.
- iii. To determine the effect of risk management practices on performance of national water and Sewerage Corporation in Uganda.

## **1.5 Research Questions**

- i. To what extent does professional competence of internal auditor affect the performance of national water and Sewerage Corporation in Uganda?
- ii. Does a monitoring and control activity affect the performance of national water and Sewerage Corporation in Uganda?
- iii. How does risk management affect performance of national water and Sewerage Corporation in Uganda?

## **1.6 Research Hypothesis**

Ho<sub>1</sub>: There is no significant relationship between Internal Audit Function and Financial Performance of Parastatals in Uganda

## **1.7 Scope of the study**

### **1.7.1 Content scope**

The study was sought to examine the faction of internal audit on the financial performance of national water and Sewerage Corporation.

### **1.7.2 Geographical scope**

The study was to carried out on National Water and Sewerage Corporation main branch Kampala. The National Water and Sewerage Corporation (NWSC) is a public utility company 100% owned by the government of Uganda. The corporation was established in 1972 under Decree No: 34. At its inception in 1972, the corporation operated in three (3) major towns of Kampala, Jinja and Entebbe. These laws were revised in 1995 by the NWSC Statute and later on the statute was incorporated in the laws of Uganda as CAP 317 (Laws of Uganda 2000). The primary aim of this was to revise the objectives, powers and structures of NWSC to enable the corporation operate and provide water and sewerage services in areas entrusted to it on a sound

commercial and viable basis. Currently, NWSC has presence in 236 towns up from 27 towns in 2013, for full list of our operational areas.

### **1.7.3 Time scope**

The population of the study was 20 workers of national water and Sewerage Corporation in Uganda. The study used a descriptive survey study research design the study was conducted in the year 2019.

### **1.8 Significance of the Study**

This study was to help in increasing the role and image of internal audit in national water and Sewerage Corporation in Uganda to make it more effective and professional.

It was to help the shareholders appreciate the role of the internal audit as one of the most important managerial control systems in national water and Sewerage Corporation.

The management of national water and Sewerage Corporation was to be able to look for ways of making Internal Audit a completely independent function from the management thus making it more effective.

By implementing recommendations given on the internal audit reports management was to be able to enhance performance of national water and Sewerage Corporation.

For scholars' it will help them to appreciate and enhance their knowledge of internal audit so as to adhere to the professional ethics as required by an organization.

### **1.9 Operational definition of key terms**

**Internal audit:** is the dynamic profession involved in helping organizations achieve their objective.

**Financial performance;** in this study this referred to the fulfillment of the Parastatals' financial tasks and objectives in terms of Profitability, Accountability, Service delivery and Shareholder performance.

**Profitability** is the ability of the organization to earn a profit and also generates after it pays all expenses directly related to the generation of the revenue and other expenses related to the conduct of its daily activities.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter presents the theoretical review, the conceptual review, review of related literature and empirical review and research gaps.

#### 2.2 Theoretical Review

Various theories have been formulated on internal audit and financial performance. They include Agency theory; contingency theory and Lending credibility theory. These are discussed below:

##### 2.2.1 Agency Theory

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). A reputable auditor is therefore appointed not only in the interest of third parties, but also in the interest of management. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Adams (1994) in his article stated that Agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form.

### 2.2.2 Contingency Theory

The goal of an audit is to test the reliability of a company's information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company's final results, and the contingency theory takes these factors into account during the audit process.

The contingency theory of leadership and management states that there is no standard method by which organizations can be led, controlled and managed. Organizations and their functions depend on various external and internal factors. The functions of audits are themselves, types of organizations that are affected by various factors in the environment. The presence of such factors is why auditing can be managed by applying the contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors.

Daft (2012) in his book writes: Contingency means: one thing depends on other things and Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project.

Audit teams use a mix of structure and contingency to get the output rolling quickly. The subject of auditing projects can include such diverse areas as evaluation of production processes, inspection of company accounts, and assessment of compliance with industry standards. Selecting auditors with specialized training or those who have a particular skill set in the subject area minimizes the learning curve and reduces opportunities for errors. The quality and output of audits remain assured when audit teams use resources according to expertise and experience, and when auditors are flexible and can adapt to process fluctuations. For example, an auditor experienced in evaluating financial instruments can be effective in an audit exercise of un

organization or hedge fund, even when the financial instruments the institution offers do not fit the typical mould (Davoren, 1994).

### **2.2.3 Lending Credibility Theory**

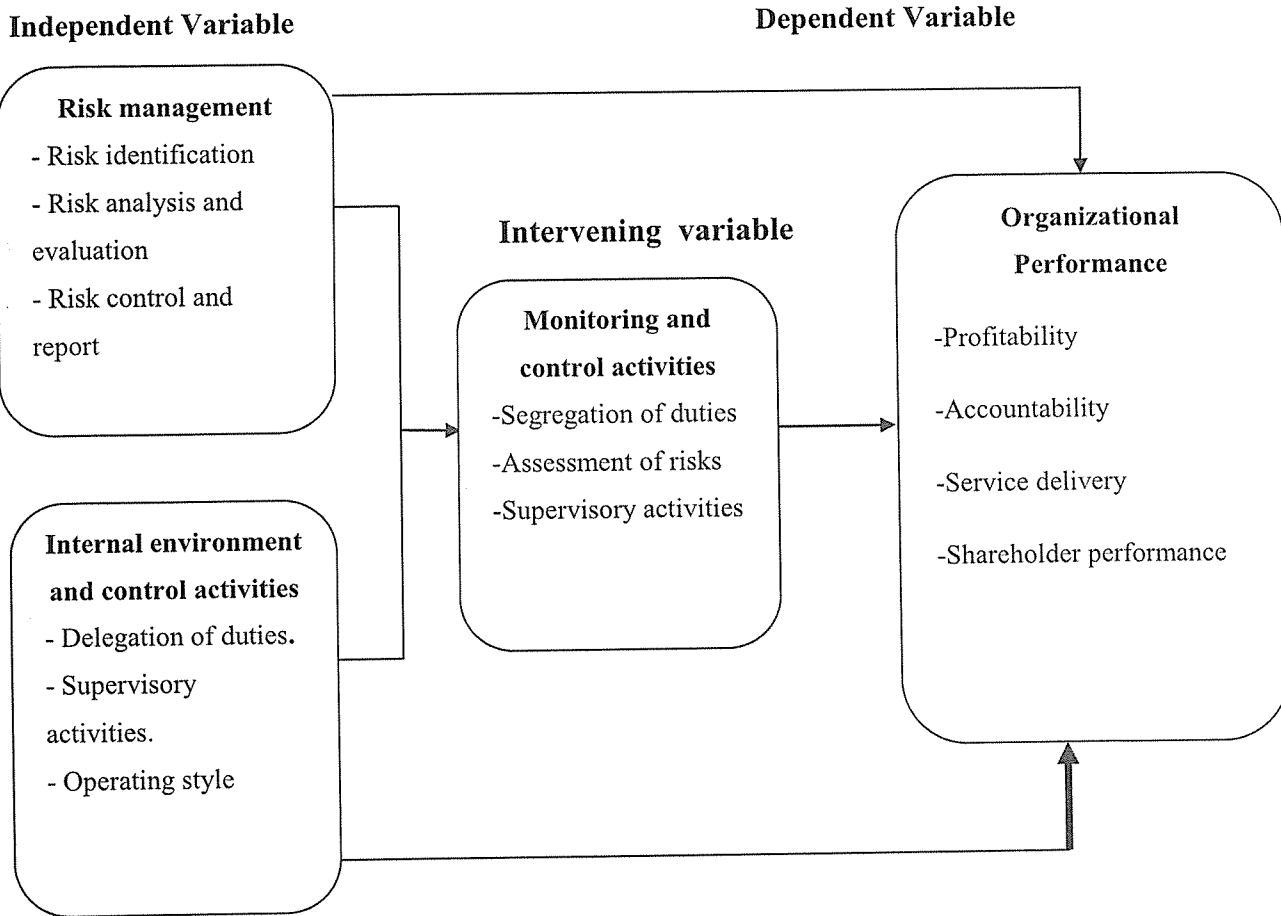
Volosin, (2007) in his book mentioned that the lending credibility theory is similar to the agency-theory and it states that audited financial statements can enhance stakeholders faith in management's stewardship. The business world consists of different groups that are affected by, or participate in, the financial reporting requirements of the regulatory agencies. They are shareholders, managers, creditors, employees, government and other groups. The major recipients of the annual reports are the shareholders, including individuals with relatively small shareholding and large institutions such as insurance companies. Their decision is usually based on the financial reporting and the performance of the company's management, who have a responsibility to act in the interests of investors. Thus, the purpose of the financial statements.

The auditor is appointed by the company's shareholders and reports his results to his clients. The aim of the auditor's report is to comment on how accurately the company presents its financial situation and how it is performing. This should reassure the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light. Basically, the audit is represented as a process designed to evaluate the credibility of information of a company's financial statements (Letza, 1996).



## 2.2 Conceptual Review

Figure 2.1: Conceptual Framework



**Source:** Modified by Researcher from Davoren, 1994

Mugenda and Mugenda 2008 define conceptual framework as a system of variables operationalized by the researcher in an attempt to realize the set objectives. The independent variables in this research are, risk management, internal audit environment, and monitoring and control activities. While the dependent variable is organization performance of national water and sewerage corporation.

## **2.3 Review of Related literature**

### **2.3.1 Internal Audit Standards**

Glazer and Janie (1980) argued that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Ridley and D'Silva (1997) found in the UK that complying with professional standards is the most important contributor to IA's added value.

Standards for audits and audit-related services are published by the IIA (2008) and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and Governance using a systematic and disciplined approach. This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad 2000). It can thus be argued that greater quality of IA work – understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution was to improve the audit's effectiveness.

### **2.3.2 Independence of Internal Audit**

According to Cai Chun (1997) Independence is the essence of auditing. An internal auditor must be independent of both the personnel and operational activities of an organization. Otherwise, the integrity of the auditor's opinions, conclusions and recommendations would be suspect. So, independence is necessary for the effective achievement of the function and objective of internal audit. This independence is obtained mainly from two characteristics – organizational status and objectivity.

Mgr Lon Bogdan Dumitrescu in his article of internal audit organizations (2004) acknowledges that every organization should have an internal audit department on which – with regard to the

volume and nature of its activities – it can rely. In smaller organization internal audit is often provided externally. The internal audit department in institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the organization. Every organization should have formalized principles of internal audit providing for its position and powers in the framework of the NWSC. There should here be codified the scope of work of internal auditors, the position of the whole department in the organizational structure, relations with other control departments.

Internal audit must be objective and impartial, meaning that it should perform its activity free of doubts and interference. Members of the internal audit team may not participate in the NWSC operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the organization. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided. The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the department's employees must always be ensured, as must their regular training. The internal audit department is responsible to the organizational management and its board of directors, possibly also to the audit committee, if the organization has one. These bodies of the organization should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department's objectives.

### **2.3.3 Professional Competency**

Detecting fraud is a challenging task. Perpetrators actively engage in deception in an attempt to conceal their behavior, auditors may have limited experience in fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect (Herz and Schultz, 1999; Kaplan et al., 2010; Nieschwietz et al., 2000). Hence, the organization would be optimally served by

identifying and utilizing those individuals who, because they appear to share certain unique personality traits or characteristics, may be best suited to the fraud detection task. For example, Uecker et al. (1981) used perceptions of relative aggressiveness between internal and external auditors to investigate the detection of corporate irregularities. Internal auditors play an important role in fraud detection with most frauds identified by the internal audit function (KPMG, 2003, Norman et al., 2010). Due to the importance of effective fraud detection, any measures that can enhance the efficacy of auditors should be of value. While experience and ability are undeniably important in the detection process, certain individual characteristics may be predictive of the capacity to detect fraud (Ashton, 1999). Understanding how auditors are perceived, and how these perceptions lead to beliefs regarding their detection abilities, is an important first step in relating personality traits to the efficacy of auditors.

A review of the research reveals a general acknowledgment that the five factor model can be used as a descriptive mechanism for the most salient elements of an individual's personality (Judge et al., 2002). Conscientiousness is the personality dimension primarily responsible for organizing and directing individual behavior, and conscientious individuals may be characterized as responsible, diligent, persevering and thorough (Digman and Takemoto-Chock, 1981).

Wells (2003) conducted a series of interviews with successful fraud examiners and found that these individuals exhibited a cluster of common traits including perseverance, diligence and integrity – each of which is an attribute of the conscientiousness dimension. Within the context of the five factor model, only conscientiousness has been found to reliably predict job performance across all occupational groups (Robertson et al., 2000). Indeed, some studies have demonstrated that conscientiousness correlates with task performance just as strongly as cognitive ability (Alonso, 2000).

Previous research has demonstrated a linkage between conscientiousness and task performance, and the linkage has been shown to be stable across time (Barrick et al., 1993). Conscientiousness can affect job performance in a number of ways. Conscientious employees are generally more reliable, more motivated, and harder working; they are also likely to devote more energy to the task at hand and spend less time daydreaming (Viswesvaran, 2006). This results in greater assimilation of task related knowledge, leading to greater productivity (Ones and Viswesvaran,

2006). Conscientious individuals would be expected to pay more attention to detail and profit more from vicarious learning, thus gaining enhanced job knowledge and being more productive (Bandura, 1977; Viswesvaran, 2006). These assertions were confirmed by Colquitt et al. (2000) who showed that conscientiousness was highly correlated with motivation to learn and by Borman et al. (1991) who demonstrated a positive association with job knowledge.

#### **2.3.4 Internal Control**

Controls audits are designed to ensure that appropriate controls over systems and software are in place to ensure that internal controls and internal checks are functioning as designed, (Haylas and Ashton, 1982). Controls audits can have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Controls audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. Internal controls audit objectives relate to management's plans, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes planning, organizing, directing, and controlling program operations and the systems put in place to measure, report, and monitor program performance, (Esmailjee, 1993).

Haylas and Ashton (1982) in their effort to provide evidence on the effectiveness of particular audit techniques in detecting errors that affect the financial statements suggested that all intentional errors are concentrated in relatively few audits and these are fairly predictable by industry. The great majority of such errors affect income but the direction of effect may either be an understatement or over statement. Regarding the signaling of an error, they found that the large portion of financial statements errors are initially signaled by less rigorous audit procedures such as analytical review and discussions with the client. Client personnel problems such as inexperience, incompetence and insufficient knowledge and inadequate control follow up or reviews were found instrumental in causing the errors.

Salih (1983) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the

existence of control is very crucial especially under today's condition with severe competition which place premium on reliable customers' services, on consideration of cash, on realization of capital assets and manpower and on other reduction costs. Esmailjee (1993) studied the internal controls of Nyayo Bus Service Corporation – a state corporation. He observed that cash receipts as well as cash disbursements bear fairly strong controls attributed to the fact that the government accounting system is still in operation. However, the payroll and the stores accounting systems had a lot to be desired. Regarding the Organizational chart, a lot of information was missing. The internal auditor was being underutilized as he was charged with the responsibility of performing routine control checks which were also performed by the examination section. This led to duplication of efforts and down playing of the internal auditor's effective role.

Keitany (2000) in a study of internal audit control functions and its implications for risk assessment by the internal auditor: A case of quoted companies concluded that even though the extend of reliance on internal control is not sensitive to the strengths of audit departments, companies should not do away with it. This is because as a management tool it should assist management in its day to day operations and not necessarily of any relevance to the external auditor. This may be attributed to the fact that external auditor may have specific considerations which may be beyond the strength of internal controls problem experience a significant increase in market-adjusted cost of capital and firms that subsequently improve their internal control systems exhibit a decrease in their market adjusted capital.

## **2. 4 Empirical Review**

Only a few academic studies have examined the effectiveness of internal audit, and even fewer have dealt with the issue empirically. In one of the very few studies that examined the function of internal auditing on organizational performance, the organization are monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. While that study offers a useful jumping-off point for understanding how good auditing can improve a company's performance,

it does not go far enough in explaining when and why internal audit works, and the conditions that facilitate or impede it. Helping to bridge this gap was to be one of the main contributions of this study.

According to Cooper and Craig (1983), on his study on the role of internal audit in the Asia Pacific region. This seminal research on internal audit in Australia found a number of issues that were of concern to the profession. It was found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time.

There was nevertheless strong support for internal audit by CEO's and at the time it was seen as offering long-term career prospects. However, the profession in Australia in the early 1980's suffered from an image problem, it did not have a strong professional body to represent its interests as it has now, and there were no generally accepted professional qualifications recognized as necessary to practice as an internal auditor. The study was undertaken before the development of modern internal auditing, as we know it now. It did, however, set the scene for a number of subsequent studies in Australia, Hong Kong and Malaysia.

According to Peurseem (2004), a major study was been undertaken in New Zealand on internal auditor's role and authority. In this study, internal auditors were asked to come to a view on whether functions they perform in connection with audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. The research constituted a survey of New Zealand auditors, all of whom were members of the New Zealand branch of the IIA. A very high percent (73%) response rate was achieved over the original and follow-up survey. The study found that characteristics of a true' profession exist but do not dominate. Significantly, and as subgroups, Peurseem also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy- trained auditors may enjoy greater status owing to the mystique' of the activities emanating from their membership of well-known accountancy professional bodies.

The research supports prior studies by Coopers and Craig (1983), Cooper et al. (1966) and Gramling (1997) which all expressed serious reservations about the effectiveness of the internal auditor's role. In a follow up study in New Zealand, Peurseem examined the role of the New Zealand internal auditor and conceptualizes on the auditor's influence over that role. The fundamental questions how an effective internal auditor can overcome the tension of working with management to improve performance, while also remaining sufficiently distant from management in order to report on their performance.

The research found that there are three concepts characteristic of those who best balanced their role: the internal auditor external professional status; the presence of a formal and an informal communication network; and the internal auditor's place in determining their own role. Informing these concepts is the auditor's ability to manage ambiguity. This was a qualitative study using a multiple case-based approach in which the researcher made observations, examined documents and interviewed senior internal auditors in six New Zealand organizations. However, it is a very thorough study and offers insights arguably not readily available in more traditional quantitative research.

According to Basel Committee report (2002) each organization should have a permanent internal audit function in order to fulfill its duties and responsibilities. The senior management should take all necessary measures so that the organization can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations. These measures include providing the appropriate resources and staffing to internal.

A survey, by Ernst & Young, polled 695 chief audit executives and C-suite executives and found that 80 per cent of them admitted that their organization's internal audit function has room for improvement. The report found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance. An equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issue



Ndege (2012) researched on Performance and financial ratios of NWSC. The objective of his study was to identify factors, in a ratio form that shape NWSC performance as measured through return on assets (ROA) and return on equity (ROE). In his study he concluded that ROA and ROE can be used to measure financial performance of NWSC. Internal audit operations and recommendations do not only have short-term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However it seems that laxity has crept in and it is in light of this view that we seek to analyze the factors affecting implementation of internal audit reports of NWSC.

## **2.5 Research Gap**

Abdi (2015) investigated the impact of internal audit system on financial performance in Mogadishu private banks. There exists a contextual gap as the study focused on private banks and not water service providers. A geographical gap also exists as the study was not carried out in Kenya. Mwakimasinde, Odhiambo and Byaruhanga (2014) investigated the effect of internal audit systems on the financial performance of sugarcane out grower companies in Kenya. There exists a contextual gap as the study focused on sugarcane out grower companies and not water service providers

Njanike, Mutengezanwa and Gombarume (2011) assessed factors that influence the internal audit in ensuring good corporate governance in financial institutions in developing with special reference to Zimbabwe. The study failed to incorporate the aspects of audit function discussed in the current study. A geographical gap exists as the study was carried out in Zimbabwe and not in Kenya. Hamza, Mutala and Antwi (2015) assessed cash management practices and its effect on the financial performance of SMEs in the Northern Region of Ghana. The study failed to incorporate segregation of duties, cash reconciliations and budget variance analysis which are discussed in the current study. The study focused on SMEs and not water service providers thus presenting a contextual gap.

## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

This chapter discussed the approaches and techniques the researcher used when collecting data analyzing the data and presenting the findings. These include the research design, target population, data collection methods and data collection methods and data analysis techniques.

#### 3.1 Research Design

The study was to adopt a descriptive cross-sectional research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem. Survey designs were found to be accurate in descriptive studies and generalizations of results (Ngechu, 2004). The advantage of this type of research design is that it is easy to understand as recommended by (Kothari, 2005). This design attempts to collect data from members of the population and describes existing phenomenon with reference to audit function.

#### 3.2 Target Population

A population has been defined as the total collection of elements about which inferences are made and refers to all possible cases which are of interest for a study (Sekaran, 2008). Other scholars like smith (2011) view population as the large collection of all subjects from where a sample is drawn. The population of the study was 100 chief internal auditors of National Water and Sewerage Corporation in Uganda. They were be clustered into large, medium and small presented in tabular way. The population was to be justified on the basis that the secondary data on financial performance would be on a company to company basis.

#### 3.3 Sample Size

Kothari's (2004) recommends that a sample of 10% to 30% of the target population is a sufficient representation of the population. The sample was drawn using stratified random

sampling technique. The data was treated on the basis of applicability to the study, relevance, accuracy and sufficiency.

A sample of 80 respondents was considered. These wascomprise of the business people who deal in the NWSC services as they were 36 support staff, 22 Middle Managers and 22 Administrators of NWSC.

The number of respondents was arrived at by using the Slovene's formula as illustrated below.

Slovene's formula  $n = \frac{N}{1+N(e)^2}$

Where **n** = Sample size

**N** = Population size

**e** = Marginal error which is 0.05

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = \frac{100}{1 + 100 * (0.0025)}$$

$$n = \frac{100}{1 + 0.25} = 80 \text{ respondents}$$

**Table 3.1: Showing sample size and sampling techniques**

<b>Respondent category</b>	<b>Population</b>	<b>Sample size</b>	<b>Sampling technique</b>
Support staff	40	36	Simple random
Middle Managers	30	22	Purposivesampling
Administrators	30	22	Simple random
<b>Total</b>	<b>100</b>	<b>80</b>	

**Source Field data: 2019**

### **3.4 Sampling techniques**

According to Sekaran (2003), sampling is the process of choosing the research units of the target Population, which are to be included in the study. The study used simple random sampling during the process of data collection from the study respondents. The study was to apply purposive sampling technique because it gives all the people the chances of being selected. Simple random sampling will be used to select all the study respondents during data collection process in the study area.

### **3.5 Data Collection techniques**

The researcher was administer a survey questionnaire to each member of the target population. The questionnaire was to be carefully designed and tested with a few members of the population for further improvements. This was to be done in order to enhance its validity and accuracy of data to be collected for the study.

### **3.6 Validity and reliability**

#### **3.6.1 Validity of instruments**

This was obtained through the development of the scales with the help of the experts in the field using the content validity index (CVI). This was to confirm the dimensions of the concept that was to be operationally defined, to ensure appropriateness of results (Mugenda and Mugenda, 1999).

#### **3.6.2 Reliability of instruments**

The reliability of the questionnaire was improved through pre-testing of pilot samples both from staff and clients. This was to enable the re-phrasing of some questions. All alpha reliabilities ( $\alpha$ ) for all scales are expected to score above 0.5 so as to meet the acceptance standards for research according to Nunnally, (1978).

### **3.7 Data processing and analysis**

Burns and Grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. According to Hyndman (2008), data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure. After quantitative data is obtained through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keyed into statistical package for social sciences (SPSS) computer software for analysis. The statistics generated was to include descriptive and inferential statistics. Microsoft Excel was used to complement SPSS especially in production of charts and tables. The particular descriptive statistics was include frequencies and percentages while the particular inferential statistics was include correlation analysis and regression. Correlation analysis will establish the association between the variables while a multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. The choice and justification of using multiple linear regression models is that it is useful in testing the causal / effect relationship between organization capabilities and water service delivery.

### **3.8 Ethical considerations**

The respondents were protected by keeping the information given confidential and where there is a need to reveal, consent will first be sought and obtained. The questionnaire was not disclose the details of respondents for the issue of privacy and secrecy. After collection of data, questionnaire was destroyed to avert leakage of information.

### **3.9 Anticipated Limitations of the Study**

Respondents withholding information due to fear of being victimized but however, the researcher was convince the respondents that the information was to be kept safely.

Unwillingness of respondents to fill the papers. The researcher was to try to be in constant touch with the respondents and make sure reminders are sent to them to fill the questionnaire.

Respondents having a view of not obtaining any direct benefit from the research results. The researcher will try his level best to convince the respondents to spare some little time to answer the questions.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.0 Introduction

This chapter focuses on the presentation of the study. These findings have been grouped according to objectives. The task of this study was to assess the function of internal Audit on financial performance of National Water and Sewerage Corporation, main Branch

#### 4.1 Background information

This involves the respondent's personal information. It includes their gender, marital status and education level

##### 4.1.1 Response rate

**Table 4.1: Showing response rate**

Details	Response	Non Response	Expected Response
Frequency	56	24	80
Percentage	95	05	100

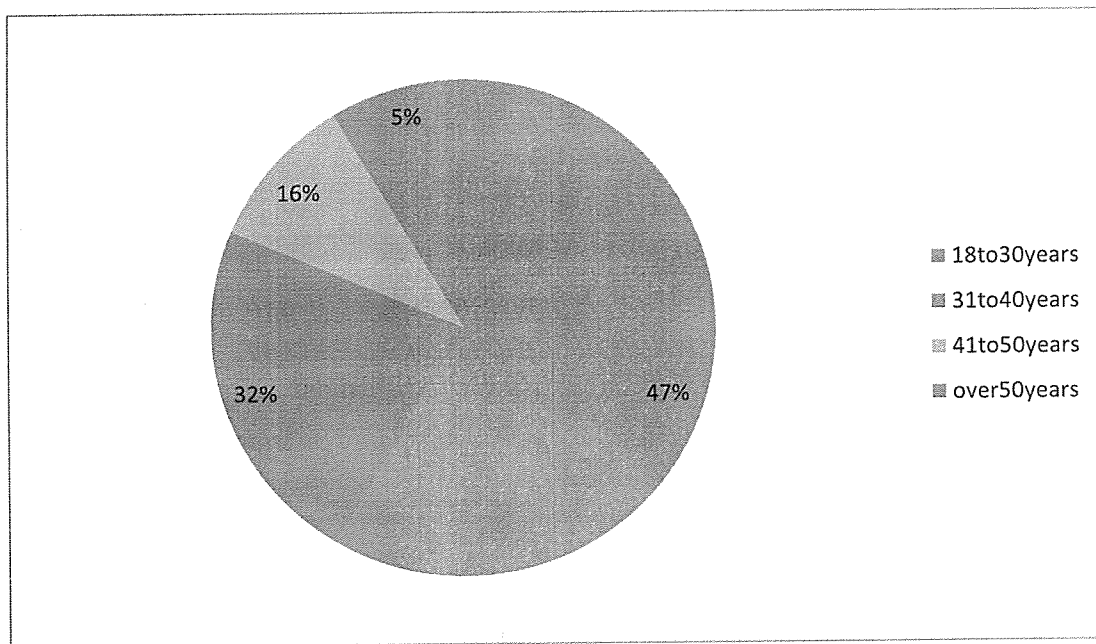
#### Source field data 2019

From the table 4.1, 95% of the respondents responded and 05% did not respond. This implies that more people participated in the research hence the findings of the study can be relied upon as they are representatives.

#### 4.1.2 Response on Age of the Respondents

The study sought to establish the age distribution of the respondents and the findings were as follows.

**Figure 4.1: showing respondents age distribution**



**Source: Field data: 2019**

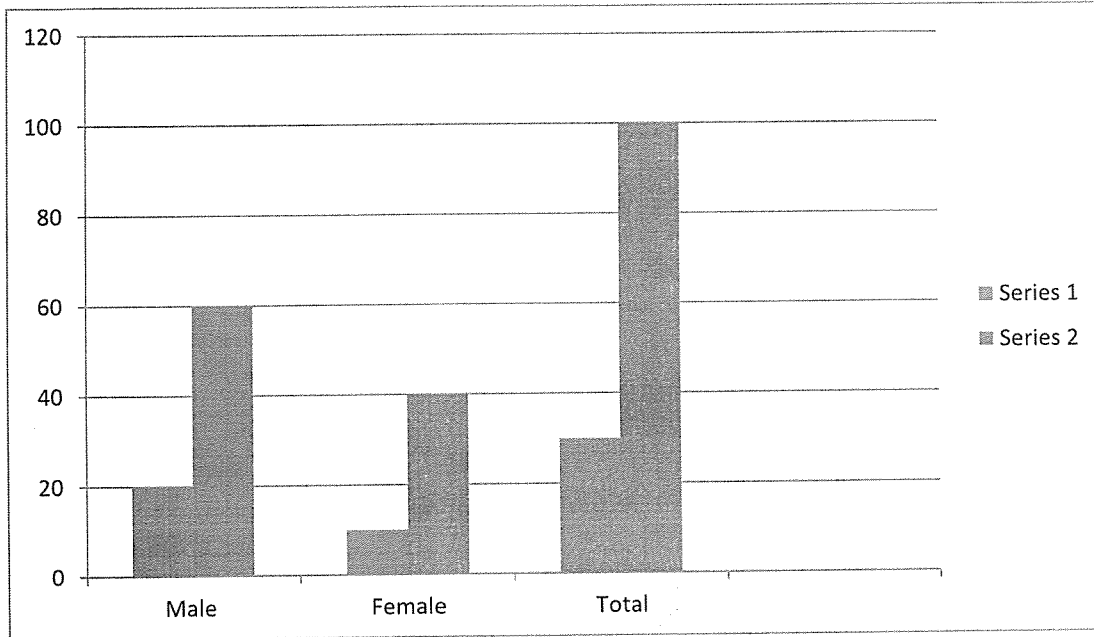
The findings indicate that majority of the respondents were aged (18 to 30 years), 09(47%). While minority were above 50 years, 01 (05%), with a few aged 31 to 40 years, 06 (32%). While the rest where between 41 to 50 years 03 (16%)

This shows that majority of the respondents would give objective information about the study because they are of age who has some experience in the business.



### 4.1.3 Gender of Respondents

Figure 4.2: Showing respondents gender



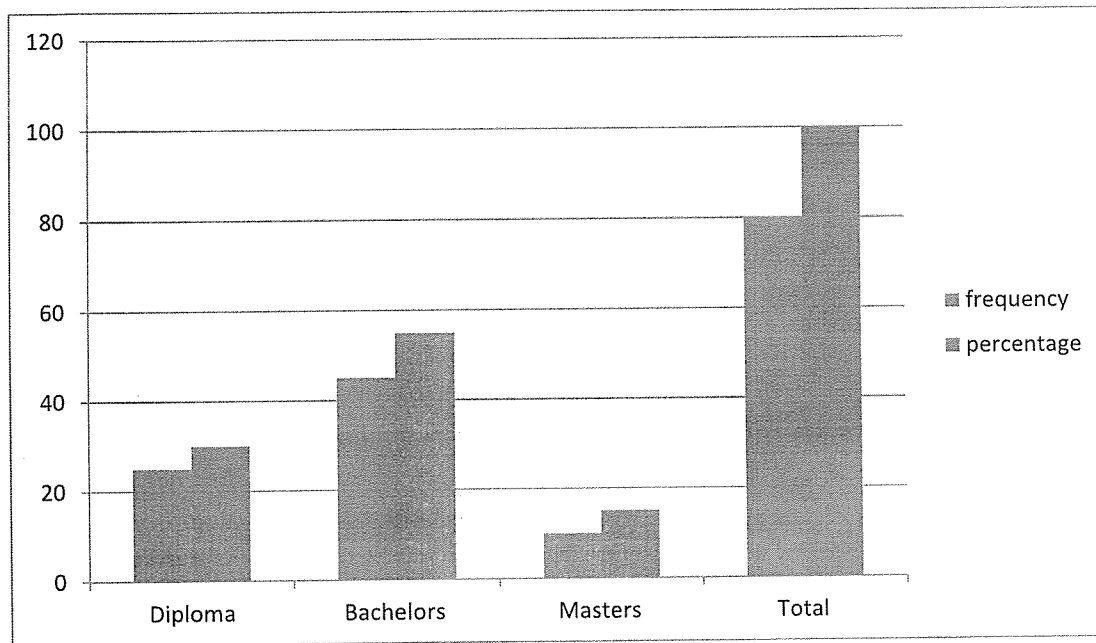
Source: Field data:2019

According to figure 4.2, 63% of the respondents were male while 37% were females. The findings suggest that majority of the people or staff involved in the internal control systems of National Water and Sewerage Corporation, main branch are males while the females are the minority. This could be due to the many technicalities involved in the internal control systems for which the females usually fear to undertake systems or process.

#### 4.1.4 Respondent level of education

The following figure shows the highest level of Education attained by the respondents

Figure 4.3: Showing Respondents level of Education



Source Field data: 2019

Figure 4.3 shows that majority of the respondents, 14 (74%) had reached degree level while the minority, 02 (11%) had reached masters degree while a few, 03 (15%) had reached Diploma. These findings suggest that most of the workers at National Water and Sewerage Corporation main branch are Bachelors degree Holders, with a few Diploma holders and masters Degree. No one had attained a phd.

This implies that most of the workers of National Water and Sewerage Corporation, main branch were professionally qualified and therefore they might have been employed due to their professionalism, skill and integrity manifested in their professional courses that each one of them pursued.

#### 4.1.5 Response on the period spent in current job positions by respondents

The respondents were required to declare the period spent in current positions they held in National Water and Sewerage Corporation, main branch and the responses were as follows

Table 4.2: Response on the period spent in current job positions by respondents

Period	Frequency	Percentage (%)
Less than 2 years	16	15.8
3-5 years	42	57.9
Over 5 years	22	26.3
Total	80	100

Source: Field data:2019

Majority of the respondents 42 (57.9%), had spent between 3 to 5 years at the branch while the minority, 16(15.8%), had spent over 5years at the branch while a few, 22 (26.3%) had spent less than at the branch meaning that the 57.9% majority was sufficient enough to provide the researcher with the data needed in his study.

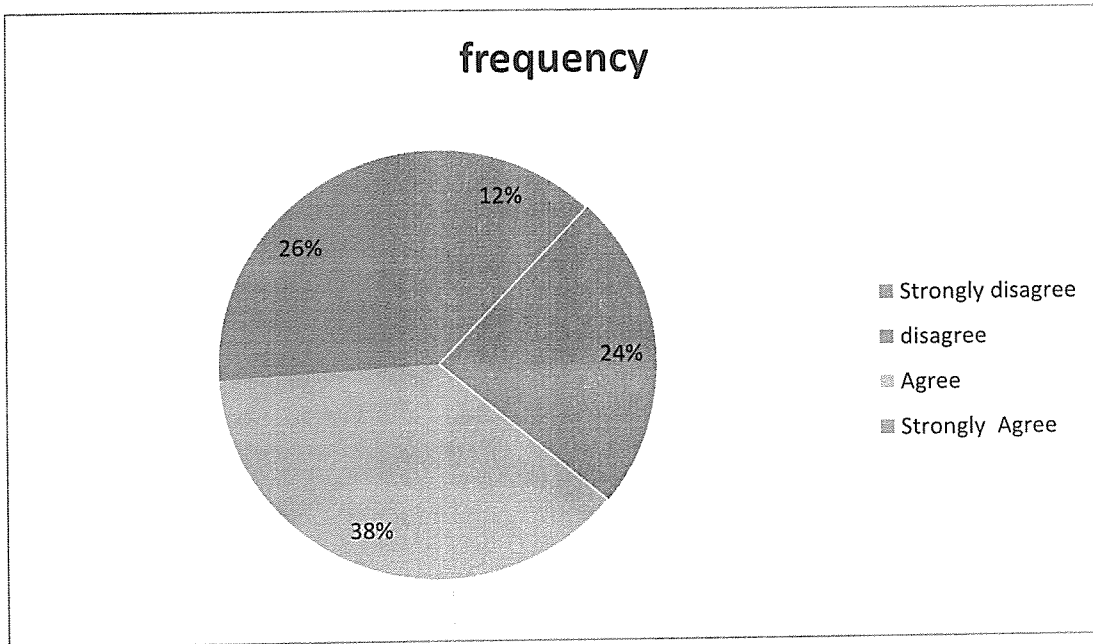
## 4.2 Segregation of Duties

**Table4.3: Response on the Segregation of Duties**

Statement		Strongly disagree	Disagree	Agree	Strongly Agree	Total
The organization has an organization chart that clearly defines lines authority and responsibility	freq	4	18	26	10	56
	%	5.3	15.7	42	36.8	100
Personnel policies are maintained and distributed to all personnel	freq	4	20	24	8	56
	%	5.3	26.3	36.8	31.6	100
The reporting system on organization structures spells out all the responsibilities of each section	freq	6	24	22	4	56
	%	15.7	31.6	42	10.5	100
It is impossible for one staff to have access to all valuable information without the consent of senior staff	freq	8	26	14	8	56
	%	21	42	15.7	21	100
All employees understand the concept and importance of internal function including the division of responsibility	freq	9	7	26	14	56
	%	10.5	5.3	52.6	31.6	100
Total responses	freq	11	23	36	25	95
Percentage responses	%	11.6	24.2	37.9	26.3	100

**Source: Field data:2019**

**Figure 4.4:Segregation of Duties**



**Source: Field data: 2019**

According to figure 4.4 38% of the respondents agreed with the information in the segregation of Duties while 26% of the respondents strongly agreed with the segregation of Duties as a case in point, 24% Disagreed with the information in the segregation of Duties and the minority (12%) strongly disagreed with the information in the segregation of Duties.

This implies that most of the workers of National Water and Sewerage Corporation, main branch were could agreed with the system of segregation in duties this comes due to the technology in the company.

### 4.3 Cash Reconciliations

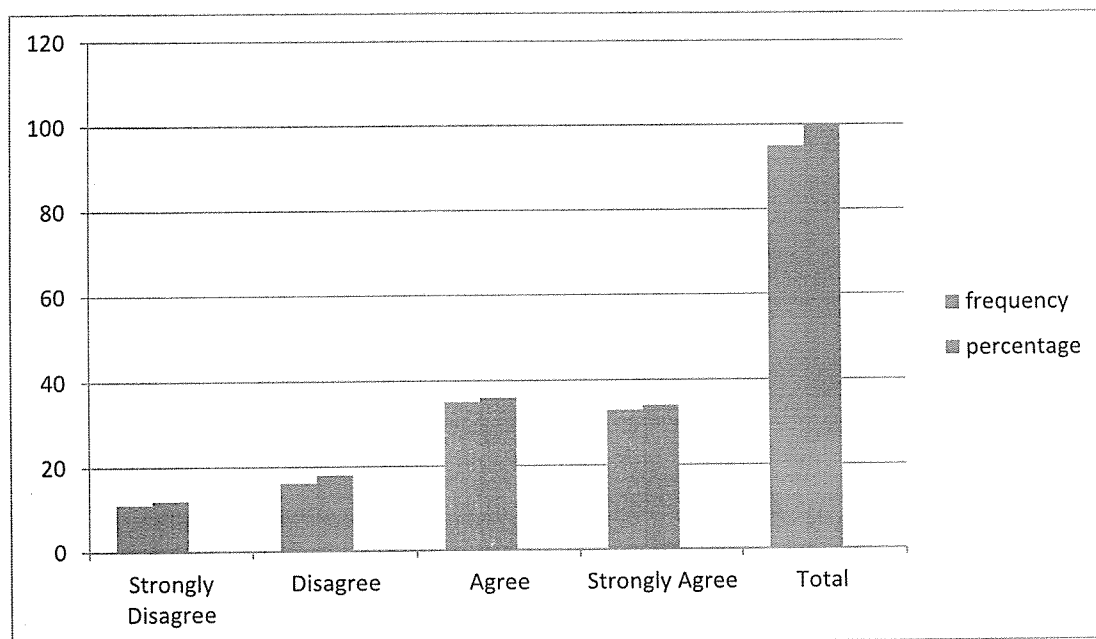
**Table 4.4: Showing response on the Cash Reconciliations**

Statement		Strongly Disagree	disagree	Agree	Strongly Agree	Total
The petty cash records are regularly reconciled	freq	6	8	26	16	56
	%	10.5	5.3	47.3	36.8	100
There is evidence of management review of cash reconciliations	freq	0	20	28	8	56
	%	0	10.5	52.6	36.8	100
There is a policy to request for compensation for cash shortages from the cash officers	freq	8	8	10	30	56
	%	5.3	5.3	31.6	57.9	100
Reconciled amount are investigated and their sources determined	freq	18	22	12	4	56
	%	10.5	21	42.1	26.3	100
Surprised cash checks are usually conducted	freq	8	16	25	7	56
	%	5.3	15.8	47.3	31.6	100
Total	freq	6	11	42	36	95
Percentage response	%	6.3	11.6	44.2	37.9	100

**Source: Field data: 2019**

**Figure 4.5: Shows cash reconciliation results**

**Chart showing cash reconciliation results**



**Source: field data: 2019**

According to figure 4.5 6 (6.3%) strongly disagreed with the information under cash reconciliation, 11(11.6%) Disagreed with it, 42 (44.2) respondents agreed while 36(37.9) strongly agreed.

This shows that the majority of the respondents would give objective information about the study because cash reconciliation results gives positive information to the company which helps the company to make positive decision.

#### 4.4 Inventory Audits

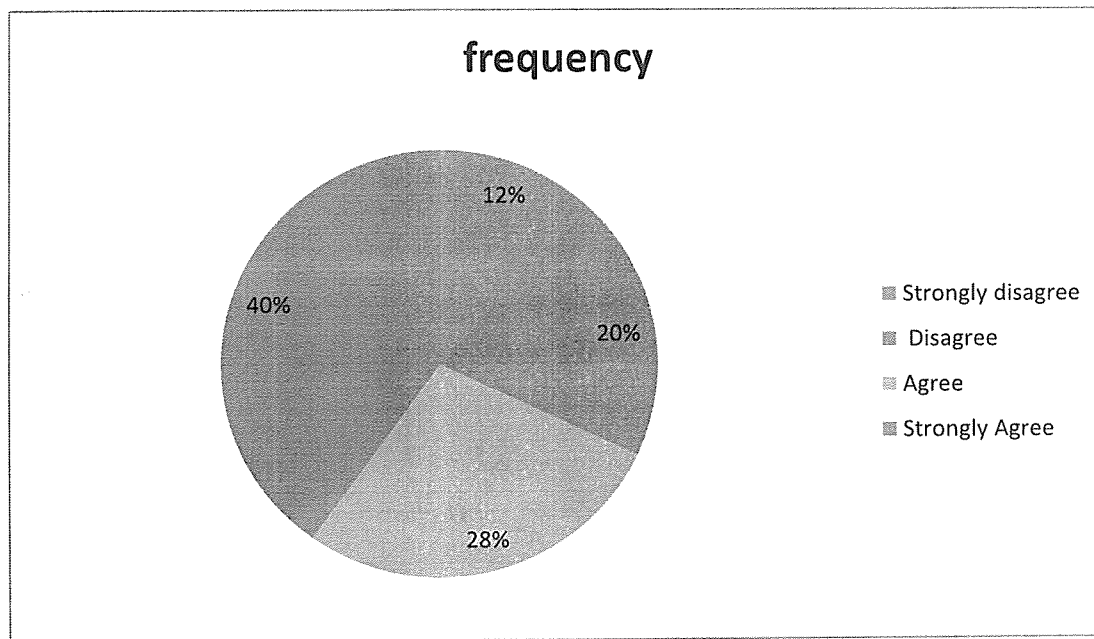
**Table 4.5: Showing Response on the Inventory Audits**

Statement		Strongly Disagree	Disagree	Agree	Strongly Agree	Total
Receiving documents are matched to purchase orders and invoices	freq	6	20	20	10	56
	%	15.8	31.6	31.6	21.1	100
All materials received are counted and inspected prior to entry on storeroom/inventory records	freq	0	0	22	34	56
	%	0	0	26.3	73.7	100
Back-ordered items are properly followed upon to ensure timely receipt of items ordered	freq	4	10	19	23	56
	%	10.5	21.1	26.3	42.1	56
Withdrawals from stock are made only receipt of approved documentation	freq	15	21	10	10	56
	%	26.3	31.6	21.1	21.1	100
Inventory records are maintained based on periodic physical counts or a perpetual system	freq	3	9	21	23	56
	%	5.3	15.7	58.8	42.1	100
Total responses	freq	11	19	27	38	95
Percentage responses	%	11.6	20.0	28.4	40.0	100

**Source: Field data: 2019**



**Figure 4.6:Represents Inventory Audit results**



**Source: Field data: 2019**

Figure 4.6 show that 12% of the respondents strongly disagreed 20% disagreed,28% Agreed while 40% strongly agreed with the statements under inventory Audit

This implies that most of the workers of National Water and Sewerage Corporation, main branch were could agreed with the system inventory Auditing where this comes due to improved the technology in the company.

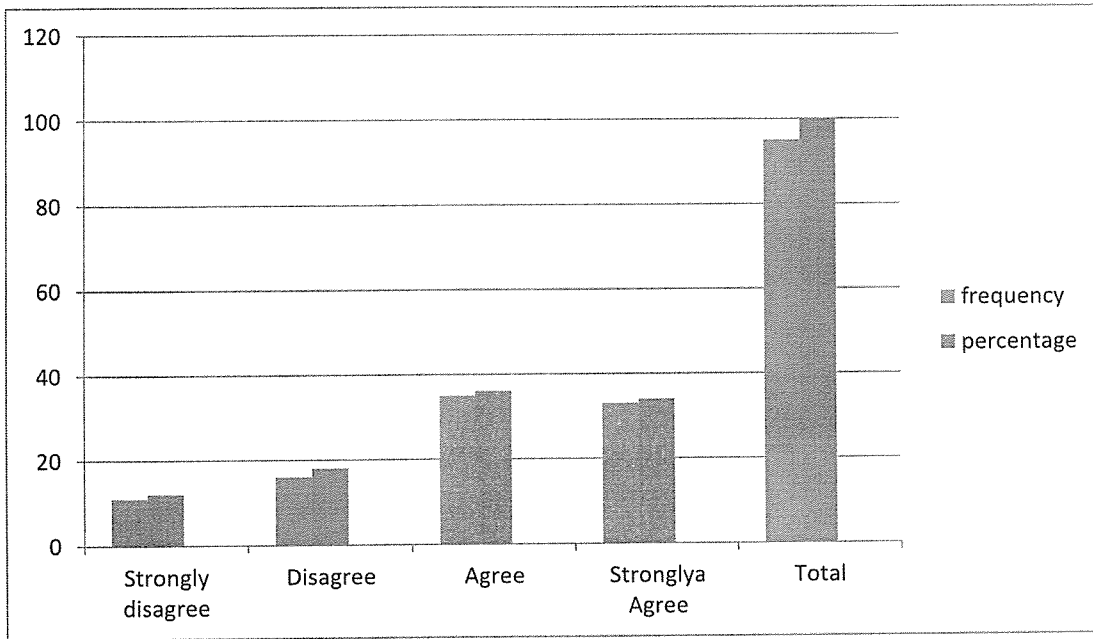
#### 4.5 Cost management

**Table 4.6: Showing response rate on the Cost management**

Statement		Strongly Disagree	Disagree	Agree	Strongly Agree	Total
Controls are in place to exclude incurring expenditure in excess allocated funds	freq	4	3	21	28	56
	%	10.5	5.3	36.8	47.4	100
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	freq	0	0	42	14	56
	%	0	0	84.2	15.8	100
Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports	freq	3	18	24	11	56
	%	5.3	21.1	42.1	31.6	100
Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports	freq	3	10	15	28	56
	%	5.3	10.5	36.8	47.4	56
There are independent process checks and evaluations of controls activities on ongoing basis	freq	0	4	26	26	56
	%	0	5.3	47.4	47.4	100
Total responses	freq	4	8	47	36	95
Percentage responses	%	4.2	8.4	49.5	37.9	100

**Source: Field data: 2019**

**Figure 4.7: Show cost management results**



**Source: Field data: 2019**

From figure 4.7 shows that 4.2% of the respondents strongly disagreed, 8.2% of the respondents disagreed 49.5% of the respondents agreed while 37.9% of the respondents agreed strongly with the statements under cost management as per the study of the researcher where this could help the company to reduce on losses which is made in the company.

## CHAPTER FIVE

### PRESENTATION OF FINDINGS, CONCLUSIONS AND RECOMMENDATION.

#### 5.0 Introduction

This chapter provides a summary of finding draws conclusions and makes recommendations on the function of internal Audit on financial performance of public institutions in Uganda particularly

##### 5.1.1 Segregation of duties

From the study findings 42% responded that the organization has an organizational chart that clearly defines lines of Authority and responsibility, 36.8% responded that personnel policies are maintained and distributed to all personnel , 42% responded that the reporting system on organizational structures spells out all the responsibilities of each section, 15.7% responded that it's impossible for one staff to have access to all valuable information without the consent of senior staff and 52.6% responded that all employees understand the concept and importance of internal controls including the division of responsibility. This implies that the organization defines the line of authority and responsibility through the use of organ gram to ensure effectiveness and efficiency in performance of the organization which is in line with amaka (2012) in his study about the impact of internal control system on financial performance of Mogadishu for which his study concluded that internal control management measure the performance of management and is necessary for the growth and effectiveness of the organization.

##### 5.1.2 Cash Reconciliation

The study findings reveal that 47.3% of the respondents said that the petty cash records are regularly reconciled, 52.6% said that there is evidence of management review of cash reconciliation, 31.6% said that there is a policy to request for compensation for cash shortages form the cash officers, 42.1% said that reconciled amounts are investigated and their sources determined while 47.3% said that surprise cash checks are usually conducted .The auditor needs

not just check the output of the system but also the processes that result from the system. This is a more comprehensive way of dealing with the controls and systems audit.

These findings are in agreement with Barry (2013) findings who noted that systems and controls audit is a kind of open system which starts with an input into the system which is processed to give an output. Consequentially, the systems and controls audit need to start at the data entry point and follow sequentially through the processing stages and finally end at the output stage. This systematic audit process will ensure that the audit process is full proof.

### **5.1.3 Inventory Audits**

From the study findings 31.6% responded that the receiving documents are matched to purchase orders and invoice 26.3% responded that all materials received are counted and inspected prior to entry on store room/ inventory records, 26.3% responded that back ordered items are properly followed up on to ensure timely receipt of items ordered while, 36.8% said that inventory records are maintained based on periodic physical counts or a perpetual system.

### **5.1.4 Cost management**

From the study finding, 36.8% responded that controls are in place to exclude incurring expenditure in excess allocated funds 84.2% responded that departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for variances given, 36.8% responded that management has assigned responsibilities for the timely review of Audit reports and resolution of any non-compliance items noted in those Audit reports while 47.4% said that there are independent process checks and evaluations of controls activities ongoing basis.

## **5.2 Conclusion**

The study concluded that Segregation of duties is very important in reducing on the level of errors because the transactions of one individual are verified by another person which increases on the level of efficiency.

The surprise cash checks usually conducted makes it effective because the members in the cash department are put to a task of reconciling everything in time and presenting every required document concerning cash in time hence facilitating better performance.

The presence of controls to exclude incurring expenditure in excess allocated facilitates the minimization of unnecessary costs hence leading to increased profitability for which this is a good indicator of financial performance for the organization.

The systems and control audit as well as inventory Audit which is done in stages as that of an open system is also an effective way of enhancing the financial performance of a firm. The system and control audit prevents fraud from the input stage through to the processing stage and finally to the output stage of use of systems that are used by the institution. The system and control audit is thus done by auditors who have knowledge of both the technology and the audit process.

Finally, financial statement and this disclosure also influences financial performance of the company. This is through showing activities which are suspect to fraud either through trend analysis or comparative analysis. The study findings have shown that preparation of financial statements is an effective way of ensuring that the company will always be able to show areas that make it not perform as operationally efficient as it should by identifying processes and procedures suspect to the entire financial performance of the institution.

### **5.3 Recommendations**

The study made the following research recommendations:

National Water and Sewerage Corporation should develop operational procedures that would ensure that they are able to safely store source documents that have been used for any of their transactions. The commercial banks should develop strict operational policies that can be used to control the recording, storage and retrieval of source documents as these documents provide a backup of all the happenings in case any of the existing system was to be compromised.

The system and control audit should be done at every stage of the input, processing and output stage. This would ensure that the systems in place are more secure and full proof in terms of operations management. This will improve on the efficiency and effectiveness of National Water and Sewerage Corporation.

The study also recommends that financial statements be prepared much more regularly and not just annually. This can be done quarterly as this will show how the company is faring in terms of financial performance and detect early any signs of fraud that may exist in the system or in the operations of National Water and Sewerage Corporation, main branch.

Interim Audits need to be done in order for the organization to test their compliance with the rules and regulations, financial statements Audits should be done because they are a better way of revealing fraud in the organization.

#### **5.4 Areas of further study**

There is need for further research to be undertaken:

Future research into function audit optimization could focus on how to control on misuse of funds of the organization performance.

Future research into challenges facing the organization optimization could focus on the role of workers and contribution to organization performance.

Future research may also be longitudinal in nature and follow either case or survey respondents over an extended period of time in order to improve on time spent on the organization.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

This questionnaire is designed to collect data onto establish function internal audit on financial performance of organization. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

#### Section A: Demographic Information

1. Gender

Female [ ]                      Male [ ]

2. Indicate where you fall among the following age brackets (years)

Below 25 [ ]

25-34 [ ]

35-44 [ ]

45-50 [ ]

Above51 [ ]

3. Level of education

Secondary Certificate [ ]              Diploma level [ ]

Bachelor's Degree Level [ ]              Masters Level [ ]

Phd [ ]

4. How long have you worked in the organization?

Lessthan2 years [ ] 2-5years [ ]

6-10 years [ ] More than 10 years [ ]

**Professional competence**

5. To what extent does professional competence of internal auditor affect financial performance of organization

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ]

No extent [ ]

- What is your level of agreement with the following statements that relate to professional competence of internal auditor and financial performance of organization NWSC

**(1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-strongly disagree)**

STATEMENT	1	2	3	4	5
Frauddetection,andfraudulentactivitiesareinherentlyunpredictable and difficult to detect and they affect the performance of the organization and difficult to detect and they affect the performance of the NWSC					
In NWSC frauds are identified by the internal audit function					
Measures that can enhance the efficacy of auditors are important for effective fraud detection					
Conscientiousness correlates with task performance just as strongly as Cognitive ability					
The auditors in my organization are qualified to undertake audit function					

**Internal Controls**

7. To what extent do internal controls affect financial performance of NWSC?

Very great extent [ ]

Great extent [ ]                      Moderate extent [ ]

Little extent [ ]                      No extent [ ]

8 What is your level of agreement with the following statements that relate to internal controls and financial performance of NWSC?

(1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-strongly disagree)

STATEMENT	1	2	3	4	5
Controls audits in the organization have features built in to them to ensure That fraudulent truncations are flagged or made difficult to transact					
Intentional errors are concentrated in relatively reward its and these are fairly predictable by industry					
The lack of segregation of accounting and custodian functions hinders fraud detection and reporting					
Cash receipts bear fairly strong controls					
Firms that disclose an internal control problem experience a significant Increase in market-adjusted cost of capital					
The greater the degree of competition, the greater would be the need to control costs					

### Internal audit Standards

9. To what extent does an internal and its standard affect the financial performance of NWSC?

Very great extent                       Great extent

Moderate extent                       Little extent

No extent

10. What is your level of agreement with the following statements that relate to internal audit standards and financial performance of NWSC? (1-strongly agree,2-agree,3-neutral,4-disagree, 5-strongly disagree)

STATEMENT	1	2	3	4	5
Performing auditing work according to internal auditing standards contributes significantly influence the effectiveness of auditing					
Complying with professional standards is the most important contributor to IA's added value					
Standards for audits and audit-related services influence the Performance of NWSC					
Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports					
Auditors to carry out their role objectively and in compliance with Accepted criteria for professional practice					
Internal audit evaluate and contribute to the improvement of Risk Management Control and governance using a systematic and disciplined approach in the organization					

## Independence of Internal Audit

11 To what extent does Independence of Internal Audit affect the financial performance of NWSC?

- Very great extent                       Great extent
- Moderate extent                       Little extent
- No extent

12 What is your level of agreement with the following statements that relate to Independence of Internal Audit and financial performance of NWSC?

(1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-strongly disagree)

STATEMENT	1	2	3	4	5
Independence is the essence of auditing					
An internal audit or must be independent of both the personnel and Operational activities of an organization					
The integrity of the auditor's opinions, conclusions and recommendations would be suspect					
Independence is necessary for the effective achievement of the function and objective of internal audit					
Internal audit in NWSC organizations acknowledges that every organization Should have an internal audit department on which with regard to the volume and nature of its activities it can rely					
The internal audit department in these institution must be Independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes					
Internal auditors may not have a conflict of interests with the organization.					

**APPENDIX II:PROPOSED BUDGET**

<b>AMOUNT</b>	<b>ITEM</b>
Stationary	50.000/=
Papers and pens Transport	70.000/=
Phone calls	30.000/=
Internet usage	30.000/=
Typing and printing	80.000/=
Miscellaneous	40.000/=
Total	300.000/=



**APPENDIX III: TIME FRAME**

ACTIVITY	TIME IN MONTHS			
	May	June	July	August
Proposal writing				
Data collection				
Data analysis				
Submission of the dissertation				



**COLLEGE OF ECONOMICS AND MANAGEMENT  
DEPARTMENT OF ACCOUNTING AND FINANCE**

07<sup>th</sup>/08/2019

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR KITAKULE BILLY 1163-05014-05708**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration Accounting and Finance, Third year Second semester.

The purpose of this letter is to request you avail him with all the necessary assistance regarding his research.

**TOPIC: - INTERNAL AUDIT FUNCTION AND FINANCIAL PERFORMANCE OF PARASTATALS IN UGANDA**

**CASE STUDY: - NATIONAL WATER AND SEWERAGE CORPORATION**

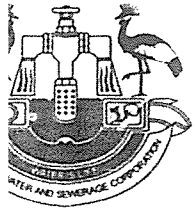
Any information shared with him from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

07 AUG 2019

**DR. JOSEPH B.K. KIRABO**  
**CHOD - ACCOUNTING AND FINANCE**  
**0772323344**



**NATIONAL WATER AND SEWERAGE  
CORPORATION**

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TO WHOM IT MAY CONCERN

12 August, 2019

Dear Sir/Madam

**RE : ACCEPTANCE LETTER FOR KITAKULE BILLY TO  
CONDUCT HIS FIELD RESEARCH WITH US.**

This is to inform you that **Kitakule Billy** with Registration Number **1163-05014-5708** has been given the opportunity to conduct his field study in our organization under the topic "**Internal Audit Function and Financial Performance of parastatals in Uganda, A case Study of National Water and Sewerage Corporation**". He is expected to conduct his research while collecting data in line with the set questionnaire.

However while at the branch, He will be required to meet his personal expenses

**NATIONAL WATER AND  
SEWERAGE CORPORATION**  
ours Faithful,  
12 AUG 2019  
BOIMGLAZI IVAN  
P.O. BOX 7053 KLA, UGANDA  
Signed Supervisor