ROLE OF INTERNAL AUDIT ON FINANCIAL PERFPRMANCE OF COMMERCIAL BANKS IN UGANDA

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DECLARATION

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

Signature …… Date …….

APPROVAL

This research has been submitted with my authority as the university supervisor.

Signature ……. Date …….

DEDICATION

I dedicate this research to my mother (Ms. Nantongo Mariam), father (Mr. Seguya James), sisters (Sharon, Daphine, Sarah and Sandra), husband (Mr. Kimuli Wamala Peterson) and my supervisor (Mr. Tukesiga Godfrey).

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ABSTRACT

Financial performance requires appropriate internal audit practices to enhance efficiency. For the purpose of this study the researcher sought to determine the role of internal audit on financial performance of commercial banks in Uganda. Internal audit was looked at from the perspective of internal audit standards, professional competence, internal controls and independence of internal audit. The researcher administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Data presentation was done by use of tables for ease of understanding and interpretation.

From the findings, the study concludes that internal audit standards, independence of internal audit, professional competence and internal control had a positive relationship with financial performance of commercial banks, a unit increase in professional competence would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in financial performance of commercial banks.

The study recommends that management in commercial banks in Uganda should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competence and internal controls to enhance financial performance of banks.

LIST OF ABBREVIATIONS

ROA:	Return on Assets
ROE:	Return on Equity
ROI:	Return on Investments
IIA:	Institute of Internal Auditors
IA:	Internal Audit
PC:	Professional Competence
IAS:	Internal Audit Standards
IC:	Internal Control
CEO:	Chief Executive Officer

CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

For most of its history internal audit has served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting to board of directors, management or external auditors. Recent

times, however a combination of different forces has led to a quiet revolution of the profession. Organizations have to demonstrate accountability in the use of shareholder's money and efficiency in the delivery of services. Organizations now demand great competency and professionalism from internal audit and scarce resources must be deployed more efficiently to minimize and manage risks. Technological advancement makes it possible to track and analyze data with continually increasing speed thus making it essential for organizations to be well advised by the internal audit department. Internal audit varies from one organization to another and making change to modern internal audit can be a substantial undertaking. The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organizational changes in many bank institutions staff is poorly paid and unmotivated, ethical standards are weak and governance practices are ineffective leading to asset mismanagement (Ramamoorti, 2003).

All over the world there is a realization that the internal audit activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of internal auditing from the institute of internal auditors (the IIA). Commercial banks have come to the realization that internal audit is essential in

improving management of assets in the banks leading to improved financial performance of banks (Basel committee, 2002).

1.1.1 Internal Auditing.

According to Robertson (1976) Internal Auditing may be defined in several ways depending upon what purpose is to be served. Pickett (1976) stated that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank however which bears final responsibility that the bank's management applies an appropriate and effective system of internal audit, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Likewise, the bank's management is responsible for drawing up procedures which identify measure, monitor and control the risks that the bank faces.

1.1.2 Financial Performance

There are many aspects of the performance of commercial banks that can be analyzed.

Muga (2012) stated that the importance of bank profitability can be appraised at the micro and macro levels of the economy. At the micro level profit is the

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

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

1.2Statement of the problem

Recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have given rise to two disparate yet logical outcomes. First, Internal auditing skills have become crucial in untangling the complicated accounting maneuvers that have obfuscated financial statements. Second, Public demand for change and subsequent regulatory action has transformed corporate governance. Increasingly, company officers and directors are under ethical and legal scrutiny. Both trends have the common goal of responsibility addressing

investors' concerns about the financial reporting system. However, there has been laxity in implementation of internal audit findings and recommendations.

1.3Purpose of the study

The purpose of this study was to investigate the role of internal audit on the financial performance of commercial banks in Uganda.

1.4Objective of the study

The objective of this study was to establish the role of internal audit on the financial performance of commercial banks in Uganda.

1.5Research questions

What are some of performance indicators used by commercial banks?

What is the role of internal audit in piloting financial performance in commercial banks?

1.6 Significance of the study.

This study helped the management of banks to be able to look for ways of making internal audit a completely independent function from the management thus making it more effective by implementing recommendations given on the internal audit reports management to be able to enhance performance of the bank.

This study also helped in increasing the role and image of internal audit in commercial banks to make it more effective and professional. It also helped the shareholders appreciate the role of the internal audit as one of the most important managerial control systems in an organization required to safeguard their interests.

For scholars it helped them to appreciate and enhance their knowledge of internal audit so as to adhere to the professional ethics as required by the IAS.

1.7 Scope of the study

This included the content, geographical and time scope.

1.7.1 Content scope

The study confined its self on the role of internal audit on the financial performance of commercial Unitof banks in Uganda.

1.7.2 Geographical scope

This study was mainly carried out in Uganda.

1.7.3 Time scope

The researcher looked at the period between 2019 and 2021. The study took a period of three to four months.

1.8 Unit of analysis

The respondents mainly focused on the role of internal audit on the financial performance of commercial banks in Uganda. The researcher thenanalyzed the data that is to say organizing it and then transferring the data organized to the computer for safety references.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A review of literature is crucial as it shows a picture of the state of knowledge in the areas of the study. This chapter reviewed various literatures in the field of internal audit and the impact, role and the financial ratios it has on the financial performance of an organization more particularly banks.

2.2Performance indicators for banks

Adequate performance of financial institutions is a crucial importance to their customers, prices and qualities of their products are determined by efficiency and competition. Since efficiency and competition cannot be observed directly. Various indirect measures in the form of simple indicators or complex models have been devised and used both in theory and in practice. Internal audit demonstrates that measuring the performance of banks is hard and that indicators differ strongly in quality. It investigates which methods are to be preferred and how by combining certain indicators stronger measures may be developed.

Commercial loan application processing cycle time. Long cycle times on commercial loan applications directly impact customer satisfaction. Businesses need to move fast and borrowers are not going to wait around for their application to be revealed if other banks give them answers quicker and more efficient.

Post per commercial loan origination. Commercial banks make money on the difference between what it costs them to produce a loan versus what the customer pays in interest and fees. A pillar of business operations is keeping costs low so keeping a close watch on this commercial banking can expose low value processes

that are driving up costs and help your team figure out how to improve margin on each commercial loan. Cost per commercial loan origination should include labor costs including benefits and bonuses as well as overhead costs when calculating.

Commercial loan charge off rate. This commercial banking is closely related to risk in regard to underwriting methods in addition to being an indicator of possible losses caused by charge offs. A charge off is a delinquent loan that is unlikely to ever be collected by the organization. To calculate commercial loan charge off rate you take the remaining amount of commercial loans that must be charged off and divide it b the average amount of total loans outstanding.

Commercial loans outstanding per commercial loan officer. Commercial loan officers are employees that are responsible for attracting new businesses, managing client relationships and loan renewals for the bank. This indicator measures the total amount of outstanding loans in relation to the number of commercial loan officers serving in the bank during a specific point in time. When considering commercial loan outstanding per commercial loan officer, a higher value is based since this indictor deals with the productivity of customer facing employees, a low value can be contributed to a few different factors for example time consuming, lull in commercial loan demands by customers.

2.3 Effects of internal auditing on a banking performance

The effect of internal auditing on organizational performance, Eden D, (1996) assigned 224 bank branches to experimental conditions (audited or not audited) and monitor their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. While that study offers a useful jumping off point for

understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why internal audit works and the conditions that facilitate or impede it. Helping to bridge this gap will be one of the main contributions of this study.

According to Cooper and Craig (1983), on his study on the role of internal audit in the Asia pacific region. This seminal research on internal audit in Australia found a number of issues that by were of concern to the profession. It was found that there were a number of misconceptions about what internal auditors were doing and what their chief executives' officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time. There was nevertheless strong support 16 for internal audit by CEO's and at the time it was seen as offering long term career prospects. However, the professionals in Australia in the early 1980's suffered from an image problem, it did not have a strong professional body to represent its interest as it has now and were no generally accepted professional qualifications recognized as necessary to practice as an internal auditor. The study was undertaken before the development of moderninternal auditing as we know it now. It did, however set the scene for a number of subsequent studies in Australia, HongKongand Malaysia.

Ndege (2012) researched on performance and financial ratios of commercial banks. The objective of his study was to identify factors in a ratio from that shape bank performance as measured through return on assets (ROA) and return on equity (ROE). In his study he concluded that ROA and ROE can be used to measure financial performance of banks. Internal audit operation and recommendations do not only have short term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the

particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However, it seems that laxity has crept in and it is in light of this view that we seek to analyze the factors affecting implementation of internal audit reports in commercial banks.

Mutua (2012) researched on impact of risk-based audit on financial performance of commercial banks. Although her study concentrated on risk-based audit she acknowledged that financial performance requires appropriate effective and efficient internal audit. From the findings, the study concluded that risk-based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

2.4 Survey from the literature review

From the literature review, several researchers seem to concur that there is a relationship between internal audit and financial performance of an organization. These conclusions were confirmed after empirical evidence was obtained for the research. However, there seems to be very few studies done on effect of internal audit financial performance in organizations.

2.5Theoretical frame work

Various theories have been formulated on internal audit and financial performance. They include Agency theory and Contingency theory.

2.5.1 Agency Theory

Agency theory is concerned with resolving problems that can exist in agency relationships, that is between principals such as shareholders and agents of the principals for example company executives. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances the principal and agent may each be inclined to take different actions.

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

2.5.2 Contingency theory

The goal of an audit is to test the reliability of a company's information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits but industry standards can

mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors into account during the audit process.

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

On a broad level, the audit process was straight forward. Auditors required access to documents, systems, policies and procedures to manage an audit. They remained compliant with industry standards, government regulations and internal requests. Audit teams begun the audit process with meetings where they gathered risk and control awareness after which the field work begins. During the audit process, auditors perform substantive procedures and test controls. They then draft reports that they submit to management and regulatory authorities. The audit sub process particularly in planning and field work include contingencies such as business type, employee skill level, applicable laws, available audit workforce, available technology and systems and deadline.

2.6 Internal Controls

Controls audits are designed to ensure that appropriate controls over systems and software are in place to ensure that internal controls and internal checks are functioning as designed. Controls audits can have features built into them to ensure that fraudulent transactions are flagged or made difficult, if not impossible, to transact. Controls audits provide assurance that controls are working, but they do

not necessarily detect fraud or corruption. Internal controls audit objectives relate to management ‘s plans, methods and procedures used to meet the organization ‘s mission, goals, and objectives. Internal control includes planning, organizing, directing and controlling program operations and the systems put in place to measure, report and monitor program performance.

Salih (1983) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the existence of control is very crucial especially under today ‘s condition with severe competition which place premium on reliable customer services, on consideration of cash, on realization of capital assets and manpower and on other reduction cost.

Keitany (2000) in a study of internal audit control functions and its implications for risk assessment by the internal auditor: A case of quoted companies concluded that even though the extend of reliance on internal control is not sensitive to the strengths of audit departments, companies should not do away with it. This is because as a management tool it should assist management in its day-to-day operations and not necessarily of any relevance to the external auditor. This may be attributed to the fact that external auditor may have specific considerations which may be beyond the strength of internal controls. However, though the system of internal control was ranked as the most important factor in obtaining audit evidence other indicators followed. It therefore implies that once the auditor establishes the strength of the audit department, other risk indicators come into play notwithstanding the strength of internal control.

2.7 The role of internal auditing function

Especially investors and creditors, by preparing and disseminating financial statements of material misstatements. Examples included improper revenue recognition, unnatural cost of capitalization and a variety of inappropriate accruals.

Internal and external auditors also have an important role. Internal auditors are the first line of defense against fraud because of their knowledge and understanding of the business environment and internal control. Internal auditors may play various roles to prevent and detect fraud within the entity, depending on the direction of the management, the board or the audit committee. Although the responsibility of the external auditor was to provide their opinion on the fairness of the financial statements, users of the audited financial statements generally expect external auditors to detect fraud in the financial statements.

Independence and objectivity. The bank's internal audit function must be independent of the audited activities which requires the internal audit function to have sufficient standing and authority within the bank thereby enabling internal auditors to carry out their assignments with objectivity.

The internal audit function should not be involved in designing, selecting, implementing or operating specific internal control measures. However, the independence of the internal audit function should not prevent senior management from requesting input from internal audit on matters related to risk and internal controls. Never the less the development and implementation of internal controls should remain the responsibility of the management.

Continuously performing senior tasks of all teen jobs may negatively affect an individual internal auditor's capacity for critical judgement because of possible laws of objectivity. It is therefore a sound practice whenever practicable and

without jeopardizing competence and expertise to periodically rotate internal audit staff within the internal audit function. In addition, a bank may rotate staff from other functional areas of the bank to the internal audit function or from the internal audit function to other functional areas of the bank. Staff rotations within the internal audit functions and staff rotations to and from the internal audit function should be governed by and conducted in accordance with a sound written policy. The policy should be designed to avoid to conflicts of interests including the observance of appropriate cooling off period following an individual's return to the internal audit staff before that individual audits activities in the functional area of the bank where his / her rotation had been served.

The independence and objectivity of the internal audit function may be undermined if the internal audit staff's remuneration is linked to the financial performance of the business lines for which they exercise internal audit responsibilities. The remuneration of the head of the internal audit function should be determined in accordance with the remuneration policies and practices of the bank. Remuneration to reward the performance of the head of the internal audit or internal audit staff members should be structured to avoid creating conflicts of interests and compromising independence and objectivity.

Professional competence and due professional care. Professional competence including the knowledge and experience of each internal auditor and of internal auditors is essential to the effectiveness of the bank's internal audit function.

Professional competence depends on the auditor's capacity to collect and understand information, to examine and evaluate audit evidence and to communicate with the stakeholders of the internal audit function. This should be combined with suitable methodologies, tools and sufficient knowledge of auditing techniques.

The head of internal audit should be responsible for acquiring human resources with sufficient qualifications and skills to effectively deliver on the mandate for professional competence and to audit to the required level. He/she should continuously assess and monitor the skills necessary to do so. The skills required for senior internal auditors should include the liabilities to judge outcomes and make an impact at the highest level of the organization.

The head of internal audit should ensure that the internal audit staff acquires appropriate ongoing training in order to meet the growing technical complexed of bank's activities and the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes within banks and other developments in the financial sector.

Internal auditors collectively should be competent to examine all areas in which the bank operates. Alternatively, when outsourcing arrangements are in place. It is the responsibility of the head of the internal audit to maintain adequate oversight to ensure adequate transfer of knowledge from external experts to the bank's internal audit staff. The head of the internal audit should ensure that the use of those experts does not compromise the independence and objectivity of the internal audit function.

Internal auditors must apply the care and skills expected of a reasonably prudent and competent profession. Due profession care doesn't imply infallibility 'however internal auditors having limited competence and experience in a particular area should be supervised by more experienced internal auditors.

Professional ethics, integrity establishes trust as it requires the internal auditor to be straightforward, honest and truthful thus providing the basis for reliance on the internal auditor's professional judgment.

Internal auditors should respect the confidentiality of information acquired in the course of their duties, they should not use that information for personal gain or malicious action and should be diligent in the protection of information acquired.

The head of the internal audit function and all internal auditors should avoid conflicts of interest, internally recruited internal auditors should not engage in auditing activities for which they have had previous responsibility before a sufficiently long cooling off period has elapsed. Moreover, compensation arrangements should not provide incentives for internal auditors to act centrally to the attributes and objectives of the internal audit function.

Internal auditors should apply the bank's code of ethics that is to say when there is one or should adhere to an established international code of ethics for internal auditors such as that of the IIA. A code of ethics should at a minimum address the principles of objectivity, competence, confidentiality and integrity.

The purpose of this study was to examine whether internal auditing and good internal control systems can reduce the likelihood of accounting fraud. The findings of this study provided further insight into the role of internal audit and a good internal control system in order to reduce the likelihood of accounting fraud. The findings of this research have significance for the company's management to continue to develop its internal control system and also the development of internal audit process so that accounting fraud in the banking sector can be reduced.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves measurements and analysis of data. Specifically, the following sub sections includes; research design, target population, data collection instruments, data collection procedures and data analysis.

3.2 Research design

This study adopted a survey research design. Survey research refers to the collection of quantifiable data from a population for purposes of description to identify verifications that may point to casual relationships. This design was appropriate for the study because it captured people's opinions, beliefs and attitudes about the role of internal auditing on the financial performance of commercial banks in Uganda. The descriptive survey design was suitable because it involved collection of information, assessing and describing the data analysis regarding the role of internal audit on the financial performance of commercial banks in the shortest time possible.

3.3 Study population

Population is the group of individuals, events or objects which a researcher wants to generalize the result of a study. The study included two different types of banks that is to say Centenary bank and Stanbic bank where by a population of twenty tellers were targeted.

3.4 Sampling

Sampling is a procedure of selecting a part of the population on which research can be conducted which ensures that conclusions could be generalized to the population. For the selection of two different types of banks in Uganda and ten tellers in eachbank was helpful in the census sampling for data collection, ten tellers in Centenary and Stanbic bank were sampled to get a lot of knowledge on the role of internal auditing on the financial performance of commercial banks in Uganda.

3.5 Data collection methods and instruments

The major instrument for collecting data from the respondents was a questionnaire. Two types of question items were used in the questionnaire that is to say the open ended questions and the closed ended questions, in the open ended questions the respondents were required to give their opinion in the spaces provided and in the closed ended questions the respondents were required to tick on the appropriate answers, in a few minutes the researcher had to interview some people around the bank who were not tellers but connected to the bank in order to get more reasons as well as saving time. The researcher neededpapers, pens and money in order to overcome certain obstacles.

3.6 Validity and reliability test

The validity of the instrument represents the extent to which the instrument measures and what it is supposed to measure. The questionnaire as an instrument of collecting data for the study was appraised by my supervisor of who is an expert in the field of Auditing.

Reliability is a measure of the degree to which a research instrument yields consistent results after trying. In many techniques of accessing instrument reliability, the researcher measured it in terms of percentage of the people who were at the bank premises and around the bank.

3.7 Data processing

The researcher got permission from the university and also got permission from the district office of finance to carry out research in Uganda and then the researcher hadto go and visit the selected banks and her herself gave out questionnaires to the respondents, the researcher gave respondents ample time to fill the gaps and also tick appropriately for a period of two weeks and then gotback thequestionnaires.

3.8 Data analysis

Questionnaires were checked to identify the items wrongly answered, spelling mistakes made and any blank spaces left unfilled by the respondents. The data was organized and analyzed with the use of computer and then it was presented in tables and percentages then results were reported by restating objectives on selected variables.

3.9 Limitations

Limitations are conditions beyond the control of the researcher that may place restrictions and conclusions of the study and their applications to other situations. The researcher assured the respondents of their confidentiality and convinced them that the information was only for the purpose of research work, some of the variables in the study such as attitudes of the respondents was administered to the bank managers who were available at the time of administering the research questionnaires.

This study was limited to two banks that is to say Centenary and Stanbic bank in Uganda from which only ten respondents were picked from each bank. This was due to the sensitive information of bank information and the researcher had hopes that some respondents will not willingly give her the information freely.

3.10 Ethical consideration

The researcher did not force the respondents to participate in the filling up the questionnaires but she convinced them to do it voluntarily without being forced. The researcher alsotook part in providing sufficient information and assured the respondents about the confidentiality and even took part in helping the respondents by interpreting with some of them who needed the researcher's assistance.

CHAPTER FOUR

Data analysis and interpretations

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. Descriptive and inferential statistics have been used to discuss the findings of the study, the study targeted a sample of 20 respondents from which 20 filled in and returned the questionnaires making a response rate of 100%. The response rate was satisfactory to make conclusions for the study.

4.2 Data presentation

4.2.1 Demographic information

Table 1:Gender of the respondent

Gender	Frequency	Percentage
Male	15	75
Female	5	25
Total	20	100

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondents as shown by 75% were males whereas 25% of the respondents were females. This is an indication that both genders involved in this study and thus the findings of the study did not suffer from gender bias.

Table 2: Age distribution

Age bracket	Frequency	Percentage
25 to 34	9	45
35 to 44	6	30
45 to 50	3	15
51 years and above	2	10
Total	**20**	**100**

The study requested the respondents to indicate their category from the findings, 45% of the respondents were aged between 25 to 34 years, 30% of the respondents indicated they were aged between 35 to 44 years, 15% of the respondents were aged between 45 to 50 years and 10% of the respondents were aged above 51 years. This was an indication that the respondents were well distributed in terms of their age.

Table 3: Level of education

Level of education	Frequency	Percentage
Postgraduate	2	10
Masters	4	20
Degree	8	40
Diploma	6	30
Total	**20**	**100**

The study also requested the respondent to indicate their highest level of education from the findings it was established that 40% of the respondents indicated their highest level as degree, 30% of the respondents indicated their highest level of

education as diploma, 20% of the respondents indicated their highest level of education as masters and lastly 10% of the respondents indicated their highest level of education as postgraduates. This was an indication that most of the respondents focused in this study had university degrees as their highest level of education.

Table 4: Period of service

Years of service	**Frequency**	**Percentage**
Less than 2 years	2	10
2 to 5 years	6	30
6 to 10 years	7	35
More than 10 years	5	25
Total	**20**	**100**

The study requested respondents to indicate the number of years they had served for, from the findings the study established that 35% of the respondents had served or worked a period ranging from 6 to 10 years, 30% of the respondents had worked for a period of 2 to 5 years, 25% of the respondents had served for more than 10 years and lastly 10% of the respondents had worked for a period of less than 2 years. This Implied that majority of the respondents had worked for a considerable period which indicated that most of the respondents had vast knowledge which could be relied upon by this study.

4.2.2 Professional competence

Table 5: Extent to which professional competence affect financial performance

	Frequency	**Percentage**
Very great extent	4	20
Great extent	14	70
Moderate extent	2	10
Total	**20**	**100**

The study sought to establish the extent to which professional competence of internal auditor affect financial performance of commercial banks in Uganda. From the findings 70% indicated to a great extent, 20% of the respondents indicated to a very great extent and lastly 10% of the respondents indicated to a moderate extent. This implied that professional competence of internal auditor affects financial performance of commercial banks in Uganda to a great extent.

4.2.3 Internal controls

Table 6: Table 6: Extent to which internal controls affect the financial performance of commercial banks

	Frequency	**Percentage**
Very great extent	6	30
Great extent	11	55
Moderate extent	3	15
Total	**20**	**100**

The study sought to establish the extent to which internal controls affect financial performance of commercial banks in Uganda and fro the findings 55% indicated a great extent, 30% indicated to a very great extent and lastly 15% of the respondents indicated to a moderate extent, this implied that internal controls affect the financial performance of commercial banks in Uganda.

Table 7: Effects of internal controls on financial performance of commercial banks in Uganda

Statement	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
Controls audits in the organization have features built into them to ensure that fraudulent transactions are flagged or made difficult to transact	11	4	5	0	0
Intentional errors are concentrated in relatively few audits and these are fairly predictable by industry	7	10	3	0	0
The lack of segregation of accounting and custodian functions hinders fraud detection and reporting	5	10	2	3	0
Cash receipts bear fairly strong controls	5	14	1	0	0

The greater the degree of competition, the greater would be the need to control costs	8	11	1	1	1

4.2.4 Internal audit standards

Table 8: Extent to which internal audit standards affect financial performance

	Frequency	**Percentage**
Very great extent	7	35
Great extent	10	50
Moderate extent	3	15
Total	20	100

The study sought to establish the extent to which internal audit standards affect the financial performance of commercial banks in Uganda. From the findings 50% indicated to a great extent, 35% of the respondents indicated to a very great extent and lastly 15% of the respondents indicated to a moderate extent. This implied that internal audits standards affect the performance of commercial banks in Uganda to a great extent.

Table 9: Effects of internal audit standards on financial performance of commercial banks

Statement	Strongly agree	agree	Neutral	disagree	Strongly disagree
Performing auditing work according to internal auditing standards significantly influences the effectiveness of auditing	7	10	3	0	0
Complying with professional standards is the most important contributor to IA's added value	8	11	1	0	0
Standards for audits and audit related services influence the performance of commercial banks	6	13	1	0	0
Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports	8	10	2	0	0
Auditors to carry out their role objective and in compliance with accepted criteria for professional practice	6	14	0	0	0
Internal audit evaluates and	5	15	0	0	0

contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking					

4.2.5 Independence of internal audit

Table 10: Extent to which independence of internal audit affects the financial performance

	Frequency	**Percentage**
Very great extent	4	20
Great extent	14	70
Moderate extent	2	10
Total	**20**	**100**

The study sought to establish the extent to which independence of internal audit affect the performance of commercial banks in Uganda. From the findings 70% indicated to a great extent, 20% of the respondents indicated to a very great extent and lastly 10% of the respondents indicated to a moderate extent. This indicated that independence of internal audit affect the performance of commercial banks in Uganda to a great extent.

Table 11: Effects of independence of internal audit on financial performance

Statement	Strongly agree	agree	Neutral	Disagree	Strongly disagree
Independence is the essence of auditing	6	12	2	0	0
An internal auditor must be independent of both the personnel and operational activities of an organization	7	13	0	0	0
The integrity of the auditor' opinions, conclusions and recommendations would be upset	6	10	4	0	0
Independence is necessary for the effective achievement of the function and objective of internal audit	4	10	5	1	0
Internal audit in banking organizations acknowledges that every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely	7	12	1	0	0
The internal audit department in a banking institution must be	8	10	2	0	0

independent from the activities which it controls and must likewise independent from the day to day internal control processes					
Internal auditors may not have a conflict of interests with the bank	5	10	2	3	0
Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank	6	12	2	0	0

4.3 Summary and interpretation of findings

From the findings the study revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competence and internal control, this clearly shows that changes in financial performance of commercial banks could be accounted for by changes in internal audit standards, independence of internal audit, professional competency and internal control. The study also established that there was a strong positive relationship between financial performance of commercial banks and internal audit standards, independence of internal audit, professional competence and internal control.

The study revealed that internal audit standards, independence of internal audit, professional competency and internal controls had a positive relationship with financial performance of commercial banks, the study found out that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in performance of commercial banks.

CHAPTER FIVE

Summary, conclusions and recommendations

5.1 Summary

The importance of IA is demonstrated in the growing demand for this service in all organizations and in the rapid growth of its professional organization, the IIA however researchers have paid little attention to this function and the effect it has on financial performance of organizations.

The aim of this study was to establish if there was a relationship between internal audit and financial performance of commercial banks in Uganda. The source of information was primary data collected from a sample of 2 banks of which ten respondents was picked from each bank. Quantitative and regression analysis were used to analyze data collected.

From the analysis the study established that professional competence of internal auditor affects performance of commercial banks in Uganda to a great extent. This established that measures that can enhance the efficiency of auditors are important for effective fraud detection, in commercial banks frauds are identified by the internal audit function, fraud detection and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank, conscientiousness correlates with task performance just as strongly as cognitive ability, the study established the auditors in the organization are qualified to undertake audit function.

The study established that internal controls affect financial performance of commercial banks in Uganda to a great extent. The study also revealed that internal

controls audits in the organization have features built into them to ensure that fraudulent transactions are flagged or made difficult to transact, that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry, others agreed that cash receipts bear fairly strong controls, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital, the greater the degree of competition, the greater would be the need to controlcosts and that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry.

The study established that internal audits standards affect the financial performance of commercial banks in Uganda to a great extent. The study also revealed that complying with professional standards is the most important contributor to IA's added value formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports, auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, standards for audits and audit related services influence the performance of commercial banks, performing auditing work according to internal auditing standards contributes significantly influence the effectiveness of auditing and finally that internal audit evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking.

The study sought to establish that independence of internal audit affect the financial performance of commercial banks in Uganda to a great extent, the study further revealed that an internal auditor must be independent of both the personnel and operational activities of an organization, the internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day to day internal control process, each

bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank, independence is the essence of auditing, the integrity of the auditor's opinions, conclusions and recommendations would be suspect, internal auditors may not have conflict of interests with the bank and finally that independence is necessary for the effective achievement of the function and objective of internal audit.

5.2 Limitations of the study

In attaining its objective, the study was limited to two commercial banks from which only ten respondents were picked from each. This was due to the sensitive nature of bank information and respondents were not willing to give information freely.

The study was also limited to the degree of precision of the data obtained from the respective respondents. The study was also limited to establish effect internal audit on financial performance of commercial banks.

The method used was descriptive research design whereby the variables cannot be controlled by the researcher. The study intended to use questionnaire as the instrument for collecting data, this was because time for data collection was limited to two weeks.

5.3 Conclusion

The study revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competence and internal control, this shows that changes in financial performance of commercial banks could be accounted for by changes in internal audit standards, independence of internal audit, professional

competence and internal control. The study also established that there was a strong positive relationship between financial performance of commercial banks and internal auditstandards, independence of internal audit, professional competency and internal control.

The study revealed that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks, the study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in financial performance of commercial banks.

The study found measures that can enhance the efficiency of auditors are important for effective fraud detection. The study concluded internal controls audits in the organization have features built into them to ensure that fraudulent transactions are flagged or made difficult to transact. The study further concludes that an internal auditor must be independent of both the personnel and operational activities of an organization.

5.4 Policy recommendations

There is need for internal auditors to continuously update themselves with the changing times and technologies and sharpen their skills by applying skills to the most critical points, building personal and professional credibility and recognizing and responding to the needs, internal auditors can become indispensable thus speeding good governance and enhancing efficiency of internal audit.

The management of commercial banks should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal auditors must have sufficient proficiency and training to carry out the tasks assigned to them, the auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required correspondents to the experience and skill of the auditor.

The head of the internal audit department should be responsible to the management or board in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

The management of commercial banks should also procure the latest ICT audit software. This would enhance fast delivery of services and detection of frauds or any mischief in this field. Internal auditors should be fully trained on how to use the software and fresher courses should also be increased in this regard. Frequent upgrading of the software should be done to keep abreast with the changing technology.

5.5 Areas for further study

There is a need for a study to be conducted to determine the challenges facing internal audit in the commercial banks of Uganda and thus positively affecting their performance.

The study recommends that an in- depth study be done on effects of central banks regulation on commercial banks on internal audit among commercial banks.

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APPENDICES

Appendix 1

Questionnaire

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

Section A: Demographic Information

1.Gender

Female ( ) Male ( )

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

Below 25 ( )

25-34 ( )

35-44 ( )

45-50 ( )

Above 51 ( )

3.Level of education

Secondary Certificate ( ) Diploma level ( )

Bachelor's degree level ( ) Masters level ( )

PHD ( )

4.How long have you worked in the organization?

Less than 2 years ( ) 2-5 years ( )

6-10 years ( ) More than 10 years ( )

Professional competence

5. To what extent does profession competence of internal auditor affect financial performance of commercial banks in Uganda?

Very great ( )

Great ( )

Moderate extent ( )

Little extent ( )

No extent ( )

6. What is your level of agreement with the following statements that relate to professional competence of internal auditor and financial performance of commercial banks in Uganda?

1- strongly agree,

2- agree,

3-neutral,

4-disagree,

5-strongly disagree

Statement	1	2	3	4	5
Fraud detection and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank					
In commercial banks frauds are identified by the internal audit function					
Measures that can enhance the efficacy of auditors are important for effective fraud detection					
Conscientiousness correlates with task performance just as strongly as cognitive ability					
Auditors in my organization are qualified to undertake audit function					

Independence of internal Audit

7. To what extent does independence of internal audit affect the financial performance of commercial banks in Uganda?

Very great extent ( )

Great extent ( )

Moderate extent ( )

Little extent ( )

No extent ( )

8. What is your level of agreement with the following statements that relate to independence of internal and financial performance of commercial banks in Uganda? (1- strongly agree, 2- agree, 3- neutral, 4-strongly disagree, 5- disagree)

Statement	1	2	3	4	5
Internal auditors may not have a conflict of interests with the bank					
Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank					
The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day to day control process					
The integrity of the auditor's opinions, conclusions and recommendations would be suspect					
Independence is necessary for the effective achievement of the function and objective of internal audit					
Independence is the essence of auditing					
An auditor must be independent of both the personnel and operational activities of an organization					

4.2.2 Budget

Expenses	Unit cost	Total cost

Transport {3 days}	3000 per day	9000
Airtime {7 days}	1000 per day	7000
Printing costs {20 pages}	500 per page	10000
Papers {20 papers}	200 per paper	4000
Pens {2}	500	1000
Total	**5200**	**31000**