

**THE EFFECT OF INTERNAL AUDIT ON CORPORATE GOVERNANCE: Case of
National Enterprise Cooperation**

**SAMUEL TAHINDUKA
J21B05/415**

**A RESEARCH REPORT SUBMITTED TO SCHOOL OF BUSINESS IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF
BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

August, 2023



**UGANDA CHRISTIAN
UNIVERSITY**
A Centre of Excellence in the Heart of Africa

DECLARATION

I, **Tahinduka Samuel**, hereby declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

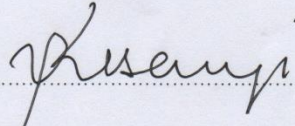
Sign: Tahinduka Samuel.....

.....
Date: 7th/09/2023.....

TAHINDUKA SAMUEL

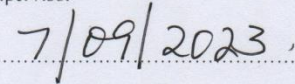
APPROVAL

I, the supervisor, have approved this research report. It meets the School's requirement for the reward of a Bachelor's degree in Business Administration at Uganda Christian University.

Signed: 

Mr. Kisenyi Vincent

Academic supervisor

Date: 

DEDICATION

This Dissertation is especially dedicated to My Parents MR. Ephraim Rwamatenesi and MRS. Margret Rwamatenesi and my friend MR. Tumwine Robert for the endless support they have rendered to me throughout my academic life.

ACKNOWLEDGEMENT

I thank the almighty God, For he is the one who has been with me from the very beginning of this work, and guiding me through all challenges and obstacles. Indeed, He is worthy of all praise and glory!!

My sincere thanks and undying gratitude are all extended to my supervisor MR. Kisenyi Vincent, who tirelessly have been there for me, supporting me through and through to ensure the survival of my academic dream.

ABSTRACT

This study was primarily set to assess the effect of internal audit functions on corporate governance. The study consisted of three objectives; to identify strategies for enhancing the effect of internal audit functions; to assess challenges facing implementation of internal audit function; and to examine the effect of internal audit on corporate governance. The study was conducted at Uganda National Enterprise Cooperation. Cross-sectional design was adopted as study design. Purposive and randomly sampling techniques were used to select 85 respondents. Questionnaire was employed as data collection instrument. The study also revealed challenges constrained internal audit were lack of business expertise, inadequate management support, unreliable monitoring processes for auditing, poor development of a workforce strategy, poor delivery of added value, lack of independence, and insufficient leveraging technology. In addition, the study found that, internal audit has significant effect on promotion of corporate governance

TABLE OF CONTENTS

DECLARATION..... i

APPROVAL..... ii

DEDICATION iii

ACKNOWLEDGEMENTiv

ABSTRACT..... v

LIST OF TABLESx

LIST OF FIGURES x

LIST OF ABBREVIATIONSxi

CHAPTER ONE: INTRODUCTION1

1.1 Chapter Overview 1

1.2 Background of the Study 1

1.3 Statement of the Research Problem2

1.4 Research Objectives.....2

1.4.1 General Research Objective.....2

1.4.2 Specific Research Objectives.....2

1.5 Research Questions3

1.6 Significance of the Study3

1.7 Scope of the Study3

1.8 Organization of the Study3

CHAPTER TWO: LITERATURE REVIEW4

2.1 Chapter Overview4

2.2 Conceptual Definitions of the Study.....4

2.1.1 Internal Audit4

2.2.2 Corporate Governance4

2.2.3 Internal Controls4

2.3 Theoretical Framework.....	5
2.3.1 Agency Theory.....	5
2.3.2 Institutional Theory.....	5
2.4 Empirical Literature Review.....	6
2.4.1 Strategies for Enhancing the Effect of Internal Audit Functions.....	6
2.4.2 Challenges Facing Implementation of Internal Audit Function.....	6
2.4.3 Effect of Internal Audit on Corporate Governance.....	7
2.4.4 Examining the effect of internal audit on corporate governance.....	8
2.5 Research Gap.....	9
2.6 Conceptual Framework.....	10
CHAPTER THREE: RESEARCH METHODOLOGY	11
3.1 Chapter Overview.....	11
3.2 Research Philosophy.....	11
3.3 Research Design.....	11
3.4 Area of the Research.....	12
3.5 Survey Population.....	12
3.5.1 Sampling Design and Procedures.....	12
3.5.2 Sample Size.....	12
3.5.3 Sampling Techniques.....	12
3.6 Data Collection Tools.....	13
3.6.1 Questionnaire.....	13
3.7 Data Processing and Analysis.....	13
3.8 Ethical Considerations.....	13
3.9 Reliability and Validity Analysis.....	13
3.9.1 Reliability Analysis.....	13
3.9.2 Validity Analysis.....	14

CHAPTER FOUR: PRESENTATION OF THE FINDINGS	15
4.1 Chapter Overview	15
4.2 Socio-demographic Characteristics of the Participants	15
4.2.1 Sex of the Respondents	15
4.2.2 Age of the Respondents	16
4.2.3 Education Level of the Respondents.....	16
4.2.4 Working Experience of the Respondents	16
4.3 Strategies for Enhancing the Effect of Internal Audit Functions	16
4.3.1 Cybersecurity Assessments	17
4.3.2 Efficient Co-sourcing System	17
4.3.3 Enterprise Risk Management (ERM) Quality Optimization	17
4.4 Challenges Facing Implementation of Internal Audit Function.....	17
4.4.1 Lack of Business Expertise	18
4.4.2 Inadequate Management Support	18
4.4.3 Unreliable Monitoring Processes for Auditing	18
4.4.4 Poor Development of a Workforce Strategy	19
4.4.5 Poor Delivery of Added Value	19
4.4.6 Lack of Independence	19
4.5.7 Effect of Internal Audit on Corporate Governance	19
4.5.8 Linearity Assumption.....	19
4.5.9 Autocorrelations Assumption.....	20
4.5.2 Homoscedasticity Assumption.....	20
4.5.3 Collinearity Assumption	20
CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS	21
5.1 Chapter Overview	21
5.2 Summary of the Findings.....	21

5.3 Discussions of the Findings	21
5.3.1 Strategies for Enhancing the Effect of Internal Audit Functions	21
5.3.2 Challenges Facing Implementation of Internal Audit Function.....	22
5.3.3 Effect of Internal Audit on Corporate Governance	23
5.4 Conclusion of the Study.....	23
5.6 Recommendations of the Study	24
REFERENCES	25
APPENDICES	27
Appendix I: Questionnaire.....	27

LIST OF TABLES

Table 4.2: Socio-demographic Characteristics 15
Table 4.3: Internal Audit Strategies 16
Table 4.4: Challenges Facing Internal Audit..... 18

LIST OF FIGURES

Figure 2.1: Conceptual Framework 10

LIST OF ABBREVIATIONS

CAE	Chief Audit Executive
IAF	Internal Audit Function
IEC	International Electro technical Commission
IIA	Institute of Internal Auditors
ISO	International Organization for Standardization
OR	Operational Risk
RM	Risk Management

CHAPTER ONE

INTRODUCTION

1.1 Chapter Overview

This research examines the role of internal auditing functions in promoting corporate governance at the Uganda National Enterprise Cooperation. In this chapter, the background, problem statement, study objective, research questions, significance of the study, scope and limitation of the study are presented.

1.2 Background of the Study

The position of an internal auditing varies from independent assurance to advisory role (Deloitte, 2010.). Internal auditors were seen to be performing traditional financial audit in the world at the start of the 1980s (Watt& Schwartz, 2018). In the

1990s, over 50% of CEOs in Middle Eastern countries such as Malaysia and Hong Kong saw the position of internal auditors as an independent assessment of operational efficiencies (Koutoupiset *al.*, 2018). Since 2000, the task of internal auditing has been concentrated more on the monitoring of enforcement, internal controls and management of program quality (Fairchildet *al.*, 2019).

Internal auditors should collaborate with audit committees, boards, and management as one of the essential cornerstones and pillars of corporate governance, to help ensure that ethical behavior goes throughout the ranks and into the lower levels (Abdullahet *al.*, 2018;Veselovskyet *al.*, 2018). The link between internal auditing and corporate governance now typically recognizes all forms of economic activity and that the perceived impacts and implications of this relationship have changed significantly over the last few years (Mudaet *al.*, 2018).

Recent events of bribery and collapse of several major corporations have uncovered poor internal audit control, demonstrating the importance for greater transparency in order to protect investors and stakeholders. Initiatives like the Sarbanes Oxley Act

(SOX) (2002) and the UK Combined Code (Jezovitaet *al.*, 2018) were adopted by Western governments in order to create governance structures that strengthen management of companies and prevent collapse by assisting managers and investors

(Florin& Irina-Stefana, 2018; Koutoupis&Pappa, 2018).

Al-Najjar (2018) argues that, the collapse of organizations has contributed to the internal audit function being one of the main regulatory structures being given renewed attention across the developed world. While these are the standards of internal audit in developed countries, there are poor institutional framework for corporate governance in developing countries means that internal audit function in very different environments in these countries. In Uganda, for instance, there are a range of restrictions including weak or non-existent enforceability and non-transparency, that impede the implementation and promotion of corporate governance

(Holt, 2019; Azubike&Nweze, 2019).

All of these actions by the regulator and the government are aimed at creating a successful public sector internal audit feature. Good internal audit role is seen as one of the best means of supervision and promotion in the public sector for good governance. However, public sector officials are not in favor of internal auditing. This situation has caused the internal audit role face a misunderstanding and, to some degree, a question of legitimacy as a Value Adding Unit (VAU) for the sector. The CAG claims the Internal Audit Public Sector is not effective and is "shrouded in darkness" (URT, 2008; Waweru *et al.*, 2019).

1.3 Statement of the Research Problem

The report also identified a range of factors that limit internal audit performance; including the inclusion of the audit unit in accounting officer operations; the concentration of auditors on transaction audits, which neglect development project aspects and their failure to achieve their performance; and an insufficient allocation of the budget.

1.4 Research Objectives

1.4.1 General Research Objective

The general objective of this research is to assess the effect of the internal audit function in promoting corporate governance at the Uganda National Enterprise Cooperation.

1.4.2 Specific Research Objectives

- (i) To identify strategies for enhancing the effect of internal audit functions in Uganda National Enterprise Cooperation.

- (ii) To assess challenges facing implementation of internal audit function.
- (iii) To examine the effect of internal audit on corporate governance.

1.5 Research Questions

- (i) What are the strategies for enhancing the effect of internal audit functions in Uganda National Enterprise Cooperation ?
- (ii) What are the challenges facing implementation of internal audit functions ?
- (iii) To what extent does internal audit affect corporate governance?

1.6 Significance of the Study

The results of this study are important in several ways. First, the study indicates critical areas that need to be addressed immediately through interventions in internal audit units.

Additionally a study reveals new knowledge within the regional council in the area of Internal Audit and thus gives other councils the opportunity to learn from this case study

The results of the study shall promote the allocation of resources by the audit committee in informed decision-making. Fourthly, the study acts as reference guide for other researchers undertaking similar study in other areas.

1.7 Scope of the Study

This study assesses role of internal audit on promoting corporate governance in the cooperation. The study targeted Uganda National Enterprise Cooperation

1.8 Organization of the Study

This study is organized into five chapters. First chapter introduces the study which include background of the study and statement of the problem. Second chapter review literature approaches and theoretical underpinnings. Third chapter presents methodologies of the research. Chapter four presents analysis of the findings while chapter five summarizes, conclude, and provide recommendations of the study. Last section of the study includes references and appendices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Chapter Overview

This chapter discusses the current theories of research and empirical evidence on the subject. The chapter comprises of conceptual definition, theoretical framework, empirical literature review, research gap, and ends with conceptual framework.

2.2 Conceptual Definitions of the Study

2.1.1 Internal Audit

Internal audit is defined as an independent, objective assurance and advisory operation in order to provide value-adding and enhance operations. This supports an organization in achieving its goals through a systematic, disciplined approach to risk management, control and governance management processes and to their performance (IIA Framework for Professional Auditing, 2016).

2.2.2 Corporate Governance

Corporate governance is the structure under which businesses and organizations are directed and regulated (Cadbury report, 1992). Companies and organizations, which must be evaluated within certain parameters, are primarily concerned with meeting the goals they are set for. These frameworks include standards and regulations and the expectations to be followed by organizations.

The Institute of Internal Auditors (IIA, 2016) describes corporate governance as an interaction between processes and systems established by the committee in order to inform, guide, control and track the organization's activities toward its achievement of its goals. Corporate governance involves in particular the creation of structures and processes with suitable controls and balances to enable managers to fulfill their obligations.

2.2.3 Internal Controls

The IIA describes controls as any actions taken by the management, the Board, and others to monitor and increase the likelihood that defined targets and goals are accomplished (The Institute of Internal Auditors, 2012).

2.3 Theoretical Framework

This study is underpinned on two theories; agency theory and institutional theory.

2.3.1 Agency Theory

The agency's theory was developed by Jensen and Meckling (1976) who considered it a nexus to contracts between the organization's different stakeholders. They acknowledged that the owners and managers of an organization can vary from the organization's best interests. The agent seeks to maximize personal gains by fulfilling the economic goals of the principal and as a result the level of commitment of the agent depends on perceived value for the achievement of the main objectives.

The philosophy of the organization is based on the relationship between the agencies. Jensen & Meckling (1976) suggested that the partnership between an entity entails one or more individuals (the principal) engaging a different person (the client) on their behalf to provide some service, including the transfer of certain decision making authority to a delegate. Perhaps, employer and employee are the most identifiable type of agency relations.

The relationship between the principal and the contract-based agent is thus a focus of theory of the agency. Principal seeks to optimize the rewards while also decreasing the agent's compensation. The company wishes to increase its profits, on the other hand. The study covers the Agency's theory because it relates to understanding the need for an organization's internal audit mechanism and its characteristics, such as the size and scale of its activities.

2.3.2 Institutional Theory

The theory of institutional institutions is about how institutions preserve credibility in their social contexts through cultural differences, norms, expectations and demands from various actors such as clients and regulatory bodies (Berthod, 2016). Fists (2008) demonstrates that institutional theory is innovative enough to add to corporate governance researchers' expertise by offering insight into the nature of governance and systems of control. Beasley *et al.* (2009), for instance, suggest that institutional theory indicates that systems of government are often largely symbolic or ceremonial; their authority is central, but their formalization is loosely coupled with substantive control.

In fact, most institutional frameworks like the audit committee are only designed to meet social expectations (Kalbers& Fogarty 1998; Cohen *et al.*, 2004).In addition, the two principal functions of the board of directors are linkage and administration, according to institutional theory (Stedham&Beekun, 2000).The theory of institutions provides strong claims as to why and how companies do things (Berthod, 2016).It also emphasizes the need for companies to fulfill their social responsibilities while they fulfill their goals (Umantoet *al.*, 2015).The study's relevance to this theory lies in the need to comply with existing standards and regulations in order to improve organization's productivity and promotion of corporate governance (Endaya&Hanefah, 2013; Joksimovic&Alseddig, 2017).

Commented [H1]:

2.4 Empirical Literature Review

2.4.1 Strategies for Enhancing the Effect of Internal Audit Functions

Regression model was used for researching the dependent variable, including job nature; the autonomy of internal audits; the performance management and enhancement programme.The study found that there was no statistically significant impact of the two other variables on corporate governance.

Drogalas et al. (2016) examined the strategies employed to promote relationship between corporate governance, internal audit and auditing committee in companies on the Greek stock exchange of Athens. In order to emphasize the current management oriented and value-adding nature of the internal audit, internal audit was evaluated in terms of consultant function and performance of audit. Survey questionnaires were used for collecting data whereas the data analysis was carried out using regression model. A thorough analysis of the literature and an enquiry using questionnaires was performed in order to collect data.

The research consisted of 21 interviewees (employees and professionals working in internal auditing and governance in Nigerian selected banks).It was also concluded that the performance of banks and the internal audit role are positively related and the adherence to corporate governance standards contribute to organizational success.

2.4.2 Challenges Facing Implementation of Internal Audit Function

Tadesse (2015) analyzed the role of internal audit mechanism in promoting good governance at Dashen Bank in Ethiopia. A mixed methodology research approach to remove stereotypes of implementing a single approach was adopted. Primary data was gathered by means of interviews, standardized questions and monitoring; secondary data were provided by internal

audit processes, policies, documents and plans. A convergence between the results was sought after by the analysis of SPSS questionnaire data and qualitatively interpreted secondary sources and interviews. The findings from this study showed that the top management did not provide the internal audit feature with proper support.

Odoyoand Omwono (2014), in search of opinions on company executives, investigated the role of internal audit in the Kenya Corporate Governance System. A descriptive study model was adopted to collect data using closed questionnaires.

2.4.3 Effect of Internal Audit on Corporate Governance

Mohammed et al. (2014) explored the role of internal auditing in improving corporate governance in Nigeria. The study's primary purpose was to research the importance of internal auditing to corporate governance on a theoretical level. The survey also examined the interaction with the internal auditing process between different corporate governance factors, such as the board of directors, the audit committee and the external auditor. The researchers carried out a wider literature review to achieve the goals of the study. The study shows that the internal audit and corporate governance have been in a positive relation to each other and concludes that internal audit is an important part of improving corporate governance in Nigeria. The report suggested that case studies be performed by researchers in individual organizations to assess how corporate management impacts internal auditing.

Mihaela and Iulian (2012) examined the efficacy of internal control and Corporate Governance effects on companies on Bucharest Stock Exchange. They found that, good internal controls ensure fair reporting of the results and therefore improve the trust of investors in the financial statements.

Yassin et al. (2012) also carried out a research report on the relationship between internal audits and corporate governance of different commercial banks in Lebanon. A number of significant tests showed the conclusion that the internal audit increases the performance of corporate governance.

In his report, Kibet (2008) carried out an investigation into the role of internal auditing in promoting good management in State-owned enterprises (SOEs). Nevertheless, his survey aims to examine the importance and use of internal auditing functions in promoting good governance in public sector entities as well as challenges facing SOE internal auditors. The study found that internal auditing was an important part of corporate governance.

Siddiqui and Podder (2012) investigated the efficiency of the financial audit of banks operating within Bangladesh. To perform this analysis, 14 sample banking companies reviewed the audited financial statements. The study identifies seven (7) companies with exaggerated profits. The study also discusses the auditors' level of independence, objectivity and skill given to auditing banks.

2.4.4 Examining the effect of internal audit on corporate governance

Nyaki (2013) examined the regulation and its impact on foreign investment in Tanzania. The research, which was qualitative, included the study of literature relating to the regulatory and legal system of corporate governance in Tanzania. The study highlighted the utmost importance for the continuing existence of companies and attracting investors in a country to a strong legal and regulative system for governing businesses. The study found that internal audit influenced corporate governance.

Abdullah (2014) carried out a study on the 'reshaping of internal audits: impact on corporate management. The study specifically analyzed how the Malaysian publicly listed undertakings perform their internal auditing and, therefore, described the contributions made by the internal audit to their corporate governance. The research employed questionnaire in data collection. The findings of the study indicate that internal audit has a substantial impact on corporate governance and that partnerships are more used as an internal value-added services strategy, especially in risk management, IT audits and performance audits. It concluded that internal audit has a significant impact on the corporate governance of Malaysian listed public entities. It suggested that internal audit practices should be more cooperative in future to draw on the expertise and experience of other workers in the development of an effective internal audit that ultimately has a higher impact on corporate governance.

In another study the importance of the internal audit functions in promoting successful Corporate management of commercial banks in Kenya is discussed by Changwony and Rotich (2015). The study was conducted to determine the effect of the internal audit function in promoting effective business governance in Kenya. For the research survey design and stratified sampling methodology for the collection of sample elements was adopted. The results of this study showed that the internal audit impacts good corporate governance positively and significantly. The study found the positive and important role of internal audit in promoting effective business banking management in Kenya. The study proposed that the

auditing committee take over the appointment, compensation and retirement authority of the Chief Audit Executive in order to enhance the efficiency of the internal audit process.

Mgimba (2013) followed a case study research design in her thesis to examine the role of internal audit in corporate governance. Data tools included interviews, researchers' findings, video documentation and focus group conversations, as a qualitative review. In order to achieve the themes and sub-themes of the report, content analysis was used on the collected data. VETA had a well-developed BOD and audit committee, as well as an internal audit feature, which was essential for the proper governance of the organization.

Asaolu et al. (2016) reviewed the impact of the IAF on Good Governance in the Nigeria Public Sector. The study's principal aim was to identify the role played by the internal audit mechanism in guaranteeing good government in Nigeria's public sector. Primary research data was collected with a systematic survey and analysis of data using the analysis of comparisons and multiple techniques of regression.

The study concluded that internal audit contributes moderately to the efficiency of corporate governance in the Nigerian public sector and found that the internal audit feature is a real tool for the promotion of good governance in the Nigerian public sector. The study suggested that a statutory mandate be imposed in public sector organizations, allowing public disclosure of government information and making special funds available to internal auditors, thus improving the efficiency of internal audit functions and promoting good management within government organizations.

2.5 Research Gap

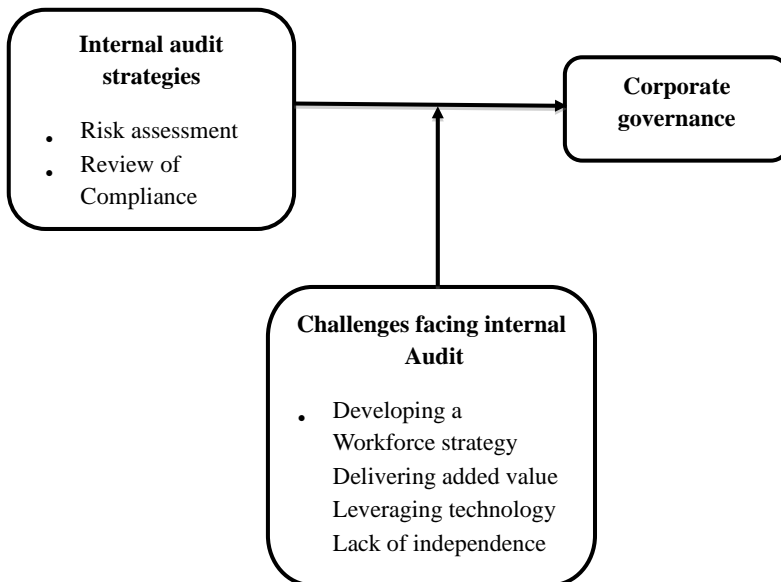
The literature reviewed reveals a reflection of the link between internal audit and corporate governance. The results showed a positive relationship that promotes organizational stability, especially when management and the support the internal audit activities via the audit committee (Mgimba, 2013; Asaolu et al., 2016; Shembilu, 2010).

However, most of the researchers, especially Ugandan studies, focused greatly on financial institutions and parastatals and sought no opinion from members who are directly linked to the internal audit role. All staff members from the bottom up are directly impacted by the internal audit process activities. This work thus targets Uganda National Enterprise Cooperation and explores how corporate governance is promoted by the internal audit function.

2.6 Conceptual Framework

Conceptual framework of this study explains the relationship between dependent and independent variable of the study. It consists of internal audit strategies as independent variables of the study; risk assessment, review of compliance, and recommending controls. Corporate governance was regarded as dependent variable.

On the other hand, challenges facing internal audit were viewed as intervening variables, these include developing a workforce strategy, delivering added value, leveraging technology, and lack of independence.



Source: Researcher (2019)

Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter presents the methodology of the study including the philosophy of research, its design and the area of research, sample population techniques, and data collection methods chosen. The chapter also presents data analysis techniques, reliability and validity data collection instruments.

3.2 Research Philosophy

A research philosophy is the concept of how to collect, interpret and use data on a phenomenon. It is concerned with knowledge creation and the essence of such knowledge (Saunders *et al.*, 2012).

The embraced research methodology can also be seen as conclusions by the researcher about how the researcher looks at the world. Such observations, made in every stage of study, contribute to human and real-life knowledge. They explain how to understand the research questions, methods used and how to interpret findings, and ultimately the methodology of science directs the selection of the research approach and methods chosen (Saunders *et al.*, 2012).

Various authors discussed different philosophic opinions that exist, including interpretivism, realism of pragmatism and positivism (Saunders *et al.*, 2012). The researcher approached the study with a positivist philosophy in order to test theories regarding how internal audit performance promotes good corporate governance. Positivism involves data collection and analysis using quantitative methods and the quest for data relations to generate general legislation that is capable, if not with absolute certainty, of predicting behavior, at least with respect to probability (Fisher *et al.*, 2010).

3.3 Research Design

A research design provides guidance on the implementation of the research methodology and the analyzes of the data collected (Bryman & Bell, 2011). It is an overview of how the investigator answers the questions of research, (Saunders *et al.*2012).

This study adopts cross-sectional design that is based on the number of contacts so that the researchers can obtain a rich understanding of the context of the research and the processes being carried out (Kumar, 2014). Cross-section design is particularly useful in order to investigate ubiquity, phenomenon, problem and attitudes of the study population. This enables a researcher to determine what to analyze, identify population of the study, pick a sample and interact with the study participants to gather data.

3.4 Area of the Research

This study was carried out at the Uganda National Enterprise Cooperation in Uganda auditing unit is present in each one of the districts. This study focused on the regional which is Kampala district. The area was chosen since it manages and control all regional internal audit processes. Therefore, results obtained in this area provide a reflective insight of the situation in other respective districts of the region.

3.5 Survey Population

This research involved NEC population. The study population comprised internal auditors, heads of departments and units as well as public officials.

The total population was 10 participants.

3.5.1 Sampling Design and Procedures

3.5.2 Sample Size

The sample is based on the population that is taken from the sample and the margin of error that is willing to be accepted by the researcher (Fisher *et al.*, 2010). necessary sample size.

$$n = \frac{N}{1 + Ne^2}$$

where n = sample size N = size of the population and e is the margin of error

3.5.3 Sampling Techniques

The researchers used purposive and convenient sampling methods to classify the respondents here referred to as the sample. The researcher was able to identify the participants of the study with purposive sampling and, due to respondent's characteristics and knowledge on the subject matter, convenient sampling was used to save time and expenses.

3.6 Data Collection Tools

3.6.1 Questionnaire

As a tool for compiling data, the questionnaire can be described as the question form for the study respondent (Brace, 2018). It involves a certain type of debate (Geuens & De Pelsmacker, 2017). Kothari (2004) asserts that there are several benefits of the questionnaire, which includes a low cost, given its geographical region's wide range and bias-free, since it uses participants' own terms, ample response time and an effective method for obtaining participants with difficulties. The surveyor used a questionnaire as a method for collecting the data during this particular research.

3.7 Data Processing and Analysis

Data processing and analysis includes an examination and interpretation of the data collected by the process of obtaining responses to research questions. Data were compiled, cleaned, coded and tabled.

The collected data has been codified, analyzed and summarized using Microsoft Excel and SPSS version 24; descriptive statistics were used to analyse first and second objective whereas inferential statistics were used to explain the relationship between the variables defined in the conceptual framework, in particular, third objective.

3.8 Ethical Considerations

The data obtained and processed was only used for research purposes solely and exclusively. Data of the participants remained confidential and copyrights of the various authors were protected. Responses were also collected voluntarily from the participants. In addition, research ethics was regarded substantially through the reception of the university letter for the report; it introduced the researcher explaining the study and its purpose briefly.

3.9 Reliability and Validity Analysis

3.9.1 Reliability Analysis

The research assured that the collected data are reliable and correct in order to meet the research goals. Coherence and accuracy of data collection can be referred to as reliability in performance measurements (Kothari, 2004). To check the reliability, Cronbach's Alpha was used. The closer to the coefficient of Cronbach alpha is 1.0, the greater the internal consistency of the items.

In all the variables, the Cronbach ratio exceeded 70%, as shown in Table 3.1. The reliability coefficient of 0.7 or higher is considered acceptable in most social science studies (Sekaran, 2004).

3.9.2 Validity Analysis

Validity is used for calculating performance accuracy based on the most recent objectives (Joppe 2000). As stated in the Kimberlain and Winetrstein (2008), a reliable research instrument is needed for validity assessments.

Validity of the instruments was assessed using pilot study with a test-re-test technique. This was done by administering 10 questionnaires to the respondents. After one week the same procedure was repeated and the tools were affirmed to be valid due to obtained similar responses.

CHAPTER FOUR

PRESENTATION OF THE FINDINGS

4.1 Chapter Overview

This chapter analyzes and discusses data on the role of internal audit on corporate governance. The findings are organized into components that represent the key and specific objectives of the analysis.

4.2 Socio-demographic Characteristics of the Participants

The study summarized the demographic characteristics of the respondents using descriptive statistics. Features which were assessed include sex, age, educational level, and working experience of the respondents as depicted on Table 4.1.

Table 4.2: Socio-demographic Characteristics

Variable	Category	Frequency	Percent
Sex	Male	5	50
	Female	5	50
Age	21-30	2	
	31-40	5	
	41-50	1	
	51+	2	
Education Level	Tertiary level/college	7	70
	University level (First Degree)	2	20
	University (Masters and above)	2	2
Experience	1-3 years	5	20
	4-5 years	5	50
	Above 5 years	0	0

Sex of the Respondents

Table 4.1 depicts that, 50% were males while 50% were females. The regional council was likely to comprise high number of male staffs compared to female staffs.

4.2.2 Age of the Respondents

As indicated on Table 4.1, majority of the respondents were youth aged between 31 and 40 (54.1%), followed by youth aged between 21 and 30 (30.6%). The rest of respondents were aged between 41 and 50 (12.9%) and over 50 (2.4%).

4.2.3 Education Level of the Respondents

Table 4.1 depicts that, respondents with first university degree were 54.1% whereas master's degree holders were 37.6%. results also indicate that, 8.2% of the respondents had tertiary level of education.

4.2.4 Working Experience of the Respondents

Results on Table 4.1 also indicate that, 38.8% of the respondents had above 5 years of working experience. Whereas, respondents with 1-3 years and 4-5 years of working experience were 30.6% and 30.6% respectively.

4.3 Strategies for Enhancing the Effect of Internal Audit Functions

Strategies which were identified to enhance the effectiveness of internal audit functions include; cybersecurity assessments, effective use of co-sourcing, optimize the value of enterprise risk management (ERM), enhanced business continuity plan (BCP) assessments, timely assessment of the impact of regulatory changes, and thirdparty compliance reviews. Table 4.2 summarizes the results.

Table 4.3: Internal Audit Strategies

Strategies	Frequency	Percent
Cybersecurity assessments	9	10.6
Efficient co-sourcing system	10	11.8
Enterprise risk management (ERM) quality optimization	15	17.6
Evaluations of improved business continuity plan (BCP)	16	18.8
Timely impact assessment of regulatory amendments	17	20.0
Third-party compliance reviews	18	21.2
Total	85	100.0

Source: Researcher (2019)

4.3.1 Cybersecurity Assessments

With all the organisations, security is a contentious issue, with emerging threats appearing at every turn. Modern preventive controls are designed to avoid emerging threats and, therefore, effective detective and corrective measures must be introduced. Based on Table 4.2, 10.6% of the respondents suggested assessments of cybersecurity enhance effectiveness of internal auditing functions.

4.3.2 Efficient Co-sourcing System

Co-sourcing ensures the internal audit is performed in collaboration with a service provider for the company's division. Organizations recourse to co-sourcing of internal audits as a means to: monitor costs and reduce employee turnover. As indicated on Table 4.2, 11.8% of the respondents suggest the use of co-sourcing system enhance the effect of internal audit functions.

4.3.3 Enterprise Risk Management (ERM) Quality Optimization

Enterprise risk management describes how global events, environmental catastrophes, changes in the regulatory system and failures in goods, processes and services can lead numerous companies to consider a broader risk strategy. Table 4.2 demonstrate that, 17.6% of the respondents suggest optimization of ERM quality enhance internal audit functions.

4.4 Challenges Facing Implementation of Internal Audit Function

The study sought to examine the challenges facing implementation of internal audit function. The identified challenges include; lack of business expertise, inadequate management support, unreliable monitoring processes for auditing, poor development of a workforce strategy, poor delivery of added value, lack of independence, and insufficient leveraging technology.

Table 4.4: Challenges Facing Internal Audit

Challenges facing internal audit	Frequency	Percent
Lack of business expertise	1	10
Inadequate management support	3	30
Unreliable monitoring processes for auditing	2	20
Poor development of a workforce strategy	1	10
Poor delivery of added value	2	20
Lack of independence	1	10
Insufficient leveraging technology		
Total	100	100.0

4.4.1 Lack of Business Expertise

Business expertise is a comprehensive resource of business owners to understand the needs and desires of consumers, the business environment and their complexities, their expertise, experiences and potential, and the overall direction of the company. Table 4.4 indicate that, 10% of the respondents asserts lack of business expertise as the one of the challenges facing internal audit functions.

4.4.2 Inadequate Management Support

The analysis of management support on an organization's progress helps to recognize the areas/ activities of management support and their metrics of quality assessment. These measures must be quantified after evaluation and the results checked for success with the corporate goals. Based on Table 4.4 .30% of the respondents suggested that, inadequate management support affect promotion of internal audit functions.

4.4.3 Unreliable Monitoring Processes for Auditing

Monitoring is a continuous management system that typically ensures that processes perform as expected. As indicated on Table 4.4,20% of the respondents regards unreliable monitoring processes for auditing affect negatively internal audit function.

4.4.4 Poor Development of a Workforce Strategy

The development of workforce is referred as a mix of approaches to meet job needs. Working force growth can include culture changes, changes in perceptions and improvements in the ability of employees that can positively influence the future success of a business. 10% of the respondents asserted that, poor development of a workforce strategy is one of the challenges facing internal audit in the regional council.

4.4.5 Poor Delivery of Added Value

The delivery of value is the way the products are designed to give the customer maximum value. Features the quality given to consumers can be in the form of goods, advantages etc. Based on Table 4.4. 10.6% of the respondents suggest that, poor delivery of added value has negative influence on promotion of internal audit functions.

4.4.6 Lack of Independence

The internally auditor's independence reflects independence from entities whose interests may be influenced by audit performance. Inadequate risk management, inadequate internal control and poor governance are particular internal management issues. Based on Table 4.4.10% of the respondents claim that, lack of independence has negative influence on internal audit functions in Uganda National Enterprise

4.5.7 Effect of Internal Audit on Corporate Governance

Multiple linear regression was employed to examine the effect of internal audit on corporate governance. This is a modelling technique that establish relationship between dependent and independent variables. However, before the analysis, assumptions of multiple linear regressions were tested. Five assumptions were examined including linearity, normality, homoscedasticity, collinearity, and autocorrelation.

4.5.8 Linearity Assumption

Linearity describes the parameter dependence as a linear function of (independent) predictor variables. The correlation between dependent and independent variables can be correctly calculated by multiple regressions when the relationship is linear in nature (Osborne & Waters, 2002). Bivariate correlations were employed to ensure linearity assumption is satisfied as indicated on Table 4.4.

4.5.9 Autocorrelations Assumption

When data is not drawn independently of the population, then the possibility of errors being deemed autonomous (Keith 2002) is violated. Infringements of this presumption may therefore underestimate standard errors and statistically significant mark variables when not (Keith, 2006). Durbin-Watson test was employed to check this assumption. Table 4.6 show that, Durbin-Watson coefficient was 2.1. According to Field (2009), Durbin-Watson coefficient between 1.5 and 2.5 satisfies autocorrelations assumption.

4.5.2 Homoscedasticity Assumption

Homoscedasticity is the same distribution of errors across all independent variables (Osborne & Waters, 2002). This means that analysts believe that errors are uniformly distributed across the variables (Keith, 2006). Figure 4.1 demonstrate that, errors were evenly distributed across the horizontal line. Such scenario attests the

4.5.3 Collinearity Assumption

Regression coefficients are assumed by the researcher to be determined by independent variables if collinearity is small (Keith, 2006). This ensures that one can make reliable assumptions about variables' causes and effects.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Chapter Overview

This chapter provides conclusion of the study. It specifically presents summary of the findings, discussion of the findings and its implications, conclusion of the study, and ends with recommendations of the study.

5.2 Summary of the Findings

This study aims at assessing the role of internal audit on corporate governance at Uganda National Enterprise Cooperation. It consists of three objectives; To identify strategies for enhancing the effect of internal audit functions at NEC regional to assess challenges facing implementation of internal audit function; and to examine the effect of internal audit on corporate governance.

Summary of the demographic characteristics shows that, 50% were males while. 50% were females. Majority of the respondents were youth aged between 31 and 40 (5%), followed by youth aged between 21 and 30 (2%). The rest of respondents were aged between 41 and 50 (10%) and over 50 (2%). Education level of the respondents revealed that, respondents with first university degree were 2% whereas master's degree holders were 20%.

Second objective show that, challenges facing internal audit functions include; lack of business expertise (1%), inadequate management support (30%), unreliable monitoring processes for auditing (20%), poor development of a workforce strategy 10%),

Third objective revealed that, R square was 0.991 implying independent variables were powerful predictors of the model variation. This gives a notion that, compliance evaluation, risk assessment, and efficient co-sourcing system explained 99.1% of corporate governance of the regional council.

5.3 Discussions of the Findings

5.3.1 Strategies for Enhancing the Effect of Internal Audit Functions

Findings of the study revealed that, the most effective strategies that enhance internal audit functions include, cybersecurity assessments, effective use of co-sourcing, optimize the value of enterprise risk management (ERM), enhanced business continuity plan (BCP)

assessments, timely assessment of the impact of regulatory changes, and third-party compliance reviews. This implies that, internal audit functions tend to provide significant outcomes when cybersecurity are effectively evaluated. In addition, effect of internal audit is also influenced by sourcing, ERM, and BCP as they control cost, prevent employee turnover, solve uncertainties, and facilitate technological changes.

These findings in line with Kirima (2016) who also found that, performance of internal audit functions was mostly influenced by effective security systems, compliance review, co-sourcing, and timely evaluation of regulatory changes. Similarly, Danescu et al. (2015) concur with findings on the fact that, an impartial and unbiased internal audit offers sound guarantees through the judgments and recommendations it has provided to the management, which gives the audit a vital role. Riyadh (2017) also suggest that, ERM and BCP plays crucial role on enhancing effectiveness of internal audit functions in public sector.

5.3.2 Challenges Facing Implementation of Internal Audit Function

Based on the findings, the study revealed six challenges which are mostly affecting the implementation of internal audit function. These include lack of business expertise, inadequate management support, unreliable monitoring processes for auditing, poor development of a workforce strategy, poor delivery of added value, lack of independence, and insufficient leveraging technology. Identified challenges gives several implications on the implementation of internal audit in regional council.

First, lack of business expertise among internal auditors affect the extent at which they accord with ethics code and international standards. Second, inadequate management support affect implementation of internal audit as the unit cannot sustain to accommodate basic requirements of internal auditing in the regional council. Third, challenges such as poor development of a workforce strategy, poor delivery of added value, lack of independence, and insufficient leveraging technology were deemed to be influenced by weak human resource policies for instance recruitment, retention, training and development policies.

Current findings were consistent with several literally works. For instance, Elnafabi (2019) asserts that, the challenges of staffing in the internal audit department are now well known: not enough qualified applicants with the unique skills needed to succeed in the modern internal audit department. Wages are also important, making hiring the right workers more difficult. Bilal et al. (2018) in the same vein suggest that, risks such as internal auditing,

compliance with legislation; third party ties, cyber-security; emerging markets, and IT governance must be better equipped to provide assurance in internal audit.

5.3.3 Effect of Internal Audit on Corporate Governance

Findings of the study revealed that, internal audit functions have significant relationship with corporate governance. The independent variables which were compliance evaluation, risk assessment, and efficient co-sourcing system were found strongly attributed to 99.1% of the corporate governance. This implies that, internal audit function has positive effect on promotion of corporate governance. The study also reveals that, one unit increase of efficient co-sourcing system explains 1.2 increase of corporate governance. This gives a conception that, co-sourcing has the most significant contribution on promoting corporate governance.

5.4 Conclusion of the Study

With regards to the findings, present study affirms that, internal audit function has significant effect on promotion of corporate governance. Internal audit roles such as compliance evaluation, risk assessment, and efficient co-sourcing system were found to be significant predictors of corporate governance. In other words, these factors were significant drivers which effectively influence performance of corporate governance.

The study also identified effective strategies which enhance performance of internal audit in NEC. Most of the strategies focused on security, risk management, compliance reviews, and implementation of regulatory changes. This evince that, global events, environmental catastrophes, changes in the regulatory system and failures in goods, processes and services can lead the regional council to consider a broader risk strategy.

On the other hand, the performance of internal audit was found to be constrained by several obstacles. These challenges hindered the council management, employee training and development policies, as well as technological aspects. Besides, internal auditors were deemed to lack effective training as they possessed insufficient business knowledge and basic information technology (IT) skills.

To sum up, the role of internal audit has significant impact on performance of corporate governance NEC. However, there are indices of challenges which affect the effective implementation and enhancement of internal audit strategies.

5.6 Recommendations of the Study

The following are some suggestions from this study results;

- (i) The study advises that every person involved in the internal audit process be trained to understand the importance of an internal audit as regards enhancing the organization's efficiency and to therefore build an understanding that will improve the business and its stakeholders. In order to ensure that the process does not serve as an obstacle to the audit feature always bearing in mind the role that internal audit plays in corporate governance.
- (ii) The company should have its own internal audit charter that clearly articulates the operational and organizational reporting lines as well as its core functions.
- (iii) Adequate correspondence and data flows should be allowed by the reporting line so that internal audits provide accurate and timely information on their operations, strategies and business initiatives.
- (iv) While carrying out its brief, internal audit should not be affected by the financial constraints placed on an administrative reporting row.

REFERENCES

- Abdullah, R. B. (2014). Redefining internal audit performance: Impact on corporate governance. Retrieved July 5, 2019 from <http://ro.ecu.edu.au/theses/1567>.
- Asaolu, T.O., Adedokun, S.A. & Monday, J.U. (2016). Promoting good governance through internal audit function: The Nigerian experience. *International Business Research*, 9(5),196-204.
- Changwony, M.K. & Rotich, G. (2015). Role of internal audit function in promoting effective corporate governance of commercial banks in Kenya. *International Journal of Business & Law Research*, 3(1), 15-33.
- Kibet, P. K. (2008). A survey on the role of internal audit in promoting good corporate governance in state owned enterprises. Master's thesis, University of Nairobi.
- Yassin, N., Ghanem, M., & Rustom, L. (2012). The role of internal audit function corporate governance: An empirical study on commercial banks in Lebanon. proceedings of the academic and business research institute conference, Orlando. Retrieved from <http://www.aabri.com/OC2012Proceedings.Htm>.
- Siddiqui, J., & Podder, J. (2002). "Effectiveness of bank audit in Bangladesh",
- Watt, D., & Schwartz, B. (2018). Governance in view: Done right, corporate governance audits can generate great value for organizations. *Internal Auditor*, 75(1), 48-53.
- Koutoupis, A., Pazarskis, M., & Drogalas, G. (2018). Auditing Corporate Governance Statements in Greece—the role of internal auditors. *Corporate Governance: The International Journal of Business in Society*, 18(5), 1007-1020.
- Fairchild, R., Gwilliam, D., & Marnet, O. (2019). Audit within the corporate governance paradigm: a cornerstone built on shifting sand? *British Journal of Management*, 30(1), 90-105.
- Abdullah, R., Ismail, Z., & Smith, M. (2018). Audit committees' involvement and the effects of quality in the internal audit function on corporate governance. *International Journal of Auditing*, 22(3), 385-403.
- Muda, I., Maulana, W., SaktiSiregar, H., & Indra, N. (2018). The Analysis of Effects of Good Corporate Governance on Earnings Management in Indonesia with Panel Data Approach. *Iranian Economic Review*, 22(2), 599-625.
- Bajra, U., & Cadez, S. (2018). The impact of corporate governance quality on earnings management: Evidence from European companies cross-listed in the US.

Australian Accounting Review, 28(2), 152-166.

Veselovsky, M. Y., Izmailova, M. A., Bogoviz, A. V., Lobova, S. V., & Alekseev, A.

N. (2018). Innovative Solutions for Improving the Quality of Corporate Governance in Russian Companies. *Quality-Access to Success*, 19(162).

Owolabi, S. A. (2019). Quality Accounting Service a Panacea to Effective Corporate Governance. Available at SSRN 338-381.

Lemonakis, C., Malandrakis, I., Garefalakis, E., & Balla, V. (2018). Corporate governance and internal audit: A Review on performance indicators. *Interdisciplinary Journal of Economics and Business Law*, 7(1), 98-119.

Florin, B., & Irina-Stefana, C. (2018). The Role of Internal Audit in Corporate Governance to Substantiate the Decision. *Ovidius University Annals, Economic Sciences Series*, 18(2), 561-565.

Ježovita, A., Tušek, B., & Žager, L. (2018). The state of analytical procedures in the internal auditing as a corporate governance mechanism. *Management: journal of contemporary management issues*, 23(2), 15-46.

Johari, R. J., Hati, M. T., Hadi, M., & Rashid, N. (2018). A Revisited Note on Internal Audit Function and Good Corporate Governance. *International Journal of Academic Research in Business and Social Sciences*, 8(12).

Koutoupis, A. G., & Pappa, E. (2018). Corporate governance and internal controls: a case study from Greece. *Journal of Governance and Regulation* 7(2).

APPENDICES

Appendix I: Questionnaire

Introduction

Dear Respondent,

I am Tahinduka Samuel a student of Uganda Christian university pursuing a a bachalors of business administration. And I am required to submit a research report on “*The effect of Internal Audit on Corporate Governance: A Case of Uganda National Enterprise cooperation.*”

I therefore kindly request you to assist me collect data by availing yourself and respond on all items listed in this questionnaire. The information will be used exclusively for academic purposes. Findings of the study shall upon request be availed to you. Your assistance and cooperation will be highly appreciated.

I. Background information

Instruction: Please put a tick in one box only and fill in where necessary

1. Sex:

Female Male

2. Age of the respondents:

Below 18 18-27 28-37 38-47

48-57 Above 57

3. Education Level

Primary Education Ordinary Level Advance Level

College Education Higher Education Not Educated

4. Marital Status

Single Married Divorced

Widow

5. Working Experience

- Less a year
 1 year - 3 years
 3 years - 5 years
 Above 5 years

I. Strategies for enhancing internal audit function

The table below shows the responses in Likert scale, indicate the extent to which you agree with the following :(Strongly Agree =5), (Agree =4), (Neutral=3), (Disagree=2) and (Strongly Disagree=1)

s/n	Statement	Response				
		5	4	3	2	1
1	Cybersecurity assessments					
2	Efficient co-sourcing system					
3	Enterprise risk management (ERM) quality optimization					
4	Evaluations of improved business continuity plan (BCP)					
5	Timely impact assessment of regulatory amendments					
6	Third-party compliance reviews					

II. Challenges facing effective implementation of internal audit

The table below shows the responses in Likert scale, indicate the extent to which you agree with the following :(Strongly Agree =5), (Agree =4), (Neutral=3), (Disagree=2) and (Strongly Disagree=1)

s/n	Statement	Response				
		5	4	3	2	1
1	Lack of business expertise					
2	Inadequate management support					
3	Unreliable monitoring processes for auditing					
4	Poor development of a workforce strategy					
5	Poor delivery of added value					
6	Lack of independence					
7	Insufficient leveraging technology					

III. Corporate governance

The table below shows the responses in Likert scale, indicate the extent to which you agree with the following :(Strongly Agree =5), (Agree =4), (Neutral=3), (Disagree=2) and (Strongly Disagree=1)

s/n	Statement	Response				
		5	4	3	2	1
1	Compliance evaluation					
2	Risk assessment					
3	Efficient co-sourcing system					

1. Are there any changes that you desire to see in the policies and practices of the Internal Audit Function that could further enhance Good Corporate Governance in your organisation?

1. Yes
2. No



**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

1st Aug 2023

TO WHOM IT MAY CONCERN

Name: TAHINDUKA SAMUEL Reg. No. J21B05/415

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"EFFECT OF INTERNAL AUDIT ON COOPERATE GOVERNANCE."

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator