

**INTERNAL AUDIT SYSTEM AND FINANCIAL PERFORMANCE OF LOCAL
GOVERNMENTS; A CASE OF MBALE CITY**

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DECLARATION

I **Babita Sarah** declare that this dissertation is my original piece of work and that it has never been submitted to any institution of higher learning or university for academic award.

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APPROVAL

This is to certify that this dissertation was under my supervision and is being submitted with my approval as supervisor.

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Date: 20/10/2023

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DEDICATION

I dedicate this piece of work to my dear parents; Mother, Nandago Gatrude Ruth, my Uncle Mr. Malinga Isaac, my Husband Mr. Wozisi Fred, who excellently supported me every time I needed to be lifted up during the times when I felt so low.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CVI	Content Validity Index
IRAS	Integrated Revenue Administration System
MBA	Master of Business Administration
SD	Standard Deviation
SPSS	Statistical Package for Social Scientist
UCU	Uganda Christian University
$\beta =$	Beta coefficient

ABSTRACT

This study focused on internal audit systems and financial performance of local governments; a case of Mbale City. The study was guided by the following specific objectives; to find out the effect of audit environment on financial performance of Mbale City, to ascertain the effect of risk assessment on financial performance of Mbale City, to ascertain the effect of internal control activities on financial performance of Mbale City, and to establish the moderating role of human factors in the relationship between internal audit system and financial performance of Mbale City. The research employed a cross-sectional survey research design, using a sample of 170 respondents. Simple random sampling and purposive sampling techniques were used to select the respondents and data was collected using questionnaire and interview guide. The findings indicate that internal control activities were the strongest predictor of financial performance of Mbale City ($\beta=0.202$ and $p=0.013$). Audit environment was the second strongest predictor of financial performance of Mbale City ($\beta=0.098$ and $p=0.311$). Finally, risk assessment was the least predictor of financial performance of Mbale City ($\beta=0.068$ and $p=0.491$). It can be concluded that audit environment, risk assessment, and internal control activities all have a positive and significant effect on financial performance. The study recommends that organizations should ensure the independence and adequate resourcing of the internal audit unit, implement robust risk assessment frameworks, and regularly review and update internal control policies to improve financial performance. Additionally, fostering a positive organizational culture that values transparency and accountability, along with providing training and development opportunities for staff, can enhance overall financial performance.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This study focused on internal audit systems and financial performance of local governments. This chapter comprises of introduction, background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significance of the study and conceptual framework.

1.1 Background to the Study

The background of the study is presented in four dimensions namely; historical, theoretical, conceptual and contextual as discussed below.

1.1.1 Historical Background

The concept of financial performance in local governments is deeply rooted in the historical development of internal audit systems, which originated in ancient times. As early as 4000 B.C., governments in Babylon, Greece, Rome, and Italian city-states recognized the need for robust record-keeping systems to ensure accurate accounting and prevent the misuse of financial resources (Ramamoorti, 2003). These early efforts laid the foundation for modern internal audit practices.

In the 1940s, internal auditing began to formalize as a profession with the establishment of the Institute of Internal Auditors (IIA) in 1941 (Dittenhofer, 2001). Although internal auditing had been practiced informally, its recognition as a professional field accelerated due to the complexities of business, government services, and statutory audit requirements (Institute of Certified Public Accountants of Kenya, 2012). By the 1970s, internal auditing had evolved into a rigorous profession with stringent qualification standards (Ramamoorti, 2003).

The evolution of internal audit systems has significantly impacted the financial performance of local governments. Traditionally, internal audits assured that funds were received and spent according to appropriations and relevant laws (compliance audits) and that financial reports accurately reflected the entity's financial position (financial audits) (Beyanga, 2011). This framework has been instrumental in promoting financial transparency and accountability in local government operations.

In Uganda, public entities, including local governments, conduct audits in accordance with the International Standards of Supreme Audit Institutions. These standards ensure that audits are planned and executed to achieve reasonable assurance of fair presentation in annual financial statements (Office of the Auditor General, 2021). Management is responsible for implementing internal audit systems to meet organizational goals effectively and efficiently (Taiwo, 2019). These systems encompass control environment, risk assessment, control activities, information and communication, and monitoring (Taiwo, 2019).

In the context of local governments, internal audit processes serve as critical tools for assessing financial health over specific periods (Mamogale, 2014). Financial performance in this sector is defined as the general measure of an organization's overall financial health (Chew, 2016). Effective financial performance indicates efficient mobilization and utilization of financial resources (Public Finance Management Report, 2008).

Historically, the practice of assessing an organization's financial health has been essential for ensuring accountability. For example, the early church used financial statements to monitor the financial health of the church and provide accountability for resources. Similarly, internal audit systems in local governments enhance financial performance by reducing overheads, identifying efficiency improvements, and minimizing potential losses from inadequately safeguarded assets (Beyanga, 2011).

1.1.2 Theoretical Background

Transaction Cost Theory (TCT), developed by Coase (1937) and re-analyzed by Williamson (1979), provides a framework for understanding the financial performance of local governments. TCT posits that firms operate as a series of contracts to organize and regulate transactions. Transacting parties will continue to work together as long as their total transaction costs remain lower than if each worked separately (Schotanus et al., 2007).

The assumptions of TCT include opportunism, asset specificity, bounded rationality, and uncertainty. Uncertainty refers to risks in business transactions (Williamson, 1994). Bounded rationality acknowledges the limitations of economic actors in processing information accurately (Rindfleisch & Heide, 1997). Opportunistic behavior is the pursuit of self-interest with guile (Williamson, 1994). According to Akerlof (1970), transaction costs are incurred between transacting parties, and high levels of dishonesty increase these costs, reducing the revenue collected by the entity.

In local governments, transaction costs manifest as monitoring costs, accounting costs, and procurement costs. When not regulated, these costs can be inflated by public officials, increasing public expenditure and reducing financial performance (Williamson, 1979). Economic actors in local governments, such as internal auditors, accountants, and procurement officers, may behave opportunistically, leading to cost contingencies and poor financial performance (Williamson, 1994). Transaction Cost Theory (TCT) is relevant to this study as it highlights how opportunistic behavior, bounded rationality, and unregulated transaction costs can lead to increased public expenditure and reduced financial performance, underscoring the importance of effective internal audits to mitigate these issues.

1.1.3 Conceptual background

Internal auditing, defined as an independent, objective assurance and consulting activity, aims to add value and improve organizational operations (Institute of Internal Auditors, 1999). It is an appraisal function that evaluates activities as a service to management (Gupta, 1999). Internal auditing helps organizations achieve their objectives through a systematic, disciplined approach that enhances risk management, control, and governance processes (Institute of Internal Auditors, 1999). The components of an internal audit system include audit environment, risk assessment, communication and information, system observation, and internal audit measures like task separation (Johl et al., 2013). An effective internal audit system boosts financial performance by applying fair standards, monitoring operations, and evaluating work independently (Ondieki, 2013).

Financial performance is the degree to which financial objectives are achieved (Ravinder & Muskula, 2013). It encompasses revenue collection performance, expenditure performance, and financial accountability (Demsetz & Lehn, 1985). Financial ratios from financial statements are vital for measuring financial performance, with liquidity being a key indicator (Bukonya, 2014). Accountability involves justifying and accepting responsibility for transactions and actions (Kwemarira et al., 2019). Financial performance measures an entity's capability to utilize financial resources to achieve its goals.

1.1.4 Contextual Background

Mbale City, located in Eastern Uganda, started operating on July 1, 2020, after approval by the Parliament of Uganda. It comprises Northern and Industrial divisions (Business Focus, 2021). Over the past five financial years, Mbale City has faced significant challenges in revenue collection, consistently failing to meet its revenue projections (Business Focus, 2021).

In an interview with Mr. Akim Watenyeli, a former Member of the Mbale Municipal Development Forum, it was revealed that while the council has the capacity to collect over Shs10 billion, it often

fails to raise even Shs1 billion. Disparities and shortfalls in local revenue collections are major issues (The Independent, 2022; Kitunzi, 2021). Mismanagement and connivance among City staff have exacerbated these challenges, with funds paid by the community often not reaching the City's account (The Independent, 2022). Additionally, the City has failed to collect Ugx. 400 million from contracted companies, further worsening its financial performance (The Independent, 2022).

1.2 Statement of the Problem

Mbale City (formerly Mbale Municipal Council) has in the past five financial years (F/Y) struggled to collect local revenue. For instance, in the F/Y 2020/21, Mbale City suffered a revenue shortfall of more than two billion (2 billion) (Business Focus, 2021). In fact, the City collected only 900 million shillings out of a projected 3.5 billion shillings. According to Business Focus (2021), Mbale City generates as low as one million per month from its multi-billion central market. Whereas Section 170 of the Local Government Act 2007 stipulates that City Councilors are supposed to receive allowances based on locally collected revenue each year, the revenue collected by the Mbale City is not enough to cater as per the expectations (Business Focus, 2021). Mbale City has also been on spot for delay in payment of allowances especially Councilors allowances (Wetondo, 2021), due to mismanagement and under declaration of revenue by City Official for selfish reasons.

The Auditor General Report of 2021 cites irregularities in the management of finances in Mbale City (Office of the Auditor General, 2021). For instance, the report cites over payment of gratuity and salaries to the tune of Ugx 56,417,702 and UGX 4,911,214 respectively; misclassification of funds leading to distortion of budget of performance; and local revenue shortfalls for F/Y ending June 2021 (Office of the Auditor General, 2021). Whereas Mbale City has projected to collect local revenue of up to Ugx 3,565,800,000 in F/Y 2020/21, only Ugx 1,096,022,989 (accounting for 31% revenue performance) was realized (Office of the Auditor General, 2021). Local revenue collection fell short

by Ugx 2,469,777,011 in 2020/21, representing 69% in form of unrealized local revenue (Office of the Auditor General, 2021). Also, the Auditor General report cited insufficiently supported expenditure to the tune of Ugx 419,941,616 in F/Y 2019/20 (Office of the Auditor General, 2020). In 2019/2020, the Mbale City estimated to collect Ugx 7,463,578,834 but only managed to collect only Ugx 544,744,493 representing 7% revenue performance. The City recorded revenue collection shortfall of Ugx 6,918,804,341 (representing 93%) were recorded in local services tax, land fees, business license, other tax revenue, administrative fees and licenses, and miscellaneous revenue (Office of the Auditor General, 2020). Mbale City was also faulted for late award of revenue contracts leading to revenue loss of Ugx 258,909,500 (Office of the Auditor General, 2020). Office of the Auditor General (2020) cited unaccounted for expenditure by Mbale City to the tune of Ugx 65,155,239, failure to collect revenue from the abattoir to the tune of Ugx 72 million, insufficiently supported expenditure of Ugx 419,941,616, and doubtful expenditure of Ugx 7 million.

Furthermore, during the financial year 2017/18 and 2018/19 the City collected only 2.231 billion shillings instead of a projected 3.982 billion shillings and 1.476 billion instead of 3.982 billion shillings respectively reflecting a continuous poor financial performance in terms of locally raised revenues to support the service delivery in the city. By financial year 2019/20, only 0.963 billion shillings were realized (PBS reports to MoFPED). All these are signals of poor audit systems leading to poor financial performance hence poor service delivery in the city. If the above challenges are not urgently resolved, service delivery to the people of Mbale City and the country at large is likely to be delayed or denied which will also tint the image of the ruling government. Poor financial performance of Uganda's local governments like Mbale City could be a reflection of inadequacies in internal controls in place. Therefore, this study intended to establish how the internal audit system affects the financial performance of local governments with Mbale City as a point of reference.

1.3 Purpose of the Study

The primary purpose of the study was to establish the effect of internal audit system on financial performance of local governments.

1.4 Objectives of the Study

The study was guided by the following objectives;

- i. To find out the effect of audit environment on financial performance of Mbale City.
- ii. To ascertain the effect of risk assessment on financial performance of Mbale City.
- iii. To ascertain the effect of internal control activities on financial performance of Mbale City.
- iv. To establish the moderating role of human factors in the relationship between internal audit system and financial performance of Mbale City.

1.5 Research Questions

The study was guided by the following research questions;

- i. What is the effect of audit environment on financial performance in Mbale City?
- ii. How does risk assessment affect financial performance in Mbale City?
- iii. To what extent do internal control activities affect financial performance in Mbale City?
- iv. What is the moderating role of human factors in the relationship between internal audit system and financial performance of Mbale City?

1.6 Scope of the Study

This study covers content scope, geographical scope, and time scope.

1.6.1 Content Scope

The study focused on the effect of internal audit system on financial performance of local governments.

The constructs studied were; Audit environment, Risk assessment, and Internal control activities as independent variables; and local revenue collection, expenditure performance, and financial

accountability as dependent variables.

1.6.2 Geographical Scope

The study was carried out in Mbale City. Mbale City is in the Eastern Region of Uganda. It is the main municipal, administrative, and commercial center of Mbale District and the surrounding sub-region. Mbale is approximately 225 kilometres (140 mi), by road, northeast of Kampala, Uganda's capital and oldest city, on an all-weather tarmac highway. The city lies at an average elevation of 1,156 metres (3,793 ft) above sea level. The coordinates of the city are 1°04'50.0"N, 34°10'30.0"E (Latitude:1.080556; Longitude:34.175000). The city also lies on the railway from Tororo to Pakwach. Mount Elgon, one of the highest peaks in East Africa, is approximately 48 kilometres (30 mi), North-East of Mbale, by road. The Mbale City offices are located on plot 62,68 Republic Street, Mbale, Uganda. The Mbale city comprises of two divisions (Industrial and Northern Division). It is one of the local governments in Uganda where cases of shortfalls in revenue collection have been reported of recent. This is a bad signal and it is evidence that the financial performance of Mbale City is not pleasing hence need to explore the possible solutions to this challenge.

1.6.3 Time Scope

The study was conducted between March 2022 to August 2023. This time frame was sufficient to obtain reliable, valid and relevant data which were used for making recommendations and conclusions about the variables under investigation. This timeframe was sufficient to successfully carry out activities like concept development, proposal writing, data collection and analysis, and writing of the final dissertation. The study covered 5 years from FY2016/2017 to 2021/2022.

1.7 Significance of the Study

To the management of Mbale City; the study derives measures for boosting the internal control system and the financial performance of the City. The study specifically explores strategies for improving revenue collection which boost the financial performance of the City.

The findings of the study can be used by the government to come up with appropriate regulations for enhancing the financial performance of local governments particularly in areas of accountability and revenue collection.

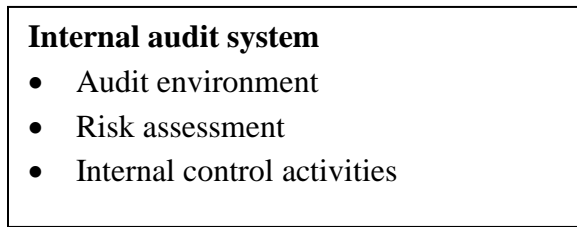
The study widened the researcher's understanding of financial performance of local governments, its antecedents and the measures for boosting financial performance at the work place.

This study provides theoretical insights on how the transaction cost economic theory explains financial performance.

1.8 Conceptual Framework

The conceptual frame work below explains the relationship between the variables under the study. Internal audit system is the independent variable while financial performance is the dependent variables.

Independent variables



Dependent variables

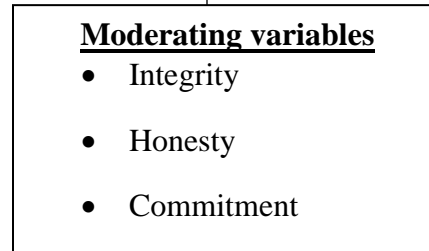
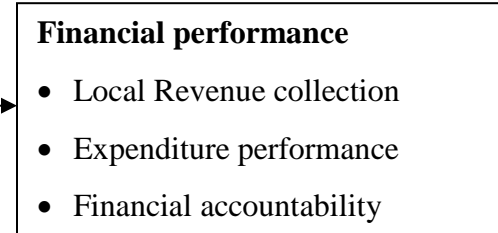


Figure 1: Conceptual framework

Source: Modified from the works of Ewama (2003).

The conceptual framework illustrates the relationship between the internal audit system, comprising audit environment, risk assessment, and internal control activities; and financial performance, which is measured by local revenue collection, expenditure performance, and financial accountability. The hypothesis posits that the elements of the internal audit system significantly influence financial performance. Additionally, moderating variables such as integrity, honesty, and commitment are considered, as they can impact the effectiveness of the internal audit system and, consequently, financial performance.

1.9 Operational definitions of key terms and concepts

Audit environment; relates to the enabling working environment that supports the auditor to detect and correct misstatements in financial records.

Expenditure performance; relates to whether public funds are spent as per the approved budgeted.

Financial accountability; is the practice of being answerable for financial resources entrusted to the entity.

Financial performance; refers to how efficient the entity is in raising and utilizing public funds.

Human factors; This according to the study meant integrity, honesty and commitment of the employees of Mbale City.

Internal audit system; This according to the study meant internal audit environment in place, the risk assessments how they are done and the internal control activities put in place in Mbale City.

Internal control activities; refer to practices put in place by management to ensure that the entity's goals are realized.

Local revenue collection; relates to funds collected from local revenue sources like market dues, parking fee, licenses rent from lease of property, interest on investments, fines and penalties (The Local Governments Act, 1997).

Risk assessment; referred to the practice of establishing the frequency and severity of loss exposure in the management of the entity's financial resources.

1.10 Conclusion

In summary, this chapter provides an overview of the study on the impact of internal audit systems on the financial performance of local governments, focusing on Mbale City. It outlines the historical, theoretical, conceptual, and contextual backgrounds, and highlights the significance, objectives, and research questions guiding the study. The chapter also defines key terms and presents a conceptual framework illustrating the relationship between internal audit systems and financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews existing literature that is related to the study variables. It reviews literature on audit control environment and financial performance, risk assessment and financial performance, and internal control activities and financial performance, and summary of literature review.

2.1 Theoretical Review

This study is guided by the Transaction Cost Economics (TCE) pinned by (Williamson, 1979). The transaction cost theory states that a firm as a sum of contracts put in practice in order to organize and regulate transactions serves for accomplishing contractual relations. TCE postulates that transacting parties will continue to work together as long as their total transaction costs remain lower than if each worked separately (Schotanus et al., 2007). The assumptions of TCE theory are opportunism, asset specificity, bounded rationality, and uncertainty. Uncertainty refers to the risk that may happen in a business transaction (Williamson, 1994). Bounded rationality relates to the fact that economic actors are limited in terms of their rationality since they cannot accurately process information (Rindfleisch & Heide, 1997). Information asymmetry relates to incomplete, imperfect or asymmetrical information. Opportunistic behavior is the pursuit of self-interest with guile (Williamson, 1994). Williamson (1994) argued that whenever individuals act in a rationally restricted manner and opportunism, a market imperfection arises which increases the cost of doing business.

According to Akerlof (1970), transaction costs are incurred between transacting parties. Therefore, high level of dishonesty either by the buying entity or the provider of procurement requirements will increase transactions costs while also reducing the revenue collected by the procuring entity thus poor financial performance of the entity. Exchange of goods and services between transacting parties (in this case procuring entity and provider) will often result into positive transaction costs such as

monitoring costs, accounting related costs and procurement costs. These costs when not monitored and regulated well can be inflated by public officials thus resulting into increase in public expenditure and a general decline in financial performance of an organization. Theoretical, business transactions are characterized by disguise, distortion of information, and strategic non-disclosure of certain information by transacting parties (Williamson, 1979). This increases administrative costs like supervision costs, enforcement costs, costs of supervising service providers contracted to provide services.

Economic actors in local governments like internal auditors, accountants, contract managers, procurement officers and revenue officers tend to behave opportunistically with bounded rationality and uncertainties with regards to the management of financial resources leading to cost contingencies hence poor financial performance of the entity. The theory clearly explains that transaction cost occurs when a good or service is transferred across a technologically separable interface. Transaction costs take place every time a service or product is transferred from one phase to another or from party to another. Local governments extend services that have cost implications which clearly indicate how an institution performs financially. The TCE theory raises need for internal control mechanisms such as requiring that those entrusted with managing financial resources prepare timely and comprehensive accountability of resources in their docket as a way of minimizing information asymmetry. TCE theory emphasis that employees entrusted with public resources will often use such resources to benefit themselves. This therefore necessitates that an organization puts in place policies and guidelines to curtail selfness of employees and to ensure efficient and orderly management of financial resources of the entity. Borrowing from TCE, good financial performance necessitates an organization to minimize the effect of bounded rationality by carrying routine risk assessment since the management of cannot have complete information regarding its local revenue and expenditure performance. Risk assessment helps the entity to establish the frequency and severity of loss exposure in the management of the its financial resources hence bounded rationality of stakeholders in the entity.

2.2 Financial performance and its dimensions

Mamogale (2014) defined financial performance as the process of measuring the results of an entity's policies and operations in monetary terms. Financial performance shows whether financial resources are mobilized and utilized in an efficient manner or not (Public Financial Management Report, 2018).

Financial performance entails an entity utilizing its resources to maximize its shareholders wealth and profits (Naz et al., 2016). Financial performance is a measure of how an entity can raise revenue using its assets (Musaevich, 2015). Financial performance is measured by local revenue collection, expenditure performance and financial accountability (Kakumba, 2018). Local revenue collection relates to funds collected from local revenue sources like market dues, parking fee, rent from lease of property, donations, interest on investments, fines and penalties (The Local Governments Act, 2017).

Kwemarira et al. (2019) defined accountability as the ability to give a justification and accept responsibility for events or transactions and for one's own actions in relation to the events or transactions. Financial accountability is a practice of ascertaining whether there is adequate transparency so as to guarantee that funds are well spent or managed (Eton et al., 2018). According to Tooley & Hooks (20120), financial accountability relates to the management of an organization's finances so as to achieve its financial objectives. Lin et al. (2023) defined financial accountability as a practice of ensuring that funds are spent as expected and in line with the stated rules and regulations. Financial reporting is the practice of tracking and reporting on the allocation, disbursement and utilization of financial resources through the auditing, budgeting and accounting (Brinkerhoff, 2021).

Financial accountability encompasses financial reporting and analysis, accountability accounting, and capital budgeting (Wilks & Zimbelman, 2014). In this study, financial accountability is conceptualized based on compliance with legal obligations, transparency in resource utilization, sound financial management and optimal use of resource as per the works of Sgueo (2015). Expenditure performance

refers to the ratio of expenditure on public goods against the approved or released budget for an entity (MOFPED, 2017). Expenditure performance is determined using ratios like operating expenditure, capital expenditure and expenditure efficiency (Azizi & Mulyanto, 2019).

2.3 Internal audit system and its dimensions

Internal audit system relates to procedures put in place by an organization so as to ensure efficient and effective operations, accuracy of financial reports and adherence to specific regulations. The dimensions of internal audit system are audit environment, risk assessment and internal control activities. Internal control activities entail management plans, methods, and procedures used to meet an organization's mission, goals, and objectives (Esmailjee, 2019). Internal control activities are policies and procedures that ensure that management directives are executed (Committee of Sponsoring Financials of the Treadway Commission (COSO, 2020). Such activities include; approvals, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (COSO, 2020). Control activities refer to asset of regulations and policy framework that direct actions and behavior of stakeholders and/or employees towards the realization of organizational goals (Muraleetharan, 2013). Audit environment refers to the auditor's detection and correction of misstatements (Yu, 2011). Audit environment is conceptualized based on the dimensions of presence of integrity and ethical values, commitment to competence, human resource practices and organizational structure (Sahabi et al., 2017).

Internal controls relate to planning, organizing, directing, and controlling program operations and the system that is put in place to measure, report and monitor the performance of a program (Esmailjee, 2013). The dimensions of internal audit system are audit environment, risk assessment and internal control activities. Internal control activities are policies and procedures put in place by an entity so as to ensure that risks which might hinder the realization of its objectives are addressed (Institute of

Internal Auditors', 2018). Sahabi et al. (2017) defined internal control activities as policies, procedures and mechanisms that an organization establishes so as ascertain that the directives are properly executed as planned. A study conducted by Sahabi et al. (2017) measured internal control activities based on the number of effective policies, procedures and mechanism put in place to ensure directives well adhered to. Alamyé (2021) concurs that internal audit activity involves establishing the exposure of an organization to risks with regards to its governance, operations, and information systems. Risk assessment involves activities relating to risk identification, risk evaluation and risk response (Sahabi et al., 2017).

2.4 Dimensions of Moderating Variable

Honesty entails truthfulness and being genuine in speech and conduct (Magnusson, 2017). According to Rotter (2017), honesty is "... *the expectancy that the word, promise, verbal or written statement of another individual or group can be relied upon.*" Integrity relates to trustworthiness in the delivery of official responsibilities (Armstrong, 2015). "*Public integrity denotes the quality of acting in accordance with the moral values, norms and rules accepted by the body politic and the public*" (Fijnaut & Huberts, 2022). Integrity refers to upholding ethical standards and moral values of honesty, professionalism and righteousness (OECD, 2016). Integrity entails probity, impartiality, fairness, honesty and trustworthiness (Armstrong, 2005). Commitment is relates to one's readiness to allocate resources to a specific activity and to participate actively in that activity (Mowday et al., 2022).

2.5 Audit environment and financial performance

The Internal Audit Report (2019) reveals that control procedures when enforced by management reduces revenue loss, ensure proper utilization of funds and accountability of public resources. Audit environment sets the tone of the management of an entity through its policies, behavior and governance (Hermanson & Rittenberg, 2013). DeAngelo (2018) alluded that audit environment is the foundation on which an effective system of internal auditing is built and operated in an organization that strives

to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, and operate its business efficiently and effectively. An audit environment characterized by independence of auditors boosts the quality of financial reporting as it allows the auditors to freely and fairly express their opinion upon review of internal controls and or any other financial statement of the organization (Oyetunji et al., 2022).

Zehri & Shabou (2021) asserted that high quality auditors are more likely to discover questionable accounting practices by clients and report material irregularities and misstatements compared with low quality auditors. Due to this a conducive audit control environment is able to better constrain employees from fraudulent practices that can lead to financial losses and misuse of organizational funds hence better financial performance (Zehri & Shabou, 2021). Audit firms of larger size are more likely to allocate their resources to develop a reputation to add value to their audit service; thus, are better able to detect irregularities and reveal management's errors in financial reporting and detect fraud which enhances financial performance (DeFond & Jiambalvo, 2023).

Farouk & Hassan (2014) found out that auditor size and auditor independence had significant impacts on accountability and management of finances in firms. Akinbuli (2020) emphasizes that the internal auditor should be competent and independent to assess whether the financial statements prepared by the agent are faithfully represented and are prepared in accordance with generally accepted accounting principles. The scrutinizing the financial statements, the audit function makes management accountable to shareholders for its stewardship of the organization. However, influential pressures emanating within the focal organization can make it difficult for auditors to report on financial matters, challenge management decisions and letters on financial issues, or give an independent and fair audit opinion for fear of losing their jobs, attracting criticism from colleagues or negative image to the organization (Conley-Tyler, 2015). The researcher is in agreement with several authors who indicated

audit control environment leads to reliable financial reporting which leads to better accountability and increased profitability in an organization.

2.6 Risk assessment and financial performance

Risk based auditing fosters financial performance of an entity through early detection of risks and focusing effort on high-risk areas hence increased transparency and accountability of resources (Mutua, 2012). Management has the responsibility to identify risks, the causes that generate them and establish control devices to reduce its levels by involving minimum cost. Implementation of an effective risk management system on financial and accounting activities contributes to increasing business performance and overall performance across the entire organisation (Vasile et al., 2022). Iqbal & Mirakhor (2017) point out that risk management activities are affected by the risk behaviour of managers and that a robust risk management framework can help organizations to reduce their exposure to risks, and enhance their financial performance.

Derick et al. (2013) identified poor liquidity management, under-pricing and under-reserving, a high tolerance for investment risk, management and governance issues, difficulties related to rapid growth and/or expansion into non-core activities as main causes of financial distress and failure of the entity. It is important that these factors be assessed early and managed efficiently by microfinance institutions to avoid financial failure and bankruptcy to the organization. Risk assessment has been linked with shareholder value maximization proposition. A firm will only engage in risk management if it enhances shareholder value (Banks, 2014). Banks (2014) argued that it is important for each firm to retain and actively manage some level of risk if it is to increase its market value or if the probability of financial distress is to be lowered.

2.7 Internal controls activities and financial performance

Previous studies show a relationship between internal control activities and financial performance of organizations. Having all transactions approved by the responsible officers reduces fraud and safeguards an entity's assets (Woolf, 2017). Control activities are measures undertaken to mitigate risk prone areas (COSO, 2010) such as financial misuse which affects the financial performance of an organization. Proper internal control helps to detect and prevent fraudulent activities in an organization (Sahabi et al., 2017). Sahabi et al. (2017) concurs that internal controls are mechanism for checking on wastage, theft and mismanagement of the resources of an organization. Internal control activities boost financial reporting which leads to better accountability (Doyle et al., 2017). Internal control activities are approaches put in place by an organization to generate reasonable assurance for attainment of efficient and effective operations, reliable reporting, and compliance with rules, regulations and laws (Whittington & Kurt, 2021) hence improved financial accountability.

Internal control provides reasonable assurance for achieving the mission and goals of an entity in an orderly, ethical, economical, efficient and effective manner while fulfilling accountability obligations and helping in safeguarding resources against any loss, misuse and damage (International Organisation of Supreme Audit Institution, 2021). (Lawal, 2015) contends that the effects of weak internal control practices paves way to financial indiscipline, fraud, errors, irregularities, and misallocation of resources. Petrovits (2019) contend that weak internal control activities foster organisational inefficiency in managing of financial resources. Internal controls like segregation of duties reduces the deliberate misappropriation and financial indiscipline (Owo, 2013). A sound internal control activities help an organization to prevent frauds, errors and minimize wastage (Amudo & Inanga, 2019). Internal controls guarantee adequate and reliable accounting records which improves financial performance of an organization (Amudo & Inanga, 2019). Internal control activities including internal audits are

intended primarily to enhance the financial management either directly or indirectly by increasing accountability among information providers in an organization (Jensen & Meckling, 2016).

Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation which boosts the way the finances are managed in the organization (Beeler et al., 2019). Fadzil et al. (2020) said that effective internal control activities clearly correlate with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular a review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives through ensuring efficient resource utilization (Ittner et al., 2023).

2.8 Internal audit system and financial performance

Previous studies show a relationship between internal audit system and financial performance. Internal audit system boosts the financial performance of the firm through reducing overheads, identifying areas of improving efficiency and maximizing expenses to possible losses from inadequately safeguarded entity assets (Beyanga, 2021). Unsatisfactory internal audit system exposes an entity to irregular, unauthorized, fruitless, and wasteful expenditure (Mamogale, 2018). A good internal audit system is capable of recognizing and preventing potential malpractices and irregularities in the management of financial resources (Ondieke, 2016) hence better accountability of funds.

An effective internal audit system in government entities is capable of enhancing accountability of public resources (Rameesh, 2016). Internal control systems create a control mechanism for checking whether the entity's resources are utilized economically and effectively (Sari et al., 2017). The effectiveness of internal audit system to boost accountability and the overall management of finances

depend on the attitude, commitment and support of the management team to create a conducive audit environment (Mensah et al., 2020).

Inefficient internal audit systems result into loss of huge investment projects due to fraud and misuse of assets that could generate revenue for the organization (PROCASUR, 2021). Mbego et al. (2016) carried out a study on the influence of internal audit systems practice on the management of public funds in county governments in Kenya; a case study of Kissi County. The findings revealed that effective implementation of internal audit systems practices improves the management of public funds (Mbego et al., 2016). A study conducted by (Okol, 2021) on internal control systems and financial performance of institutions of higher learning in Uganda, considering a sample of 120 respondents randomly selected from Uganda College of Commerce concluded that internal control systems collectively predict the financial performance of institutions of higher learning.

2.9 Moderating role of human factors in the relationship between internal audit system and financial performance

Integrity enhances financial accountability by necessitating that the interest of the public be considered in all business transactions. In organizations where integrity is cherished, employees find it easy to perform their responsibilities in the interest of the public while at the same time being accountable for the financial resources under their control. Lack of integrity in the management of finances breeds corruption practices and financial misconduct (Armstrong, 2015). According to Kamil & Fathonah (2020) the integrity criterion requires auditors to be honest, bold, competent, and accountable to foster the credibility of the audit process. When an internal audit team performs an audit in this manner, external auditors' trust can be developed, allowing for more responsible decision-making. Kamil & Fathonah (2020) further maintains that auditor's integrity is a vital aspect of the audit process, and it has a favorable impact on audit quality. Internal auditors are critical for an organization which requires them to observe high moral values.

Louis (2014) inquiry confirmed that there would be no fraudulent conduct provided that the accounting and auditing staff are honest. If fraudulent conduct is eliminated, internal audit quality can significantly increase. According to previous studies, integrity has a statistically significant impact on audit quality (Alsughayer, 2021; Wardayati, 2016). The audit quality is seen from the appropriateness financial statement while reporting. The impact of auditors' integrity on audit quality indicates that if the auditors conduct internal audit in an ethical, brave, cautious, and sensible way, audit quality will be assured (Wardayati, 2016). Efficient auditors, in a transparent environment, are more likely to identify inflated income or wrong recording during the internal audit process. As a result, having TRPY of the audit process is critical to reducing the risk of audit fraud and ensuring audit quality (Kabir, 2021).

2.10 Summary of Literature Review

The reviewed literature underscores a clear relationship between internal audit systems and financial performance. Numerous authors, such as Amudo and Inanga (2019), highlight that robust internal controls significantly influence financial performance by enforcing accountability, preventing fraud, minimizing errors and wastage, and ensuring the effective custody of assets. These controls also reduce unnecessary expenditures, thereby maximizing organizational profits. Furthermore, they provide assurance to management regarding the reliability of accounting data, eliminate unnecessary suspicions, and aid in maintaining adequate and reliable accounting records.

While prior research by scholars like Mak (2019) and Simons (2017) suggests a link between internal audit and financial performance, the majority of these studies have predominantly focused on the audit standards aspect of internal audit. Additionally, existing research has primarily concentrated on large government agencies and regulated banking institutions in developed countries. Consequently, there is a dearth of studies examining the influence of internal audit practices on the financial performance of local governments, particularly in Uganda.

This study seeks to fill these gaps by empirically assessing the influence of internal audit practices on the financial performance of local governments in Mbale City, Uganda. Unlike previous studies that dealt exclusively with large institutions, this research provides a comprehensive analysis of how the interaction between the audit control environment, risk assessment, and internal control activities collectively impacts financial performance in a local government setting. By offering a more integrated perspective, this study aims to contribute to a nuanced understanding of internal audit systems in local governments, thereby providing valuable insights for policymakers and practitioners focused on enhancing financial governance and accountability in these contexts.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the methods that the researcher used to obtain the information and how it was presented. This chapter highlights the study design, area of study, information sources, population and sampling techniques, measurement levels, procedure for data collection, data collection tools, quality/error control, strategy for data processing and analysis, and anticipated methodological constraints.

3.1 Study Design

This research employed a cross-sectional survey research design, which facilitated a comprehensive exploration of various responses and outcomes, leading to a detailed investigation. The use of both qualitative and quantitative methods complemented each other: qualitative methods were primarily used to capture personal perspectives, insights, and explanations from participants through interviews, while quantitative methods provided statistical information that was analyzed using descriptive statistics such as frequencies and percentages to meet the study's objectives. Furthermore, a Pearson's correlation test was conducted to examine the relationships between the study variables, and regression analysis was employed to determine the effects of these variables (Amin, 2005). The integration of qualitative and quantitative data allowed for triangulation, ensuring that limitations from one type of data could be complemented by the strengths of the other, thereby enhancing the overall robustness of the study's findings.

3.2 Area of Study

The study was carried out in the Mbale City Council in Eastern Uganda. This entity was chosen because it is one of the local governments which was reported to be experiencing declining financial performance such as declining revenue collection (Business Focus, 2021).

3.3 Data Sources

This study used the primary data source. Primary data is that kind of data that is gathered for the first time and has never been reported anywhere. This is the fresh data that is collected from the field by use of interview and questionnaire methods. This data source is advantageous in that, it gives fresh and first-hand information relating to what was happening in the organization. Primary data was used as it is accurate, reliable and gives up-to-date information relating to the study variables. This data source however, is at times interfered by unforeseen circumstances and factors such as bad weather.

3.4 Study Population

The research study considered 335 respondents who comprised of employees of Mbale City Council and the politicians at city and division levels. The researcher considered the above study population in order to get accurate, reliable and representative information from all categories of people in Mbale City Council.

3.5 Sample Size

Due to limited time and resources, the researcher limited the study to 170 respondents as shown in table 3.1 below. The sample size was determined using Krejcie & Morgan (1970) sample size determination table which shows that if the sample population is 335, then 170 should be the sample size.

Table 3.1: Showing target population, sample size, sampling techniques and data collection methods

Category of respondents	Target Population	Sample Size	Acquired	Response rate	Sampling Technique	Data Collection Method
Top management	18	9	5	55.6%	Purposive	• Interview
Other employees	309	155	134	86.5%	Simple random	• Questionnaire
Politicians (City Division Councilors)	8	6	6	100%	Purposive	• Interview
Total	335	170	145	85%		

Source: Self Extract

3.6 Sampling Technique

The researcher used both simple random sampling and purposive sampling techniques for selecting the respondents to participate in the study.

Purposive sampling was used for selecting top management and politicians to participate in the study. The politicians were sampled from the list of city division politicians that was obtained from the management of Mbale City Council. Purposive sampling is where the researcher consciously decides who to include in the sample. The researcher used purposive sampling technique in selecting top management and city politicians to participate in the study with an option of replacing those who did not wish to respond to the researcher's plea. This method was used for selecting top management staff and politicians who were very knowledgeable and experienced on issues relating to internal audit system and financial performance. Purposive sampling ensured that only respondents with relevant information were sampled. Purposive sampling basically selects typical and useful cases only and helps to save time and money.

Simple random sampling was used for selecting respondents in the category of employees to participate in the study. Employees were sampled from the staff list which was provided by the

management of Mbale City Council so as to ensure sample representativeness. Simple random sampling was preferred because it limits bias and classification error. With simple random sampling, each member in the population category as stated in table 3.1 had a fair chance of being included in the study. The use of simple random sampling is advantageous as it increases confidence interval and gives maximum chance of identifying of negative feedback.

3.7 Measurements of Variables

Internal audit system was measured in terms of audit environment, risk assessment, and internal control activities as independent variables. Financial performance was the dependent variable measured in terms of revenue collection, expenditure performance, and financial accountability.

3.8 Procedure of Data Collection

After obtaining an introductory letter from the Department of Business and Management of Uganda Christian University Mbale University College, permission was sought from the management of Mbale City Council to interact with respondents in the field. The researcher first explained the questions in the questionnaire and the interview guide and also informed the respondents on how they would be expected to answer the questionnaire before issuing them out. The questionnaires that were filled were received by the researcher and the respondents who were too busy remained with the questionnaires which were later picked after another week when fully filled. Respondents who had still not finished filling the questionnaire due to their busy schedules were given one more week to answer the questionnaire upon request. The researcher further obtained the telephone contacts for busy respondents for the purpose of follow up through reminder messages for them to fill in the questionnaire within the time agreed upon. The researcher also interviewed the respondents and the answers that were given were recorded in a note book.

3.9 Data Collection Methods

This research employed a mixed-method approach to data collection, combining both quantitative and qualitative methods. Quantitative data was collected through questionnaires administered to employees while qualitative data was obtained through in-depth interviews with management of Mbale City Council, using a structured interview guide. This mixed-method approach allowed for a comprehensive understanding of the research topic by gathering both statistical data and rich, contextual insights from key informants.

3.10 Data Collection Tools

The researcher used the following tools for collecting data;

3.10.1 Questionnaire

The researcher used closed-ended questionnaire for eliciting responses from respondents. Closed-ended questionnaires are those where response alternatives are chosen from pre-specified or fixed alternatives basing on Likert Scale of five (5). Closed-ended questionnaire were the researcher's main tool of data collection. Closed-ended questionnaires were preferred in this study because they are easy and efficient to statistically process. Besides, standardized questionnaires can easily be standardized even when collecting data from respondents across departments (Tharenou et al., 2007). Questionnaires were administered to employees of Mbale City Council. Questionnaires can cover a large number of people and a researcher can use them to reach a wide geographic coverage. They are relatively cheap and no prior arrangements are needed before posting. Besides, questionnaires, interviews were conducted with politicians at city division level in order to gather more and deeper information so as to help the researcher write a robust discussion and conclusions about the study variables.

3.10.2 Interview guide

Structured interviews were conducted using an interview guide. Structured interviews involves the researcher asking the respondents the same question, in the same wording from the already predetermined questions contained in the interview guide (Kumar, 2011). Structured interviews enabled interviewees to give uniform responses. Besides, it also made the researcher's work of comparing responses from interviewees easy (Kumar, 2011). The interview session involved face-to-face interaction between the interviewer and the targeted respondents who were top management staff and city politicians. The interview guide included structured questions about whether internal audit staffs are experienced, qualified and independent enough to undertake audit work among others. This tool was used because it enables more information to be obtained and in a greater depth.

3.11 Data Quality Control

3.11.1 Validity

The Content Validity Index (CVI) was used to measure validity of the instrument. The validity of the questionnaire was established by developing a content valid instrument through a rational analysis of the instrument by experts in the field of financial management. All the measurement items in the questionnaire were reviewed by experts for readability clarity and comprehensiveness before coming up with some level of agreement regarding which items could be retained in the final questionnaire. Experts were required to indicate on each item in the questionnaire whether it is 'favourable' or 'unfavourable'. The scale-level CVI for the questionnaire assessed by experts was calculated based on individual CVI from experts. The Content Validity Index (CVI) was determined using the formula and summarized in table 1 below;

$$CVI = \frac{\text{Number of items rated as relevant}}{\text{Total number of items in the questionnaire}}$$

Since all the study variables had the CVI coefficients of above 0.7, the questionnaire was declared valid as suggested by Davis (1992). (See table 3.2).

Table 3. 2: Results of validity test

Variable	Content Validity Index	Number of items
Internal auditing system	.800	12
<i>Audit environment</i>	<i>1.000</i>	<i>5</i>
<i>Risk assessment</i>	<i>.800</i>	<i>4</i>
<i>Internal control activities</i>	<i>1.000</i>	<i>5</i>
Human factors	.833	15
Financial performance	.769	10

Source: Primary data, 2023

Validity of the interviews was ascertained by ensuring trustworthiness of the findings. Since overall aim of qualitative research is to explore or explain rather than to measure, the social reality like trustworthiness is the most paramount thing. Trustworthiness involves ensuring that the findings are credibility, transferability, dependability and comfortability of findings (Kumar, 2010). Credibility involves establishing that qualitative research findings are believable from the point of view of the respondents (Kumar, 2010). Transferability relates to the degree to which the qualitative research findings can be generalized in the context of our studies or settings (Kumar, 2010). Dependability relates to whether the qualitative research study can generate similar results if conducted at elsewhere or another time (Kumar, 2010). Confirmability relates to whether the qualitative study findings can be collaborated with other studies (Kumar, 2010). Ascertaining the validity of the research instruments ensures that the instruments are readable, clear, relevant, comprehensive, specific and logically arranged (Davis, 1992; Polit & Beck, 2010; Timmins, 2013).

Consistent with (D. Davis & Cosenza, 1993), expert judgement was used to ascertain the validity of the interview guide. Expert judgment involved soliciting for advice from an expert on whether the measurement items for the latent variables had face validity. The researcher engaged three experts to review and pre-test the interview guide namely; a university lecturer in the field of financial management, an Internal Auditor, and a Chief Financial Officer of a local government entity. Besides, expert judgment, the used triangulation method which involved obtaining information related to the

study variables from both the technical staff and politicians in an attempt to identify patterns which were repetitive from the across the two categories of respondents in the field.

3.11.2 Reliability

The principle of reliability as far as research instruments are concerned, is clearly put forward by Amin (2005), an instrument is reliable if it produces the same results wherever it is repeatedly used to measure a trait or a concept from the same population and under similar circumstances. The reliability of the instruments (namely questionnaire and interview guide) was ensured through testing and re-testing the instrument on respondents with similar characteristics but on individuals that would not participate in the actual study. For the interview guide, the researcher only deemed it reliable when it was able to give similar results after repeatedly administering it to the panel of five experts in the subject of interest (Bastos et al., 2014). The researcher specifically used the Cronbach Alpha coefficient to further ascertain the reliability of the questionnaire. Alpha coefficients above 0.7 were considered for the questionnaire to be declared reliable (Amin, 2005). The interview guide was declared reliable after tested it on five experts and the findings were regarded transferable, dependable and comfortable; which are the dimensions of trustworthiness (Kumar, 2010). As recommended by Amin (2005), the questionnaire was declared valid since 8 intended sample respondents fully filled it and the Cronbach Alpha Coefficients for all the study variables were above 0.7. (See t table 3.3).

Table 3. 3: Results of reliability test

Variable	Anchor	Cronbach Alpha value
Internal auditing system	5-point	.938
<i>Audit environment</i>	<i>5-point</i>	<i>.822</i>
<i>Risk assessment</i>	<i>5-point</i>	<i>.837</i>
<i>Internal control activities</i>	<i>5-point</i>	<i>.810</i>
Human factors	5-point	.967
Financial performance	5-point	.913

Source: Primary data, 2023

3.12 Data Analysis and Presentation

3.12.1 Data analysis

After data collection, the data collected were sorted, summarized, categorized, coded, edited, tabulated and analyzed in order to make conclusions about the variables under study. Quantitative data obtained using survey questionnaires were first entered into Microsoft Excel and thereafter exported to SPSS version 26 for further analysis. SPSS was used for generating frequencies, percentages, mean, and standard deviation, correlations, and simple linear regression. The study used the PROCESS SPSS model 4 advanced by Hayes (2022) for establishing the multiple regression analysis and for establishing the moderating role of human factors on the relationship between internal audit system and financial performance. Qualitative data were analyzed using content analysis method.

3.12.2 Data presentation

The data analyzed were presented in form of tables. These clearly showed the description of the different variables, level of significance of one variable from the other and the variability of responses given by respondents.

3.13 Ethical Consideration

Ethical considerations were taken care of by the researcher by briefing the respondents as to the purpose of the research, their relevance in the research process, and expectations from them. Questionnaires were structured in such a way that there was no mention of the respondent's name. A statement as to the strict confidentiality with which data would be held was expressly stated in the questionnaire.

3.14 Anticipated Methodological Constraints

Centering on the discoveries and exploration outcomes, the present study had some limitations. Firstly, the research implemented a cross-sectional survey design, which is completed once, meaning there is

no follow-up study in the future that could aid in establishing the sustainability of the study outcomes from the participants' perspective. A follow-up study could have been beneficial for comparing the study findings and gaining an objective understanding of the trends over time.

Secondly, the study only focused on Mbale City, thus limiting its ability to be inferred to other cities. It is important that future studies explore more cities and extend to other geographical areas for a better understanding of the relationship between internal audit systems and financial performance in local governments.

3.15 Conclusion

The chapter introduced and explained the methodological aspects that were followed when carrying out the research constituting research design in which a cross sectional research design was used, study population, sample size, sampling techniques used, the data collection methods and instruments that were employed during the study, quality control of the instruments, procedure of data collection, data analysis, measurement of the variables, ethical considerations and limitations to the study. This set ground for chapter four which dealt with data presentation, analysis, and interpretation of the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter covers presentation, analysis and interpretation of the data collected from the respondents. The chapter entails the demographic information about respondents, respondents, descriptive statistics, correlation and regression analysis. The presentation was guided by the following research objectives; to find out the effect of audit environment on financial performance of Mbale City, to ascertain the effect of risk assessment on financial performance of Mbale City, to ascertain the effect of internal control activities on financial performance of Mbale City, and to establish the moderating role of human factors in the relationship between internal audit system and financial performance of Mbale City.

4.1 Response rate

A total of 170 respondents were selected to participate in this study (of which survey questionnaires were to be administered to 155 respondents while the 15 respondents were to be interviewed. However, only 134 respondents fully filled and returned the questionnaires to the researcher, indicating a response rate of 86.5% for the survey questionnaire. As for interviews, the researcher conducted personal interviews with 11 interviewees (namely; Heads of Department and City Politicians), representing 73% response rate for interviews. Consistent with Mugenda & Mugenda (2005), the study findings are acceptable and representative of all the sampled population since the response rate for both interviews and survey questionnaires is over 70%.

4.2 Demographic characteristics of respondents

This describes respondents' gender, age, highest level of education attained, and the period worked respondents had worked in Mbale City as technical staff.

Table 4. 1: Demographic characteristics of respondents

Gender	Frequency	Valid percent
Male	84	62.6
Female	50	37.3
Total	134	100.
Age		
21-30 years	29	22.6
31-40 years	44	32.8
41 years and above	61	45.5
Total	134	100.0
Highest education level		
Certificate course	5	3.7
Diploma	44	32.8
Degree	61	45.5
Master's Degree	24	17.9
Total	134	100.0
Period worked with Mbale City Council		
Less than 1 year	14	10.4
1 - 3 years	30	22.4
3 - 6 years	21	15.7
Above 6 years	69	51.5
Total	134	100.0

Source: Primary data, 2023

4.2.1 Gender of respondents

Table 4.1 shows that male respondents dominated with 62.6% while the female constituted only 37.3%, implying that there are more male engaged in the financial related operations of Mbale City.

4.2.2 Age of respondents

Table 4.1 show that 45.5% of the respondents were 41 years and above, 32.8% were between 31 to 40 years whereas those 21-30 years constituted 22.6% of the respondents. Since over 75% of the respondents were over 31 years, it implies that employees manning the financial related matters in Mbale City are experienced and capable of sound financial related decisions.

4.2.3 Highest level of education of respondents

Table 4.1 shows that 45.5% of the respondents had Bachelor's Degrees (45.5%). This was followed by respondents with Diplomas (32.8%) and Master's degrees (17.9%). The respondents with Certificates were only 3.7%. These findings imply that most employees working in Mbale City had acquired education at higher levels which is relevant for performing tasks assigned to them at the City.

4.2.4 Period respondents had worked in Mbale City as technical staff

Table 4.1 reveals that the majority of the respondents (51.5%) had worked in Mbale City for over 6 years. This was followed by 22.4% of respondents who had worked in Mbale City for 1-3 years, 15.7% who had worked between 3-6 years, and a minority (10.4%) who had worked for less than a year. Since majority of respondents (representing over 60%) had worked in Mbale City as technical staff, it implies respondents were well informed about the operations of Mbale City and that the responses given by respondents were genuine and a true reflection of financial operations of Mbale City.

4.3 Descriptive statistics

Here, the findings for each study variable are presented as follows;

4.3.1 Descriptive statistics for financial performance of Mbale City

In an attempt to understand the financial performance of Mbale City, respondents were required to rate their opinion regarding the financial performance of Mbale City based on a 5-point Likert scale (5= Strongly Agree, 4= Agree, 3= Not sure, 2= Disagree and 1= Strongly Disagree) and the findings are presented below;

Table 4. 2: Descriptive statistics for financial performance

Measurement items	N	Minimum	Maximum	Mean	Std. Deviation
All relevant records are kept for every transaction.	134	1	5	3.72	1.029
There is compliance to financial guidelines in financial reporting.	134	1	5	3.72	.835
The city keeps appropriate record for all revenues and expenditure.	134	1	5	3.65	1.064
Financial reports and accountabilities are prepared in time as required.	134	1	5	3.55	.954
All expenditures are verified and authorized before payments are made.	134	1	5	3.49	1.024
The Accounting system adequately identifies the receipts and expenditure of all funds as required.	134	1	5	3.48	1.024
Payments are made for only budgeted items during the financial year.	134	1	5	3.44	1.030
The City's revenue and asset base has increased over time.	134	1	5	3.32	1.278
This entity is able to meet its payments as and when they fall due.	134	1	5	3.04	.988
Revenue collected is not spent at source.	134	1	5	2.93	1.049
All revenues are dully collected and reported.	134	1	5	2.78	1.115
All revenues are able to yield the planned revenue.	134	1	5	2.64	1.058
There has been having sufficient revenue to fund all activities and meet its obligations.	134	1	5	2.51	1.175
Grand				3.25	.620

Source: Primary data, 2023

In table 4.2, the mean of 3.72 and standard deviation (SD) of 1.029 shows that respondents agree that all relevant records are kept for every transaction. Respondents also agreed that there is compliance to financial guidelines in financial reporting (Mean = 3.72, SD = .835). Table 4.2. also shows that respondents were in agreement that the city keeps appropriate record for all revenues and expenditure (mean of 3.65, SD= 1.064). Table 4.2 also shows that financial reports and accountabilities are prepared in time as required (Mean = 3.55, SD = .954). The mean of 3.49 and SD of 1.024 reveals that all expenditures are verified and authorized before payments are made. The findings also show that

the Accounting system adequately identifies the receipts and expenditure of all funds as required (Mean = 3.48, SD = 1.024).

The mean of 3.44 depicted in table 4.2 shows that respondents were not sure regarding the statement whether payments in Mbale City are made for only budgeted items during the financial year. The SD for this item was 1.030, implying that the data was clustered a little over 1 point far from the mean value. The findings show that respondents were not sure on whether the City's revenue and asset base had increased over time (Mean = 3.32, SD = 1.278). The mean of 3.04 depicted in table 4.2 shows that mixed reactions on whether Mbale City is able to meet its payments as and when they fall due. The SD for this item was .988, implying that the data was somehow concentrated close to the mean value. There were also mixed reactions on whether the revenue collected by the City is not spent at source (Mean = 2.93, SD = 1.049).

Results in table 4.2 show that the City does not dully collect and report all revenues (Mean = 2.78, SD = 1.115) and that often the City is not able to yield the planned revenue targets (Mean = 2.64, SD = 1.1058). The SD for this item of 1.1058, implies that the data was more spread out. Additionally, the findings show that the City does not have sufficient revenue to fund all activities and meet its obligations (Mean = 2.51, SD = 1.175). The overall grand mean of 3.25 implies that the financial performance of Mbale City is moderate with regards to financial reporting, revenue collection and expenditure performance. Generally, the respondents had divided opinion on most of the measurement items for financial performance of the City.

Qualitative data on financial performance were derived from personal interviews held with the top management and politician of Mbale City and the findings are summarized in table 4.18.

Table 4. 3: Qualitative data for financial performance

Sn	Sample Question	Emerging themes	Quotation sample(s)
1	How does the internal audit unit help in the financial performance?	<ul style="list-style-type: none"> • Special audits • Local revenue 	<p><i>“The auditor gets into detail to see how your performance is; have all tax payers paid, how have you spent, did you record”.</i></p> <p><i>“The internal audit helps in boosting the financial performance of the entity. For instance, for revenue collection, you are supposed to give the service provider 10% of the amount collected in trading licenses. So, if the expected revenue to be collected from license fee is 50 million, you are supposed to give the service provider 5 million. The auditor comes into weight which one is a cheaper option which can save money for the entity; whether to recommend the service provider to collect license fees or to use local labour.</i></p>
2	In your opinion, which factors affect the financial performance of Mbale City Council?	<ul style="list-style-type: none"> • Political influence • Incompetent tenderers • Political pronouncements • IRAS 	<p><i>“In the process of contracting revenue collection, you will find those bidders are politicians. Like last year, it was mayor”.</i></p> <p><i>“Incompetent tenderers, you award a contract to a tenderer who can’t collect revenue due to personal financial challenges or capacity”.</i></p> <p><i>“Presidential pronouncements affect revenue collection. For example, collecting money from boda boda is really hard. Still on political pronouncements, initially, parks and market revenue used to be collected but now priority is given to park operators and market vendors who sometime are incompetent to collect revenue”.</i></p>
3.	What is your general comment about the financial performance of Mbale City Council with regards to revenue collection, expenditure performance and financial accountability	<ul style="list-style-type: none"> • Revenue collection • Revenue projections 	<p><i>“In F/Y 2021/22, we projected to collect 2.9 billion but we collected only 1.5 million. In F/Y 2022/23, we projected 4.9 billion but we collected 1.5 billion. In F/Y 2023/24, projected 6.9 billion and it’s going to be the worst financial year. This is because (1) under the City, they have discovered that people have known that they eat money. These mayors have been exposed that they</i></p>

eat money. So, they have decided to push the revenue collection to divisions so that they can handle it there. Because at the City they have been identified but still at the Divisions, still their names have been spoilt”

“For three consecutive financial years, revenue collection has not exceeded 50% of our revenue projections. Our collection is about 30% and not yet enough to implement the planned activities”.

“Our local projections are not always fulfilled because out of the money that is collected, 80% is eaten (80% after removing 20% for councilors).

“There is a problem in the performance of local revenue of the performance mode. Because all revenue that is collected is sent to the Central Bank account, so there is no money left to motivate staff, like in form of transport allowance. When money is collected, there is something called a cash limit. For example, when you collect 1 billion, the Central Government or Bank of Uganda can give you a cash limit of 100 million and yet the 100 million cannot be enough to run all the activities of the Division”.

Source: Primary data, 2023

4.3.2 Audit environment

In an attempt to understand the audit environment in Mbale City Council, respondents were required to rate their opinion regarding audit environment based on a 5-point Likert scale (5= Strongly Agree, 4= Agree, 3= Not sure, 2= Disagree and 1= Strongly Disagree) and the findings are presented below;

Table 4. 4: Descriptive statistics for audit environment

Measurement items	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditors deliver appropriate professional opinion supported by the necessary evidence	134	1	5	3.75	.817
The internal audit is independent to allow performance of its functions	134	1	5	3.66	1.056
The internal audit staff get all the necessary support while when performing their duties.	134	2	5	3.64	.770
The internal audit staff are not influenced in executing their duties	134	1	5	3.47	1.129
The internal auditor has an unlimited access to information they are supposed to audit before	134	1	5	3.34	1.103
Grand				3.57	.627

Source: Primary data, 2023

The findings in table 4.4 show that Internal auditors at Mbale City deliver appropriate professional opinion supported by the necessary evidence (mean = 3.75, SD= .817). Also, the internal audit is independent to allow performance of its functions (mean = 3.66, SD= 1.056). Relatedly, the internal audit staff at Mbale City get all the necessary support while when performing their duties (mean = 3.64, SD=.770). The SD of .770 implies that individual responses were concentrated near the mean. The findings further show that internal audit staff are not influenced in executing their duties (mean = 3.47, SD= 1.129). The SD of 1.129 implies that the responses were scattered far from the mean by over 1 point.

However, respondents disagreed on the statement whether the internal auditors have unlimited access to information that they are supposed to audit before (mean = 3.34, SD= 1.103). The SD of 1.103 shows that the individual responses, on average was a little over 1 point away from the mean, implying that responses varied at the extreme. The average mean of 3.57 implies that the audit environment at Mbale City is conducive for the internal audit to carry out the audit functions effectively.

Table 4. 5: Qualitative data for audit environment

Sn	Sample Question	Emerging themes	Quotation sample(s)
1	How is the internal audit staff able to execute their duties?	<ul style="list-style-type: none"> • Audit work plan • Special audits 	<i>“Our auditor is free, when she talks, the Town Clerk cannot say anything. When she says something, the Town Clerk does not say anything. If she says anything or requiring you to respond to an audit query, you have to do it, if not she will forward the report to higher authorities”.</i>
2	How does internal audit help in the financial performance of the city?	<ul style="list-style-type: none"> • Internal controls systems • Compliance 	<i>“For me I cannot say that there is any role played by Internal Audit to promote good financial performance. For example, revenue is taken but the internal auditor has never brought any report. For example, the DDEG money is supposed to leave the DDEG account and it goes direct to the account of the provider of requirements but instead that money is on several occasions withdrawn by City technocrats and division staff cheque through individual cheques”.</i>
3	How are internal controls exercised in Mbale City Council? How relevant are the controls as regards to financial performance?	<ul style="list-style-type: none"> • Integrated Revenue Administration System (IRAS) 	<i>“The revenue management cycle is one of the internal control systems used in the City’s internal audit staff to monitor revenue collection. The system is used in enumeration, assessment, collection, disbursement, expenditure, accountability and reporting of revenue. Of course, during the internal control systems, the internal auditor gets into the issue, like if one of the steps was enumeration; did you carry out enumeration?”.</i>

Source: Primary data, 2023

4.3.3 Descriptive statistics for risk assessment

In an attempt to understand the risk assessment in Mbale City Council, respondents were required to rate their opinion regarding risk assessment based on a 5-point Likert scale (5= Strongly Agree, 4= Agree, 3= Not sure, 2= Disagree and 1= Strongly Disagree) and the findings are presented below;

Table 4. 6: Descriptive statistics for risk assessment

Measurement items	N	Minimum	Maximum	Mean	Std. Deviation
Audit staff is able to determine loopholes in the financial system	134	1	5	3.98	.905
The audit staff is able to determine areas of weaknesses to recommend improvements	134	1	5	3.95	.749
Internal auditors evaluate management capabilities	134	1	5	3.74	.917
Internal auditors often evaluate the organization's risk management process	134	1	5	3.60	1.019
Risk inspection and management is done with the support of all staffs	134	1	5	3.22	.915
Grand				3.70	.601

Source: Primary data, 2023

The findings in table 4.6 show that the audit staff at Mbale City ably determine loopholes in the financial system (mean = 3.98; SD = .905) and the areas of weaknesses to recommend improvements (mean = 3.95; SD = .749). Besides, the City's internal auditors evaluate management capabilities (mean = 3.74; SD = .917) and the risk management process (mean = 3.60; SD = 1.019). However, responses on whether the internal auditors often evaluate the City's risk management process varied extremely since the SD of 1.019 implies that the responses were wide spread from the mean value. The findings in table 4.6 also show that the respondents were not sure whether risk inspection and management is done with the support of all staffs of the City (mean = 3.22; SD = .915). The overall average mean of 3.7 implies that risk assessment is effectively done in Mbale City.

Table 4. 7: Qualitative data for risk assessment

Sn	Sample Question	Emerging themes	Quotation sample(s)
1	Does the internal audit staff conduct risk assessment? How does this help in the financial performance?	<ul style="list-style-type: none"> • Local revenue • License fee 	<p><i>“The auditor gets into detail to see how your performance is; have all tax payers paid, how have you spent, did you record”.</i></p> <p><i>“The internal audit helps in boosting the financial performance of the entity. For instance, for revenue collection, you are supposed to give the service provider 10% of the amount collected in trading licenses. So, if the expected revenue to be collected from license fee is 50 million, you are supposed to give the service provider 5 million. The auditor comes into weight which one is a cheaper option which can save money for the entity; whether to recommend the service provider to collect license fees or to use local labour.</i></p>

Source: Primary data, 2023

4.3.4 Descriptive statistics for internal control activities

In an attempt to understand the internal control activities in Mbale City Council, respondents were required to rate their opinion regarding internal control activities based on a 5-point Likert scale (5= Strongly Agree, 4= Agree, 3= Not sure, 2= Disagree and 1= Strongly Disagree) and the findings are presented below;

Table 4. 8: Descriptive statistics for internal control activities

Measurement items	N	Minimum	Maximum	Mean	Std. Deviation
Internal audit identifies and evaluates the organization’s internal control system as a basis for reporting upon its adequacy and effectiveness	134	1	5	3.94	.940
Duties are clearly separated among respective staff	134	1	5	3.80	1.032
Management maintains internal control systems and ensures that resources are properly directed	134	1	5	3.78	.947
All transactions are verified before payments are made	134	1	5	3.60	1.056
Segregation of duties on accounting and custodian functions prevents fraud	134	1	5	3.37	1.031
Grand				3.70	.666

Source: Primary data, 2023

A high mean of 3.94 in table 4.8 implies that the internal audit function identifies and evaluates the City’s internal control system as a basis for reporting upon its adequacy and effectiveness. Also, a high mean value of 3.8 reveals that duties are clearly separated among respective staff in Mbale City. Table 4.8 shows a high mean of 3.78 which implies that the management of Mbale City maintains internal control systems and ensures that resources are properly directed. Based on the high mean value of 3.6, it implies that all transactions are verified before payments are made. On whether segregation of duties on accounting and custodian functions prevents fraud, respondents had divergent opinions (mean = 3.37, SD = 1.031). The overall average mean of 3.7 shows that Mbale City is effective in managing internal control activities.

Table 4. 9: Qualitative data internal control activities

Sn	Sample Question	Emerging themes	Quotation sample(s)
1	How is the internal audit staff able to execute their duties?	<ul style="list-style-type: none"> • Audit work plan • Special audits 	<p><i>“They have an audit work plan that guides them in the execution of their duties. Every quarter they have an audit plan that guide. Sometimes they carry out special audits which are not planned”.</i></p> <p><i>“If they sense that the revenue is not coming well, special audit is carried out”.</i></p>
2	How does internal audit help in the financial performance of the city?	<ul style="list-style-type: none"> • Internal controls systems • Compliance 	<p><i>“Checks how effective are the internal control systems of the City. Internal control systems are the systems that put in place to ensure that the set financial goals are realized”.</i></p> <p><i>“Auditors checks the effectiveness of the internal control systems, whether the officers are complying to the internal control systems or not”.</i></p> <p><i>“For example, we had a case in FY 2021/22 where there was mismanagement of local revenue by the Division Assistant Clerks. ...and I sow the role of the audit office. We were able to see how our money was misused and who misused it through the reports generated by internal audit”.</i></p>

“When you come to Mbale City, the risks are too high and it appears there is no auditor. For example, there are some revenue sources which have been taken by some people and the auditor has never given a report to that issue. The auditor has never given out an action paper of what was recommended by the Council to be done by the technical staff. The auditor has never given us that paper. It is very hard for the auditor to generate a paper which implicates someone who works with her because they are people who connive with each other”.

“For me I cannot say that there is any role played by Internal Audit to promote good financial performance. For example, revenue is taken but the internal auditor has never brought any report. For example, the DDEG money is supposed to leave the DDEG account and it goes direct to the account of the provider of requirements but instead that money is on several occasions withdrawn by City technocrats and division staff cheque through individual cheques”.

3 Does the internal audit staff conduct risk assessment? How does this help in the financial performance?

- Local revenue
- License fee

“The auditor gets into detail to see how your performance is; have all tax payers paid, how have you spent, did you record”.

“The internal audit helps in boosting the financial performance of the entity. For instance, for revenue collection, you are supposed to give the service provider 10% of the amount collected in trading licenses. So, if the expected revenue to be collected from license fee is 50 million, you are supposed to give the service provider 5 million. The auditor comes into weight which one is a cheaper option which can save money for the entity; whether to recommend the service provider to collect license fees or to use local labour.

4	How are internal controls exercised in Mbale City Council? How relevant are the controls as regards to financial performance?	• Integrated Revenue Administration System (IRAS)	<i>“The revenue management cycle is one of the internal control systems used in the City’s internal audit staff to monitor revenue collection. The system is used in enumeration, assessment, collection, disbursement, expenditure, accountability and reporting of revenue. Of course, during the internal control systems, the internal auditor gets into the issue, like if one of the steps was enumeration; did you carry out enumeration?”.</i>
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Source: Primary data, 2023

4.3.5 Descriptive statistics for moderating role of human factors

In an attempt to understand the influence of moderating variables in Mbale City Council, respondents were required to rate their opinion regarding the moderating role of human factors based on a 5-point Likert scale (5= Strongly Agree, 4= Agree, 3= Not sure, 2= Disagree and 1= Strongly Disagree) and the findings are presented below;

Table 4. 10: Descriptive statistics for moderating role of human factors

Measurement items	N	Minimum	Maximum	Mean	Std. Deviation
I take responsibility for my actions	134	2	5	4.30	.614
I present myself in a genuine and sincere way	134	3	5	4.28	.554
I follow a set of rules when conducting business on behalf of City Council	134	1	5	4.10	.816
I strive to do the right thing even when no one is watching	134	1	5	4.06	.948
There is full openness in the relationship with clients	134	1	5	4.05	.686
I guard my personal principles even though at the expense of personal gains	134	1	5	4.02	.808
Being inflexible and refusing to compromise are good if it means standing up for what is right	134	1	5	3.98	.790
In all my dealings with the City Council, I am trustworthy	134	1	5	3.96	.992
I talk the truth and I don’t hide things from others	134	1	5	3.96	.875
I cannot take something belonging to the City Council without permission	134	1	5	3.89	1.115

I have a sense of obligation to the people in this project	134	1	5	3.87	.853
I do feel a strong sense of belonging to my organization	134	1	5	3.87	.899
I behave ethically under all circumstances	134	1	5	3.79	.926
I really feel as if this organization's problems are my own	134	1	5	3.53	1.038
I would be very happy to spend the rest of my career with this organization	134	1	5	3.42	1.043
There is nothing that can tempt me to steal resources of the City Council	134	1	5	3.42	1.356
In this organization, employees act consistently with ethical values	134	1	5	3.31	1.035
It would be very hard for me to leave my organization right now, even if I wanted to	134	1	5	3.28	1.120
Grand				3.84	.528

Source: Primary data, 2023

The high mean score of 4.30 indicates that employees in Mbale City Council demonstrate a strong sense of accountability for their actions. Similarly, with a mean score of 4.28, employees are perceived to be genuine and sincere in their interactions, which is essential for building trust. Additionally, the mean score of 4.10 suggests that employees adhere to rules and regulations, ensuring compliance and professionalism in their duties. Moreover, a mean score of 4.06 indicates that employees maintain ethical standards even in the absence of supervision. The high mean score of 4.05 further indicates that employees maintain open and transparent relationships with clients, crucial for effective communication and trust-building. Furthermore, with a mean score of 4.02, employees prioritize personal principles over personal gains, demonstrating a commitment to ethical conduct. The mean score of 3.98 suggests that employees believe in standing up for what is right, even if it means being inflexible or refusing to compromise. Additionally, the mean score of 3.96 indicates that employees perceive themselves as trustworthy in their dealings with the City Council, crucial for maintaining a positive organizational reputation. The high mean score of 3.96 also indicates a high level of honesty and transparency among employees. Furthermore, the mean score of 3.89 suggests that employees

respect the property of the City Council and do not engage in unauthorized taking. With a mean score of 3.87, employees feel a sense of obligation towards the projects they undertake, indicating a commitment to their work. Similarly, the mean score of 3.87 suggests that employees feel a strong sense of belonging to the organization, contributing to job satisfaction and loyalty. Additionally, the mean score of 3.79 indicates that employees strive to behave ethically in all situations, maintaining organizational integrity. The mean score of 3.53 suggests that employees identify with the organization's problems, indicating a sense of ownership and commitment. However, with a mean score of 3.42, employees are somewhat undecided about their long-term commitment to the organization, suggesting factors influencing their job satisfaction and loyalty. Moreover, the mean score of 3.42 indicates that employees are confident in their ability to resist temptation and uphold ethical standards. The mean score of 3.31 suggests that employees perceive a consistent adherence to ethical values within the organization, crucial for maintaining a positive organizational culture. Lastly, the mean score of 3.28 indicates that employees may find it challenging to leave the organization, suggesting a degree of job satisfaction and loyalty.

Table 4. 11: Qualitative data for human factors

Sn	Sample Question	Emerging themes	Quotation sample(s)
5	In your opinion, which factors affect the financial performance of Mbale City Council?	• Dishonesty	<i>“Not all technical staff in the field are hones. People carry out assessment, negotiate assessment. We have had cases of under assessment, under declaration. The staff in the field go and assess and under declare. For instance, a shop owner in the Republic Street is supposed to pay 1 million. Normal assessment for Republic Street is 1 million. What happens, the town agent assigned to carry out revenue assessment can go to the shopkeeper and tells the shopkeeper to pay a license fee of 1.5 million. The revenue assessor can later tell the shop owner to pay 1 million, when the shop owner (tax payer) agrees to pay the 1m, the revenue assessor</i>

will generate a receipt of 600,000. The revenue assessor will assess and declare 600,000 in the IRAS. The assessor will then keep the remaining 400,000 for himself or herself”.

2. In your view, do you think human factors like honesty, integrity and commitment affect financial performance in the City? If yes, how do these personal factors they affect financial performance in the City?
- Honesty
 - Commitment
 - Integrity
- “There is everyone for himself and God for us all slogan here, whereby everyone man who touches money wants to use it and everyone wants to fight for the money. Both technical and political wing want to swindle money. The Mayors have taken, you find one Mayor is holding property tax, another mayor is holding bills and boards, Town Clerk is also holding something”.*

Source: Primary data, 2023

4.4 Regression results

4.4.1 To find out the effect of audit environment on financial performance of Mbale city.

Table 4. 12: Model summary for audit environment and financial performance

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.271 ^a	.073	.066	.59895	.073	10.457	1	132	.002

a. Predictors: (Constant), Audit environment

Source: Primary data, 2023

In table 4.12, the model summary produced R Square of .073, meaning that 7.3% variation in the financial performance of Mbale City is accounted for by the audit environment. However, a weak R Square of .073 as suggested by Cohen (1988) implies that the regression model is a weak fit for the data. The remaining 92.7% variation in the financial performance is attributed to other factors which were not the focus of the research objective aimed at finding out the effect of audit environment on the financial performance of Mbale City.

Table 4. 13: Regression coefficients for audit environment and financial performance

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.505	.237		10.584	.000		
	Audit environment	.206	.064	.271	3.234	.002	1.000	1.000

a. Dependent Variable: Financial performance

Source: Primary data, 2023

The regression analysis in table 4.13 shows that audit environment positively and significantly predicts financial performance of Mbale City ($\beta = .271^{**}$, Sig = .002). This implies that a 100% improvement in the aspects under audit environment will positively affect financial performance of Mbale City by 27.1% while 72.9% are due to other factors with no principal purpose for research objective of establishing the relationship between audit environment and financial performance of Mbale City. The effect of audit environment on financial performance by t-test value was 3.234, which pointed out that the contribution of audit environment on financial performance is over and above the error associated by it.

Table 4. 14: Model summary of Anova findings of audit environment on financial performance.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.751	1	3.751	10.457	.002 ^b
	Residual	47.354	132	.359		
	Total	51.105	133			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Audit environment

Source: Primary data, 2023

From analysis of variance results in the table above, it can be noted that Fisher's ratio (F) is 10.457 while the significance is 0.002. This indicates that the model is statistically

significant. This also implies that audit environment can significantly predict the variations in financial performance of Mbale City.

4.4.2 To ascertain the effect of risk assessment on financial performance in Mbale city.

In order to examine how risk assessment affects financial performance, the researcher ran a regression analysis to ascertain whether there was any significance between risk assessment and financial performance of Mbale City as below;

Table 4. 15: Model summary for risk assessment and financial performance

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.282 _a	.079	.072	.59705	.079	11.364	1	132	.001

a. Predictors: (Constant), Risk assessment

Source: Primary data, 2023

The model summary in table 4.15 depicts R Square of .079. This means that 7.9% change in the financial performance of Mbale City is attributed to risk assessment. The remaining 92.1% are due to the other factors not pertinent to the specific objective of ascertaining the effect of risk assessment on financial performance of Mbale City. A weak R Square of .079 means that the regression model is a weak fit for the data.

Table 4.16: Regression coefficients for risk assessment and financial performance

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.244	.303		7.400	.000		
	Risk assessment	.264	.078	.282	3.371	.001	1.000	1.000

a. Dependent Variable: Financial performance

Source: Primary data, 2023

Table 4.16 indicates that risk assessment positively and significantly predicts the financial performance of Mbale City ($\beta = .282^{**}$, $\rho \leq .01$). This implied that a 100% enrichment in the aspects under risk assessment would positively enhance financial performance by 28.2% while 72.8% are due to other factors outside the specific objective of ascertaining the effect of risk assessment on financial performance of Mbale City. This implies that increase in risk assessment practices such as risk inspection, ascertaining area of risk weaknesses and recommending improvements, evaluating management capabilities, evaluating the organization's risk management process, and determining loopholes in the financial system will result into an increase in improved financial performance due to increased compliance to financial reporting, timely preparation of financial and accountabilities, payments for only budgeted items in the financial year, and improvement revenue realization.

Table 4. 17: ANOVA findings for risk assessment and financial performance.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.051	1	4.051	11.364	.001 ^b
	Residual	47.054	132	.356		
	Total	51.105	133			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Risk assessment						

Source: Primary data, 2023

From analysis of variance results in the table above, it can be noted that Fisher's ratio (F) is 11.364 while the significance is 0.001. This indicates that the model is statistically significant. This also implies that risk assessment can significantly predict the variations in financial performance of Mbale City.

4.4.3 To ascertain the effect of internal control activities on financial performance in Mbale city.

Table 4. 18: Model summary for internal control activities and financial performance

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.282 ^a	.080	.073	.59694	.080	11.417	1	132	.001

a. Predictors: (Constant), Internal control activities

Source: Primary data, 2023

The model summary in table 4.18 depicts R Square of 0.08. This means that 8% change in the financial performance of Mbale City is attributed to internal control activities. The remaining 92% are due to the other factors not pertinent to the specific objective of ascertaining the effect of internal control activities on financial performance of Mbale City. The predictive power of the model is weak since R Square is only 8%.

Table 4. 19: Regression coefficients for internal control activities and financial performance

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.422	.251		9.653	.000		
	Internal control activities	.216	.064	.282	3.379	.001	1.000	1.000

a. Dependent Variable: Financial performance

Source: Primary data, 2023

Table 4.19 indicates that internal control activities positively and significantly predict the financial performance of Mbale City ($\beta = .282^{**}$, $\rho \leq .01$). This implied that a 100% enrichment in the aspects under internal control activities would positively enhance financial performance by 28.2% while 71.8% are due to other factors outside the specific objective which sought to ascertain the effect of internal control activities on financial performance of Mbale City. This implies that increase in internal control activities such as separation of duties among respective staff, identification and evaluation of

internal control activities as a basis for reporting upon its adequacy and effectiveness, and verification of all transactions before payments are made leads to improvement in financial performance as far as revenue collection, financial reporting and efficiency in expenditure of revenue are concerned.

Table 4.20: ANOVA findings for internal control activities and financial performance.

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.068	1	4.068	11.417	.001 ^b
	Residual	47.037	132	.356		
	Total	51.105	133			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Internal control activities						

Source: Primary data, 2023

From analysis of variance results in the table above, it can be noted that Fisher's ratio (F) is 11.417 while the significance is 0.001. This indicates that the model is statistically significant. This also implies that internal control activities can significantly predict the variations in financial performance of Mbale City.

4.4.4 Multiple Regression Analysis

Table 4.21: Multiple Regression Analysis

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.886	.382		2.317	.022		
	Audit environment	.075	.073	.098	1.017	.311	.631	1.585
	Risk assessment	.064	.092	.068	.691	.491	.606	1.651
	Internal control activities	.155	.061	.202	2.517	.013	.915	1.093
a. Dependent Variable: Financial performance								

Source: Primary data, 2023

From table 4.21, the findings of the study indicate that internal control activities was the strongest predictor of financial performance of Mbale City ($\beta=0.202$ and $p=0.013$), meaning that internal control activities increases financial performance of Mbale City by 20.2%.

Audit environment was the second strongest predictor of financial performance of Mbale City ($\beta=0.098$ and $p=0.311$), meaning that audit environment increases financial performance of Mbale City by 9.8%.

Risk assessment was the least predictor of financial performance of Mbale City ($\beta=0.068$ and $p=0.491$). This means that risk assessment increases financial performance of Mbale City by 6.8%.

4.5 Conclusion

The chapter started with an introduction which outlined the key areas covered, this was followed by response rate, background characteristics of respondents, and study objectives. Lastly the chapter tackled regression analysis.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, discussions of the findings, conclusions, recommendations and areas for further research. The discussions are guided by the study objectives and the findings in chapter four.

5.1 Summary of the findings

5.1.1 Effect of audit environment on financial performance

Audit environment positively and significantly predicts financial performance of Mbale City. In other words, creating a conducive working environment for the internal auditors such as not influencing auditors when they are executing their work and giving auditors the necessary information and support that they require for carrying out their duties translate in increasing the financial performance of the City with regards to revenue collection, financial reporting and expenditure performance.

5.1.2 Effect of risk assessment on financial performance

Risk assessment positively and significantly predicts the financial performance of Mbale City. This implies that increase in risk assessment practices like risk inspection, ascertaining area of risk weaknesses and recommending improvements will result into improved financial performance due to increased compliance to financial reporting, timely preparation of financial and accountabilities, payments for only budgeted items in the financial year, and improvement revenue realization.

5.1.3 Effect of internal control activities on financial performance

Internal control activities positively and significantly predict the financial performance of Mbale City. In other words, increased separation of duties among respective staff, identification and evaluation of

internal control activities as a basis for reporting upon its adequacy and effectiveness, and verification of all transactions before payments are made leads to improvement in financial performance as far as revenue collection, financial reporting and efficiency in expenditure of revenue are concerned.

5.1.4 Moderating role of human factors in the relationship between internal audit systems and financial performance

The findings reveal a positive insignificant moderating impact of human factors on the relationship between internal audit systems and financial performance, meaning that human factors do not moderate the relationship between internal audit systems and financial performance.

5.2 Discussion of the findings

5.2.1 Effect of audit environment on financial performance

The findings reveal that audit environment positively and significantly predicts financial performance of Mbale City. In other words, improvement in audit environment such as allowing the internal audit unit to function independently leads to subsequent improvement in financial performance. These findings mean that creating a conducive working environment for the internal auditors such as not influencing auditors when they are executing their work and giving auditors the necessary information and support that they require for carrying out their duties translate in increasing the financial performance of the City with regards to revenue collection, financial reporting and expenditure performance.

The above findings are supported by Zehri & Shabou (2011) revealed that a conducive audit control environment is able to better constrain employees from fraudulent practices that can lead to financial losses and misuse of organizational funds hence better financial performance. However, influential pressures emanating within the focal organization can make it difficult for auditors to report on

financial matters, challenge management decisions and letters on financial issues, or give an independent and fair audit opinion for fear of losing their jobs, attracting criticism from colleagues or negative image to the organization (Conley-Tyler, 2005).

5.2.2 Effect of risk assessment on financial performance

The findings reveal that risk assessment positively and significantly predicts the financial performance of Mbale City. This means that a positive change in risk assessment is associated with a positive change in the financial performance. In other words, an increase in risk assessment practices with regard to risk inspection, ascertaining area of risk weaknesses and recommending improvements, evaluating management capabilities, evaluating the organization's risk management process, and determining loopholes in the financial system will result into an increase in compliance to financial reporting, timely preparation of financial and accountabilities, payments for only budgeted items in the financial year, and improvement revenue generated to fund activities of the organization hence better financial performance.

Through carrying out special audits and ensuring that the prescribed work plan is adhered, the internal audit unit in the City was capable of determining loopholes in the City's financial system and consequently providing guidelines on the best practices of handling financial management and related challenges thus improvement in financial reporting. For instance, if the auditor's sense that the that there is low revenue collection or the revenue is not coming in well, the audit unit carries out special audit to find out the loopholes in the revenue collection system and thereafter give an audit opinion which management and other staff will be forced to act upon in an attempt to boost revenue collection. Through conducting risk assessment, the audit function is capable of identifying issues that undermine revenue collection such as during enumeration and thereafter write a report recommending on actions to be undertaken in order to improve on the overall financial performance of the entity.

The findings are in agreement with Oyetunji et al. (2022) who asserted that an audit environment characterized by independence of auditors boosts the quality of financial reporting as it allows the auditors to freely and fairly express their opinion upon review of internal controls and or any other financial statement of the organization. The findings are consistent with Ondieki (2013) who alluded that internal audit system boosts the financial performance of an entity through application of fair standards for internal auditing, monitoring of operations and evaluation of work by auditors who are independent in executing their mandate. The findings are also in agreement with Mutua (2012) who asserted that risk based auditing fosters financial performance of an entity through early detection of risks and focusing effort on high-risk areas hence increased transparency and accountability of resources.

5.2.3 Effect of internal control activities on financial performance

In this study, Internal control activities positively and significantly predict the financial performance of Mbale City. This means that a positive change in internal control activities is associated with a positive change in financial performance. The findings show that internal control activities are reasonably good remedies for improving financial performance. In other words, increased separation of duties among respective staff, identification and evaluation of internal control activities as a basis for reporting upon its adequacy and effectiveness, and verification of all transactions before payments are made leads to improvement in financial performance as far as revenue collection, financial reporting and efficiency in expenditure of revenue are concerned.

The findings show that the internal audit function checks on the effectiveness of the City's internal control systems such as the Integrated Revenue Administration System (IRAS). IRAS was being used by the internal audit unit and other stakeholders in the City for overall management of revenue. IRAS is used for enumeration, assessment, collection, disbursement/ expenditure, accountability and

reporting of revenue related issues. This is systems makes it easy for the audit function to have real-time information on the status of revenue collected on a daily basis or at any given period of time and therefore make informed decisions on ways of boosting revenue collection and financial reporting hence improvement in financial performance.

The findings are supported by Beyanga (2011) who avers that internal audit has traditionally been a mechanism for assuring the organizations funds are received and spent in compliance with appropriations and other relevant laws (compliance audit). The findings are also in line with the Internal Audit Report (2009) which reports that control procedures when enforced by management reduces revenue loss, ensure proper utilization of funds and accountability of public resources. In support of the findings, Zehri & Shabou (2011) acknowledged that due to this a conducive audit control environment is able to better constrain employees from fraudulent practices that can lead to financial losses and misuse of organizational funds hence better financial performance.

5.2.4 Moderating role of human factors in the relationship between internal audit systems and financial performance

The findings reveal a positive insignificant moderating impact of human factors on the relationship between internal audit systems and financial performance, meaning that human factors do not moderate the relationship between internal audit systems and financial performance. In fact, the impact of internal audit systems on financial performance was much stronger with high human factors in comparison to low human factors. The positive insignificant moderating role of human factors in the relationship between internal audit systems and financial performance could be as a result of increased automation which curtails the impact of human factors like dishonesty, bribery and other unethical practices that weaken the effectiveness of the internal audit system to report on mismanagement of finances. The automated internal control systems like the IRAS has ideally minimized human

interactions and eliminated cash transactions and the temptations to swindle revenue collected thus improving the financial performance of the entity.

5.3 Conclusions

5.3.1 Effect of audit environment on financial performance

There is a positive and significant effect of audit environment on financial performance, implying that improvement in audit environment such as allowing the internal audit unit to function independently leads to subsequent improvement in financial performance of the entity.

5.3.2 Effect of risk assessment on financial performance

A positive and significant effect of risk assessment on financial performance. This means that a positive change in risk assessment is associated with a positive change in the financial performance. In other words, an increase in risk assessment practices with regard to risk inspection will result into an increase in compliance to financial reporting, timely preparation of financial and accountabilities hence better financial performance.

5.3.3 Effect of internal control activities on financial performance

A positive significant effect of internal control activities on financial performance, implying internal control activities, separation of duties among staff and verification of vouchers before payments are reasonably good remedies for improving financial performance.

5.3.4 Moderating role of human factors in the relationship between internal audit system and financial performance

A positive insignificant moderating impact of human factors on the relationship between internal audit systems and financial performance was observed, meaning that human factors do not moderate the relationship between internal audit systems and financial performance. Indeed, the impact of internal

audit systems on financial performance was much stronger with high human factors in comparison to low human factors.

5.4 Recommendations

In light of the research findings, it is recommendable that the following be implemented to preserve, sustain and improve the financial performance of Mbale City;

The study recommends that organizations should ensure that the internal audit unit operates independently and is adequately resourced. This can be achieved by conducting regular reviews of the organizational structure to guarantee the independence of the internal audit unit and providing training and development opportunities to enhance the skills and competencies of internal auditors. Additionally, implementing a robust system for monitoring and reporting on the effectiveness of the internal audit function can help organizations identify and address any deficiencies in their audit environment.

The study recommends that organizations should implement a robust risk assessment framework that includes regular risk assessments, monitoring, and reporting mechanisms. Providing training to staff on risk assessment methodologies and tools can also help improve the effectiveness of risk assessment practices and ultimately lead to better financial performance.

Organizations should regularly review and update their internal control policies and procedures to ensure compliance and effectiveness. Conducting regular internal control audits can also help organizations identify any weaknesses in their internal control activities and take corrective actions to address them.

In addition, Organizations should foster a positive organizational culture that values transparency, accountability, and ethical behavior. Encouraging employee engagement and empowerment can also

enhance their contributions to financial performance. Additionally, providing training and development opportunities to employees can help enhance their skills and competencies, leading to improved financial performance.

5.5 Suggested areas for further research

In the overall regression model, the variables in this study predicted only 25.27% of the change in the financial performance, implying still there is other variables that can cause a significant change in the financial performance. For instance, there is need to establish the impact of ethical culture on the financial performance of Mbale City.

The study covered only Mbale City, therefore, there is need to carry out further studies using the same variables in other districts and cities of Uganda.

A research study should be carried out to establish the relationship between automated systems and financial performance of local governments.

Further studies should explore tender award and management and how they affect revenue collection in Mbale City.

5.6 Conclusion

The chapter started with an introduction which outlined the key areas covered, this was followed by summary of major findings in accordance with research objectives and questions. The chapter proceeded with conclusion and recommendations. Lastly the chapter tackled areas of future research.

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APPENDICES

APPENDIX A: QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

Questionnaire to be answered by employees of Mbale City Council of Mbale City

Dear Respondents,

I am Babita Sarah, a student of Uganda Christian University. As partial fulfillment of the requirements for award of Degree of Master of Business Administration (Accounting and Finance), am conducting a study on **Internal Audit Systems and Financial Performance of Mbale City Council**. Kindly spare a few minutes of your busy schedules to fill this questionnaire to enable me accomplish this study. Your honest and sincere responses are greatly treasured and shall be treated with utmost confidentiality. I thank you for your cooperation.

Instructions

You are requested to tick from the alternatives given where; 5 = Strongly agree, 4 = Agree, 3 = Not sure, 2 = Disagree, 1 = Strongly disagree **Or** Tick the correct answer in the box provided.

SECTION A

1. Background information

a) Sex

(i) Male

(ii) Female

b) Age

(i) 21-30 years

(iii) 41 years and above

(ii) 31-40 years

c) Highest level of education attained

(i) UCE

(ii) UACE

(iii) Certificate course

(iv) Diploma

(v) Degree

(vi) Master's Degree

d) How long have you worked with Mbale City as a technical staff?

(i) Less than 1 year

(ii) 1 - 3 years

(iii) 3- 6 years

(iv) Above 6 years

SECTION B

Internal Auditing System

Tick in the appropriate box the statement that indicates your level of agreement or disagreement with the statements given below. Rate your response on a scale of 1-5 where; [1] is Strongly disagree; [2] is Disagree; [3] Neutral; [4] Agree; and [5] Strongly Agree.

Audit environment						
IAE1	The internal audit is independent to allow performance of its functions	1	2	3	4	5
IAE2	The internal audit staff are not influenced in executing their duties	1	2	3	4	5
IAE3	Internal auditors deliver appropriate professional opinion supported by the necessary evidence	1	2	3	4	5
IAE4	The internal audit staff get all the necessary support while when performing their duties.	1	2	3	4	5
IAE5	The internal auditor has an unlimited access to information they are supposed to audit before	1	2	3	4	5
Risk assessment						
IRA1	Risk inspection and management is done with the support of all staffs	1	2	3	4	5
IRA2	The audit staff is able to determine areas of weaknesses to recommend improvements	1	2	3	4	5
IRA3	Internal auditors evaluate management capabilities	1	2	3	4	5
IRA4	Audit staff is able to determine loopholes in the financial system	1	2	3	4	5
IRA5	Internal auditors often evaluate the organization's risk management process	1	2	3	4	5
Internal control activities						
IIC1	Duties are clearly separated among respective staff	1	2	3	4	5
IIC2	Internal audit identifies and evaluates the organization's internal control system as a basis for reporting upon its adequacy and effectiveness	1	2	3	4	5
IIC3	All transactions are verified before payments are made	1	2	3	4	5
IIC4	Segregation of duties on accounting and custodian functions prevents fraud	1	2	3	4	5
IIC5	Management maintains internal control systems and ensures that resources are properly directed	1	2	3	4	5

SECTION C

Human factors

Tick in the appropriate box the statement that indicates your level of agreement or disagreement with the statements given below. Rate your response on a scale of 1-5 where; [1] is strongly disagree; [2] is disagree; [3] Neutral; [4] Agree; and [5] Strongly Agree.

Integrity						
HIN1	There is nothing that can tempt me to steal resources of the City Council	1	2	3	4	5
HIN2	I cannot take something belonging to the City Council without permission	1	2	3	4	5
HIN3	In all my dealings with the City Council, I am trustworthy	1	2	3	4	5
HIN4	In this organization, employees act consistently with ethical values	1	2	3	4	5
HIN5	I behave ethically under all circumstances	1	2	3	4	5
HIN6	I strive to do the right thing even when no one is watching	1	2	3	4	5
HIN7	I guard my personal principles even though at the expense of personal gains	1	2	3	4	5
HIN8	Being inflexible and refusing to compromise are good if it means standing up for what is right	1	2	3	4	5
Honesty						
HHO1	There is full openness in the relationship with clients	1	2	3	4	5
HHO2	I present myself in a genuine and sincere way	1	2	3	4	5
HHO3	I take responsibility for my actions	1	2	3	4	5
HHO4	I talk the truth and I don't hide things from others	1	2	3	4	5
HHO5	I follow a set of rules when conducting business on behalf of City Council	1	2	3	4	5
Commitment						
HCO1	It would be very hard for me to leave my organization right now, even if I wanted to	1	2	3	4	5
HCO2	I have a sense of obligation to the people in this project	1	2	3	4	5
HCO3	I really feel as if this organization's problems are my own	1	2	3	4	5
HCO4	I do feel a strong sense of belonging to my organization	1	2	3	4	5
HCO5	I would be very happy to spend the rest of my career with this organization	1	2	3	4	5

SECTION D

Financial Performance

Tick in the appropriate box the statement that indicates your level of agreement or disagreement with the statements given below. Rate your response on a scale of 1-5 where; [1] is strongly disagree; [2] is disagree; [3] Neutral; [4] Agree; and [5] Strongly Agree.

		Strongly disagree (1)	Disagree (2)	Somewhat agree (3)	Agree (4)	Strongly agree (5)
	Revenue collection					
FRC1	All revenues are dully collected and reported.	1	2	3	4	5
FRC2	The City's revenue and asset base has increased over time.	1	2	3	4	5
FRC3	There has been having sufficient revenue to fund all activities and meet its obligations.	1	2	3	4	5
FRC4	All revenues are able to yield the planned revenue targets.	1	2	3	4	5
FRC5	Revenue collected is not spent at source.	1	2	3	4	5
	Expenditure performance					
FEP1	The Accounting system adequately identifies the receipts and expenditure of all funds as required.	1	2	3	4	5
FEP2	This entity is able to meet its payments as and when they fall due.	1	2	3	4	5
FEP3	All expenditures are verified and authorized before payments are made.	1	2	3	4	5
FEP4	Payments are made for only budgeted items during the financial year.	1	2	3	4	5
	Financial accountability					
FFA1	All relevant records are kept for every transaction.	1	2	3	4	5
FFA2	Financial reports and accountabilities are prepared in time as required.	1	2	3	4	5
FFA3	There compliance to financial guidelines in financial reporting.	1	2	3	4	5
FFA4	The city keeps appropriate record for all revenues and expenditure.	1	2	3	4	5

Thank you for your time

APPENDIX B: INTERVIEW GUIDE FOR THE TOP MANAGEMENT STAFF AND CITY POLITICIANS

1. How is the internal audit staff able to execute their duties?
2. How does internal audit help in the financial performance of the city?
3. Does the internal audit staff conduct risk assessment? How does this help in financial performance?
4. How are internal controls exercised in Mbale City Council? How relevant are the controls as regards to financial performance?
5. In your opinion, which factors affect the financial performance of Mbale City Council?

Thank you for your participation

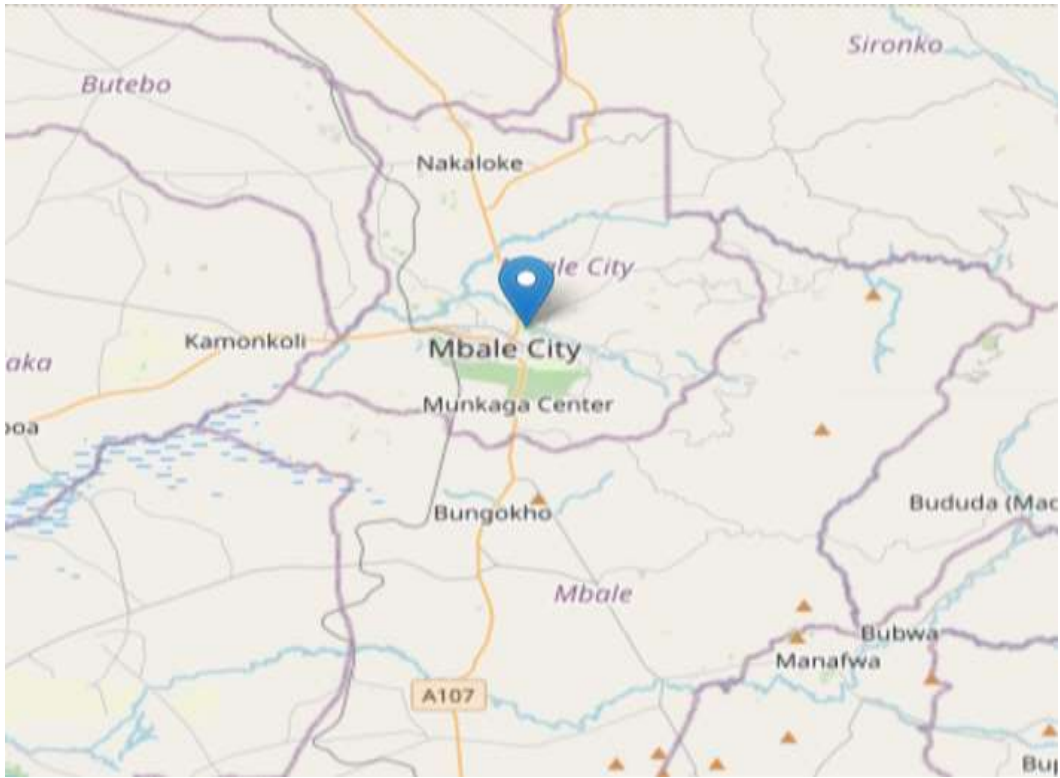
APPENDIX C: SAMPLE SIZE DETERMINATION TABLE

Table showing Sample size(s) required for the Given Population Sizes (N)

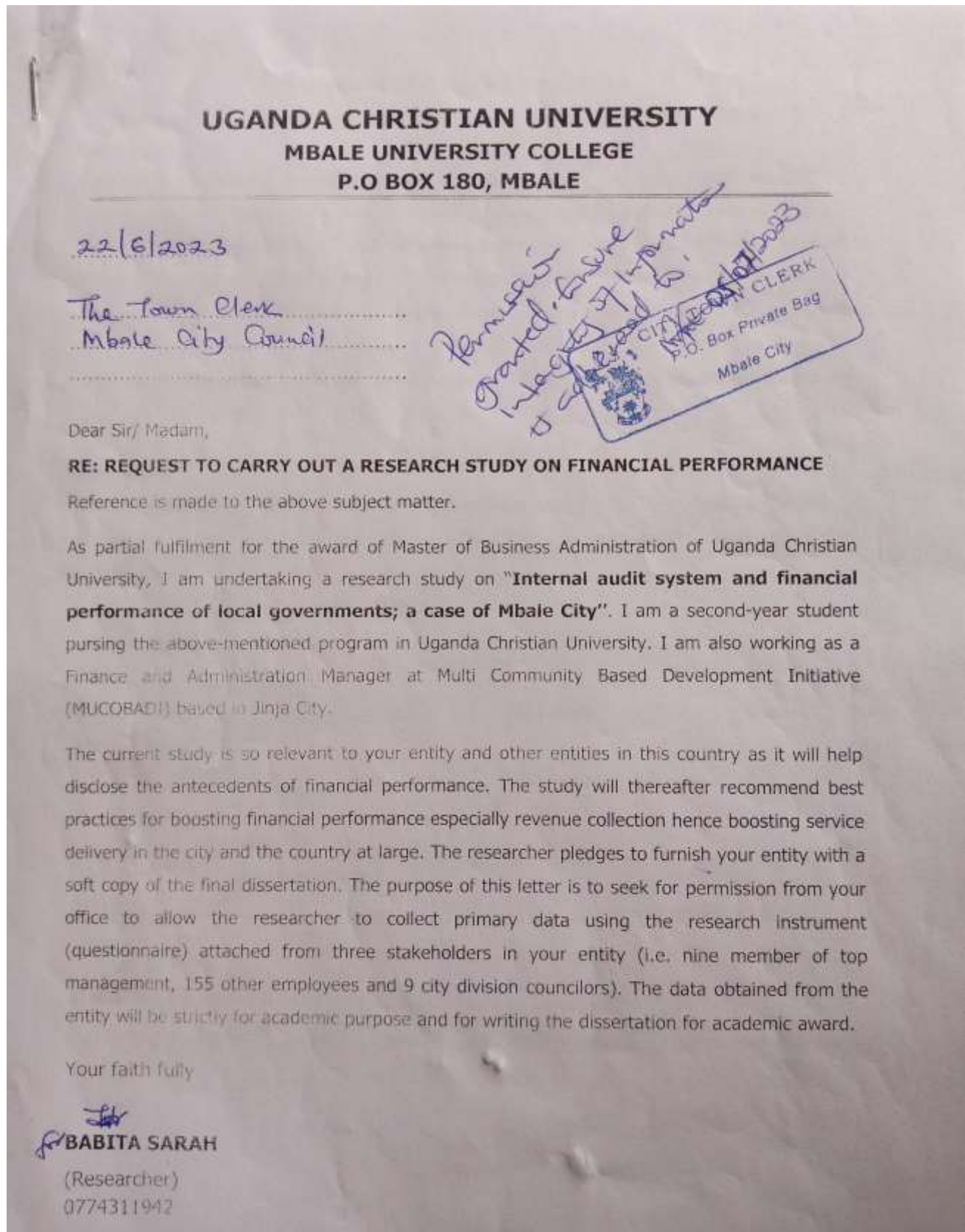
N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2600	335
15	14	110	86	290	165	850	265	2800	338
20	19	120	92	300	169	900	269	3000	341
25	24	130	97	320	175	950	274	3500	346
30	28	140	103	340	181	1000	278	4000	351
35	32	150	108	360	186	1100	285	4500	354
40	36	160	113	380	191	1200	291	5000	357
45	40	170	118	400	196	1300	297	6000	361
50	44	180	123	420	201	1400	302	7000	364
55	48	190	127	440	205	1500	306	8000	368
60	52	200	132	460	210	1600	310	9000	370
65	56	210	136	480	214	1700	313	10000	375
70	59	220	140	500	217	1800	317	15000	377
75	63	230	144	550	226	1900	320	20000	379
80	66	240	148	600	234	2000	322	30000	380
85	70	250	152	650	242	2200	322	40000	381
90	73	260	155	700	248	2400	327	50000	382
95	76	270	159	750	254	2600	331	75000	384

Source: Adopted from Krejcie & Morgan (1970: 608).

APPENDIX D: MAP OF MBALE CITY



APPENDIX E: PERMISSION LETTER TO CARRY OUT THE STUDY IN MBALE CITY



UGANDA CHRISTIAN UNIVERSITY
MBALE UNIVERSITY COLLEGE
P.O BOX 180, MBALE

17/7/2023

The Assistant Town Clerk
Industrial City Division
Mbare City

Received
H. H. H. H. H.
17/07/2023



Dear Sir/ Madam,

RE: REQUEST TO CARRY OUT A RESEARCH STUDY ON FINANCIAL PERFORMANCE

Reference is made to the above subject matter.

As partial fulfilment for the award of Master of Business Administration of Uganda Christian University, I am undertaking a research study on "**Internal audit system and financial performance of local governments; a case of Mbale City**". I am a second-year student pursuing the above-mentioned program in Uganda Christian University. I am also working as a Finance and Administration Manager at Multi Community Based Development Initiative (MUCOBADI) based in Jinja City.

The current study is so relevant to your entity and other entities in this country as it will help disclose the antecedents of financial performance. The study will thereafter recommend best practices for boosting financial performance especially revenue collection hence boosting service delivery in the city and the country at large. The researcher pledges to furnish your entity with a soft copy of the final dissertation. The purpose of this letter is to seek for permission from your office to allow the researcher to collect primary data using the research instrument (questionnaire) attached from three stakeholders in your entity (i.e. nine member of top management, 155 other employees and 9 city division councilors). The data obtained from the entity will be strictly for academic purpose and for writing the dissertation for academic award.

Your faith fully

BABITA SARAH

(Researcher)

0774311942

Babita Sarah
- permission is granted
only that strict code of
conduct and confidentiality
is highly emphasized.
H. H. H. H. H.
17/07/2023

APPENDIX F: FREQUENCY TABLES, CORRELATION AND REGRESSION RESULTS

Frequencies

		Notes	
Output Created			06-AUG-2023 19:18:19
Comments			
Input	Data	E:\BABITA SARAH UCU RESEARCH\SPSS DATASET AND ANALYSIS\FINAL DATASET FOR BABITA SARAH DATASET FOR FINANCIAL PERFROMANCE OF MBALE CITY COUNCIL - 135 RESPONSES ANALYSIS -134 RESPONDENTS.sav	
	Active Dataset	DataSet10	
	Filter	<none>	
	Weight	<none>	
	Split File	<none>	
	N of Rows in Working Data File		134
	Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on all cases with valid data.	
Syntax		FREQUENCIES VARIABLES=Gender Age Education Periodworked IAE1 IAE2 IAE3 IAE4 IAE5 IRA1 IRA2 IRA3 IRA4 IRA5 IIC1 IIC2 IIC3 IIC4 IIC5 HIN1 HIN2 HIN3 HIN4 HIN5 HIN6 HIN7 HIN8 HHO1 HHO2 HHO3 HHO4 HHO5 HCO1 HCO2 HCO3 HCO4 HCO5 FRC1 FRC2 FRC3 FRC4 FRC5 FEP1 FEP2 FEP3 FEP4 FFA1 FFA2 FFA3 FFA4 /ORDER=ANALYSIS.	
Resources	Processor Time		00:00:00.02
	Elapsed Time		00:00:00.14

Frequency Table

Gender of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	84	62.7	62.7	62.7
	Female	50	37.3	37.3	100.0
	Total	134	100.0	100.0	

Age of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30 years	29	21.6	21.6	21.6
	31-40 years	44	32.8	32.8	54.5
	41 years and above	61	45.5	45.5	100.0
	Total	134	100.0	100.0	

Highest level of education attained

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate course	5	3.7	3.7	3.7
	Diploma	44	32.8	32.8	36.6
	Degree	61	45.5	45.5	82.1
	Master's Degree	24	17.9	17.9	100.0
	Total	134	100.0	100.0	

Period worked with Mbale City as a technical staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	14	10.4	10.4	10.4
	1 - 3 years	30	22.4	22.4	32.8
	3 - 6 years	21	15.7	15.7	48.5
	Above 6 years	69	51.5	51.5	100.0
	Total	134	100.0	100.0	

The internal audit is independent to allow performance of its functions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	6.7	6.7	6.7
	Disagree	4	3.0	3.0	9.7
	Somehow agree	39	29.1	29.1	38.8
	Agree	54	40.3	40.3	79.1

Strongly agree	28	20.9	20.9	100.0
Total	134	100.0	100.0	

The internal audit staff are not influenced in executing their duties

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	7.5	7.5	7.5
	Disagree	16	11.9	11.9	19.4
	Somehow agree	31	23.1	23.1	42.5
	Agree	55	41.0	41.0	83.6
	Strongly agree	22	16.4	16.4	100.0
	Total	134	100.0	100.0	

Internal auditors deliver appropriate professional opinion supported by the necessary evidence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.5	1.5	1.5
	Disagree	5	3.7	3.7	5.2
	Somehow agree	38	28.4	28.4	33.6
	Agree	68	50.7	50.7	84.3
	Strongly agree	21	15.7	15.7	100.0
	Total	134	100.0	100.0	

The internal audit staff get all the necessary support while when performing their duties.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	8.2	8.2	8.2
	Somehow agree	39	29.1	29.1	37.3
	Agree	71	53.0	53.0	90.3
	Strongly agree	13	9.7	9.7	100.0
	Total	134	100.0	100.0	

The internal auditor has an unlimited access to information they are supposed to audit before

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	7.5	7.5	7.5
	Disagree	19	14.2	14.2	21.6
	Somehow agree	38	28.4	28.4	50.0
	Agree	50	37.3	37.3	87.3

Strongly agree	17	12.7	12.7	100.0
Total	134	100.0	100.0	

Risk inspection and management is done with the support of all staffs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	3.7	3.7	3.7
	Disagree	21	15.7	15.7	19.4
	Somehow agree	55	41.0	41.0	60.4
	Agree	45	33.6	33.6	94.0
	Strongly agree	8	6.0	6.0	100.0
	Total	134	100.0	100.0	

The audit staff is able to determine areas of weaknesses to recommend improvements

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.7	.7	.7
	Disagree	2	1.5	1.5	2.2
	Somehow agree	29	21.6	21.6	23.9
	Agree	73	54.5	54.5	78.4
	Strongly agree	29	21.6	21.6	100.0
	Total	134	100.0	100.0	

Internal auditors evaluate management capabilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2
	Disagree	4	3.0	3.0	5.2
	Somehow agree	48	35.8	35.8	41.0
	Agree	49	36.6	36.6	77.6
	Strongly agree	30	22.4	22.4	100.0
	Total	134	100.0	100.0	

Audit staff is able to determine loopholes in the financial system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2
	Somehow agree	38	28.4	28.4	30.6
	Agree	49	36.6	36.6	67.2
	Strongly agree	44	32.8	32.8	100.0
	Total	134	100.0	100.0	

Internal auditors often evaluate the organization's risk management process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	8	6.0	6.0	6.0
	Disagree	9	6.7	6.7	12.7
	Somehow agree	31	23.1	23.1	35.8
	Agree	66	49.3	49.3	85.1
	Strongly agree	20	14.9	14.9	100.0
	Total	134	100.0	100.0	

Duties are clearly separated among respective staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.5	1.5	1.5
	Disagree	21	15.7	15.7	17.2
	Somehow agree	12	9.0	9.0	26.1
	Agree	66	49.3	49.3	75.4
	Strongly agree	33	24.6	24.6	100.0
	Total	134	100.0	100.0	

Internal audit identifies and evaluates the organization's internal control system as a basis for reporting upon its adequacy and effectiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.5	1.5	1.5
	Disagree	11	8.2	8.2	9.7
	Somehow agree	18	13.4	13.4	23.1
	Agree	65	48.5	48.5	71.6
	Strongly agree	38	28.4	28.4	100.0
	Total	134	100.0	100.0	

All transactions are verified before payments are made

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2
	Disagree	21	15.7	15.7	17.9
	Somehow agree	31	23.1	23.1	41.0
	Agree	51	38.1	38.1	79.1
	Strongly agree	28	20.9	20.9	100.0
	Total	134	100.0	100.0	

Segregation of duties on accounting and custodian functions prevents fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.5	1.5	1.5
	Disagree	29	21.6	21.6	23.1
	Somehow agree	40	29.9	29.9	53.0
	Agree	43	32.1	32.1	85.1
	Strongly agree	20	14.9	14.9	100.0
	Total	134	100.0	100.0	

Management maintains internal control systems and ensures that resources are properly directed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.5	1.5	1.5
	Disagree	10	7.5	7.5	9.0
	Somehow agree	36	26.9	26.9	35.8
	Agree	54	40.3	40.3	76.1
	Strongly agree	32	23.9	23.9	100.0
	Total	134	100.0	100.0	

There is nothing that can tempt me to steal resources of the City Council

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	19	14.2	14.2	14.2
	Disagree	16	11.9	11.9	26.1
	Somehow agree	22	16.4	16.4	42.5
	Agree	44	32.8	32.8	75.4
	Strongly agree	33	24.6	24.6	100.0
	Total	134	100.0	100.0	

I cannot take something belonging to the City Council without permission

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	8	6.0	6.0	6.0
	Disagree	9	6.7	6.7	12.7
	Somehow agree	16	11.9	11.9	24.6
	Agree	58	43.3	43.3	67.9
	Strongly agree	43	32.1	32.1	100.0
	Total	134	100.0	100.0	

In all my dealings with the City Council, I am trustworthy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	5.2	5.2	5.2
	Disagree	3	2.2	2.2	7.5
	Somehow agree	17	12.7	12.7	20.1
	Agree	68	50.7	50.7	70.9
	Strongly agree	39	29.1	29.1	100.0
	Total	134	100.0	100.0	

In this organization, employees act consistently with ethical values

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	5.2	5.2	5.2
	Disagree	21	15.7	15.7	20.9
	Somehow agree	45	33.6	33.6	54.5
	Agree	46	34.3	34.3	88.8
	Strongly agree	15	11.2	11.2	100.0
	Total	134	100.0	100.0	

I behave ethically under all circumstances

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	3.7	3.7	3.7
	Disagree	5	3.7	3.7	7.5
	Somehow agree	29	21.6	21.6	29.1
	Agree	69	51.5	51.5	80.6
	Strongly agree	26	19.4	19.4	100.0
	Total	134	100.0	100.0	

I strive to do the right thing even when no one is watching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	6	4.5	4.5	4.5
	Disagree	3	2.2	2.2	6.7
	Somehow agree	11	8.2	8.2	14.9
	Agree	71	53.0	53.0	67.9
	Strongly agree	43	32.1	32.1	100.0
	Total	134	100.0	100.0	

I guard my personal principles even though at the expense of personal gains

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2

Disagree	2	1.5	1.5	3.7
Somehow agree	18	13.4	13.4	17.2
Agree	77	57.5	57.5	74.6
Strongly agree	34	25.4	25.4	100.0
Total	134	100.0	100.0	

Being inflexible and refusing to compromise are good if it means standing up for what is right

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.7	.7	.7
	Disagree	5	3.7	3.7	4.5
	Somehow agree	22	16.4	16.4	20.9
	Agree	74	55.2	55.2	76.1
	Strongly agree	32	23.9	23.9	100.0
	Total	134	100.0	100.0	

There is full openness in the relationship with clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.7	.7	.7
	Disagree	1	.7	.7	1.5
	Somehow agree	19	14.2	14.2	15.7
	Agree	82	61.2	61.2	76.9
	Strongly agree	31	23.1	23.1	100.0
	Total	134	100.0	100.0	

I present myself in a genuine and sincere way

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Somehow agree	7	5.2	5.2	5.2
	Agree	83	61.9	61.9	67.2
	Strongly agree	44	32.8	32.8	100.0
	Total	134	100.0	100.0	

I take responsibility for my actions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Somehow agree	8	6.0	6.0	6.7
	Agree	75	56.0	56.0	62.7
	Strongly agree	50	37.3	37.3	100.0

Total	134	100.0	100.0
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I talk the truth and I don't hide things from others

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2
	Disagree	7	5.2	5.2	7.5
	Somehow agree	15	11.2	11.2	18.7
	Agree	77	57.5	57.5	76.1
	Strongly agree	32	23.9	23.9	100.0
	Total	134	100.0	100.0	

I follow a set of rules when conducting business on behalf of City Council

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.7	.7	.7
	Disagree	7	5.2	5.2	6.0
	Somehow agree	11	8.2	8.2	14.2
	Agree	73	54.5	54.5	68.7
	Strongly agree	42	31.3	31.3	100.0
	Total	134	100.0	100.0	

It would be very hard for me to leave my organization right now, even if I wanted to

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	6.7	6.7	6.7
	Disagree	29	21.6	21.6	28.4
	Somehow agree	26	19.4	19.4	47.8
	Agree	56	41.8	41.8	89.6
	Strongly agree	14	10.4	10.4	100.0
	Total	134	100.0	100.0	

I have a sense of obligation to the people in this project

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.5	1.5	1.5
	Disagree	7	5.2	5.2	6.7
	Somehow agree	25	18.7	18.7	25.4
	Agree	72	53.7	53.7	79.1
	Strongly agree	28	20.9	20.9	100.0
	Total	134	100.0	100.0	

I really feel as if this organization's problems are my own

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	7.5	7.5	7.5
	Disagree	9	6.7	6.7	14.2
	Somehow agree	31	23.1	23.1	37.3
	Agree	68	50.7	50.7	88.1
	Strongly agree	16	11.9	11.9	100.0
	Total	134	100.0	100.0	

I do feel a strong sense of belonging to my organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.0	3.0	3.0
	Disagree	3	2.2	2.2	5.2
	Somehow agree	31	23.1	23.1	28.4
	Agree	65	48.5	48.5	76.9
	Strongly agree	31	23.1	23.1	100.0
	Total	134	100.0	100.0	

I would be very happy to spend the rest of my career with this organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	6	4.5	4.5	4.5
	Disagree	20	14.9	14.9	19.4
	Somehow agree	38	28.4	28.4	47.8
	Agree	52	38.8	38.8	86.6
	Strongly agree	18	13.4	13.4	100.0
	Total	134	100.0	100.0	

All revenues are dully collected and reported.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	16	11.9	11.9	11.9
	Disagree	41	30.6	30.6	42.5
	Somehow agree	46	34.3	34.3	76.9
	Agree	19	14.2	14.2	91.0
	Strongly agree	12	9.0	9.0	100.0
	Total	134	100.0	100.0	

The City's revenue and asset base has increased over time.

		Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	Strongly disagree	16	11.9	11.9	11.9
	Disagree	20	14.9	14.9	26.9
	Somehow agree	29	21.6	21.6	48.5
	Agree	43	32.1	32.1	80.6
	Strongly agree	26	19.4	19.4	100.0
	Total	134	100.0	100.0	

There has been having sufficient revenue to fund all activities and meet its obligations.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	30	22.4	22.4	22.4
	Disagree	44	32.8	32.8	55.2
	Somehow agree	29	21.6	21.6	76.9
	Agree	24	17.9	17.9	94.8
	Strongly agree	7	5.2	5.2	100.0
	Total	134	100.0	100.0	

All revenues are able to yield the planned revenue targets.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	19	14.2	14.2	14.2
	Disagree	42	31.3	31.3	45.5
	Somehow agree	49	36.6	36.6	82.1
	Agree	16	11.9	11.9	94.0
	Strongly agree	8	6.0	6.0	100.0
	Total	134	100.0	100.0	

Revenue collected is not spent at source.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	11	8.2	8.2	8.2
	Disagree	37	27.6	27.6	35.8
	Somehow agree	44	32.8	32.8	68.7
	Agree	34	25.4	25.4	94.0
	Strongly agree	8	6.0	6.0	100.0
	Total	134	100.0	100.0	

The Accounting system adequately identifies the receipts and expenditure of all funds as required.

		Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	Strongly disagree	5	3.7	3.7	3.7
	Disagree	18	13.4	13.4	17.2
	Somehow agree	39	29.1	29.1	46.3
	Agree	52	38.8	38.8	85.1
	Strongly agree	20	14.9	14.9	100.0
	Total	134	100.0	100.0	

This entity is able to meet its payments as and when they fall due.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.7	.7	.7
	Disagree	48	35.8	35.8	36.6
	Somehow agree	40	29.9	29.9	66.4
	Agree	34	25.4	25.4	91.8
	Strongly agree	11	8.2	8.2	100.0
	Total	134	100.0	100.0	

All expenditures are verified and authorized before payments are made.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	3.0	3.0	3.0
	Disagree	17	12.7	12.7	15.7
	Somehow agree	47	35.1	35.1	50.7
	Agree	42	31.3	31.3	82.1
	Strongly agree	24	17.9	17.9	100.0
	Total	134	100.0	100.0	

Payments are made for only budgeted items during the financial year.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	8	6.0	6.0	6.0
	Disagree	9	6.7	6.7	12.7
	Somehow agree	54	40.3	40.3	53.0
	Agree	42	31.3	31.3	84.3
	Strongly agree	21	15.7	15.7	100.0
	Total	134	100.0	100.0	

All relevant records are kept for every transaction.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	5.2	5.2	5.2
	Disagree	8	6.0	6.0	11.2

	Somehow agree	28	20.9	20.9	32.1
	Agree	63	47.0	47.0	79.1
	Strongly agree	28	20.9	20.9	100.0
	Total	134	100.0	100.0	

Financial reports and accountabilities are prepared in time as required.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2
	Disagree	14	10.4	10.4	12.7
	Somehow agree	44	32.8	32.8	45.5
	Agree	52	38.8	38.8	84.3
	Strongly agree	21	15.7	15.7	100.0
	Total	134	100.0	100.0	

There is compliance to financial guidelines in financial reporting.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	2.2	2.2	2.2
	Somehow agree	52	38.8	38.8	41.0
	Agree	55	41.0	41.0	82.1
	Strongly agree	24	17.9	17.9	100.0
	Total	134	100.0	100.0	

The city keeps appropriate record for all revenues and expenditure.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	5.2	5.2	5.2
	Disagree	10	7.5	7.5	12.7
	Somehow agree	35	26.1	26.1	38.8
	Agree	53	39.6	39.6	78.4
	Strongly agree	29	21.6	21.6	100.0
	Total	134	100.0	100.0	



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APPENDIX G: DISSERTATION CORRECTION COMPLIANCE REPORT BY THE CANDIDATE (POST VIVA FORM)

Date: ...17th/07/2024

Name of Candidate:BABITA SARAH. **Reg. No:** ...WS21/MUC/MBA/008

Title of DissertationINTERNAL AUDIT SYSTEM AND FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS; A CASE OF MBALE CITY

SN	COMMENTS BY EXTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	<ul style="list-style-type: none"> Write the abstract without citations and paragraphs. Indicate clearly and logically the historical perspective of Local Government financial performance. Reduce the information in the background by removing whatever is outside the study scope. Clarify the definition of human factors. 	<ul style="list-style-type: none"> Abstract corrected. Historical Background corrected with clear indication and logical perspective of Local Government financial performance. Background to the study corrected. Moderating variables corrected. 	Pages xii, 1, 2, 3, 4, 5, 7, 8, 9, and 10 corrected.

	<ul style="list-style-type: none"> • State the fourth with specificity. • Explain well and justify the content scope. • Explain with evidence the linkages amongst the variables in the conceptual framework. 	<ul style="list-style-type: none"> • Moderating variables corrected. • Content scope properly explained and justified. • Conceptual framework corrected with proper explanation of the linkages amongst the variables. 	
2	<ul style="list-style-type: none"> • Provide a better title for sub-section 2.1. • Explain the literature gap that your study addressed. 	<ul style="list-style-type: none"> • Title for sub-section 2.1 corrected. • Literature gap properly explained. 	Pages 12, 22, and 23 corrected.
3	<ul style="list-style-type: none"> • Write an appropriate study design. • Discuss the data collection methods. • Be clear on the explanation of the measurement of audit systems and financial performance of Local 	<ul style="list-style-type: none"> • Study design corrected. • data collection methods included and discussed. • Explanation of the measurement of audit systems and financial performance of Local 	Pages 24, 27, 28, 32, and 33 corrected.

	<p>Government indicating the basis used to interpret results.</p> <ul style="list-style-type: none"> • Explain the actual methodology limitations. 	<p>Government corrected.</p> <ul style="list-style-type: none"> • The actual methodology limitations stated and explained. 	
4	<ul style="list-style-type: none"> • Improve the interpretation of the results of the moderating variable. 	<ul style="list-style-type: none"> • The interpretation of the results of the moderating variable improved. 	Pages 48, 49 and 50 corrected.
5	<ul style="list-style-type: none"> • Make realistic recommendations in the context of the study problem. • Introduce and conclude every chapter. • Edited all the English mistakes in the thesis. 	<ul style="list-style-type: none"> • Realistic recommendations in the context of the study problem made. • Every chapter introduced and concluded. • All the English mistakes corrected. 	Pages 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63 and 64 corrected.

SN	COMMENTS BY INTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	<ul style="list-style-type: none"> • The cover page indicates Faculty of Business instead of school of Business. This needs to be amended. • The abstract is wordy; some information such as response rate 	<ul style="list-style-type: none"> • Cover page corrected with School of Business. 	Cover page, pages xii, 4, and 5 corrected.

	<p>and categories of respondents that were interviewed are not necessary.</p> <ul style="list-style-type: none"> The candidate provided a general introduction to this study which was clearly segmented into historical, theoretical, conceptual and contextual. This is commendable because it gives the reader sufficient background to appreciate the basis of the study. However, I note that the student cites names of officers from Mbale city e.g. “<i>(Woniala & Wambedde, 2021)</i>” equating this to published works which is unacceptable. 	<ul style="list-style-type: none"> Abstract corrected. Background corrected. 	
2	<ul style="list-style-type: none"> Most of the literature cited is outdated, the majority being more than ten to fifteen years old. There needs to be a policy delimiting the age of literature to be reviewed by studies of such a nature, especially if they are not classical literature sources being cited. 	<ul style="list-style-type: none"> Literature review corrected 	Pages 14, 15, 16, 17, 18, 19, 20, 21, 22, and 23 corrected.
3	<ul style="list-style-type: none"> The methods section should focus on how the study was done and not be loaded with textbook materials of definitions. The candidate presented only the data collection instruments. The candidate should include the methods. 	<ul style="list-style-type: none"> Methodology corrected. 	Pages 24, 25, 26, 27, 28, 29, 30, 31, 32, and 33 corrected.
4	<ul style="list-style-type: none"> The descriptive statistics do not have frequencies and percentages; 	<ul style="list-style-type: none"> Mean and Standard deviation values 	Pages 37, 41, 43, 44, 47, 48, and 55 corrected.

	<p>these should be included for proper interpretation.</p> <ul style="list-style-type: none"> • A multivariate regression analysis would have been run to show which variable has greatest effect on the dependent variable. 	<p>included in the descriptive statistics.</p> <ul style="list-style-type: none"> • A multivariate regression analysis included. 	
5	<ul style="list-style-type: none"> • Conclusions and recommendations should be in line with the current study findings or shortcomings. 	<ul style="list-style-type: none"> • Conclusions and recommendations made in line with the study findings. 	Pages 62, 63, and 64 corrected.

SN	COMMENTS BY VIVA VOCE PANNEL	ACTION TAKEN	INDICATOR
1	<ul style="list-style-type: none"> • She needs to include the multiple regression table. 	<ul style="list-style-type: none"> • Multiple regression table included and analyzed. 	Pages 55 and 56 corrected.

Candidate's Name

BABITA SARAH

Signatute:

Supervisor's Name

Prof. Mabonga Eric

Signature :