

INTERNAL AUDIT AND FINANCIAL PERFORMANCE OF COOPERATIVE UNIONS IN UGANDA :A CASE STUDY OF BUGISU COOPERATIVE UNION

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**UGANDA CHRISTIAN
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DECLARATION

I, Wolayo Esther, declare that this research report is my original work and has not been submitted or published to any University or Institution of higher learning for any partial fulfillment of any academic award.

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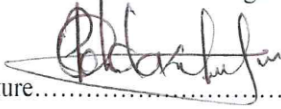
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APPROVAL

This is to certify that this research report was conducted under my supervision and guidance and is ready for submission to the Faculty of business Admission in partial fulfillment of the requirements for the award of a Bachelors degree of Business Administration of Uganda Christian University with my approval.

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DEDICATION

I dedicate my dissertation work to my family and many friends. A special feeling of gratitude to my loving parents, Mr Wanyina Tom and Mrs Wayinya Agness whose words of encouragement and push for tenacity ring in my ears. My brothers Keneth and Paul who have never left my side and are very special and my little sister Janet who keeps reminding me how I inspire her. I also dedicate this Research Report to my many friends who have supported and directed me throughout the process. I will always appreciate all they have done, especially Basireka Bayati and Wopala Edward for helping me develop my skills and for the many hours of proofreading, and all my Lecturers among them Mr Owino, Mr Otingole, Mr Maena, Mr Mwima, Mr Omache and Mr Odoki for helping me to master to the dots.

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ABSTRACT

Financial performance determines the competitive advantage of the manufacturing company on the market. The study examined the relationship between internal audit and financial performance in manufacturing companies in Uganda, a case of Bugisu Cooperative Unions (BCU). Internal audit function is strategy to boost the strength of the internal control activities to achieve financial performance which requires empirical assessment. The study was guided with three research objectives which include; to examine the relationship between internal audit objectivity and financial performance of BCU; to analyze the relationship between internal audit independence and financial performance of BCU and to examine the relationship between internal audit competence and financial performance of BCU. The study adopted a cross-sectional study design with qualitative and quantitative approach. The unit of analysis was BCU and units of inquiry were employees at BCU. Primary data was collected from 73 filled questionnaires analyzed with SPSS V.

22 and 8 interviews conducted following Standard Operating Procedures to prevent spread of Covid-19. Given the nature of research objectives and questions, parametric test was carried out, specifically Pearson correlation to test the of each variable in explaining financial performance.

Results revealed that BCU has internal audit department with competent staff who undertakes duties with independence and objectivity to observe over the operations and controls in activities to achieve financial performance at the company. Correlation analysis revealed that internal audit objectivity with correlation coefficient of 0.798**, internal audit independence with correlation coefficient of 0.854**, internal audit competence with correlation coefficient 0.654** have positive significant relationship on the financial performance of BCU. The study concluded that internal audit objectivity and independence are fundamental principles with positive significant relationship and effect to enhance orderly operations, risk assessment and evaluation of control activities to achieve financial performance. The study recommends that internal audit should be objective and independent to undertake activities, evaluation of internal controls, detection of errors and fraud, continuous appraisal of the process to sanction corrective measures to management to achieve financial performance.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

World over, internal audit assures the attainment of quality financial statements or reports for listed manufacturing firms of any country (Younas & Kassim, 2019). Financial performance measures the way companies use their assets to generate revenue to achieve going concern (Drogalas, 2015). This sound internal audit creates assurance on the financial performance of the company through independent evaluation of records (Institute of Internal Auditors, 2010). The primary purpose of internal audit is to emulate the quality of the financial reports or information that the institutions maintain to create poise among the stakeholders, and also reflect the efficiency and credibility of the institution's audit department as part of the corporate governance structure of the firm's management and practices (Vegaz, 2016).

Internal audit provides strategies through safe guarding assets, segregate duties, accounting, review, policies and procedures, effectiveness and efficiency, timely reporting to achieve financial performance (Gekula, 2019). Companies integrate internal audit function to control operation activities to ensure quality financial reporting (Adeyemi & Fagbemi, 2017). The financial strategy of a company is strengthened by effective internal audit systems to manage risk in order to satisfy the needs of internal users (Institute of Internal Auditors, 2019). Financial performance requires a sound internal audit function relating to internal controls to provide reliable and presentation of financial statements (Mathius, 2016). Internal audit ensures assessment and monitoring of internal control policies and procedures to provide reliable, objective, and neutral service

to the management, board of directors and audit committee to present fair financial statements for decision making (Ljubisavljevic & Jovanovi, 2011). This chapter presents the background to the study, problem statement, objectives, hypothesis, scope, significance of the study, conceptual framework and operation definition.

1.1 Background to the study

Over the last two decades, the global manufacturing sector has faced major challenges that have destabilized their financial performance. Specifically, the sector continues to grapple with rising economic challenges, competition from external stronger entities and unprecedented growth in manufacturing technologies which necessitated integration of internal audit (Dimitrios & Mike, 2016). Internal audit offers risk management and evaluates the effectiveness of internal controls, corporate governance and accounting process to enhance financial performance of the company (Pohel, 2017).

The spate of internal audit failures globally has brought a great deal of disappointment to investors and other corporate stakeholders on the quality of financial reporting in the manufacturing companies (Colomina, 2017). Financial performance depends on the internal audits to prevent and detect fraudulent financial reporting (Adeyemi, Okpala & Dabor, 2012). The decline in share price on stocked exchange market left unanswered question on the effectiveness of internal audit functions in listed manufacturing companies.

The internal audit promotes independence assurance and innovative insight that enhance profession value in the company to achieve financial performance (Konrat, 2016). Manufacturing companies put emphasis on internal audit to ensure that internal controls,

risk management and corporate governance aspects are effective and efficient in offering independent assurances on financial reporting (Redol, 2016). Internal audit varies from one company to another, which make a variation in the modern internal audit to achieve financial performance (Zolet, 2014). According to the Chartered Institute of Internal Auditors (2020) provides that internal audit ensures independence, risk management and corporate governance to evaluate the company activities to achieve financial performance.

Companies in developed countries such as U.S.A, U.K, France, China among others strengthen the internal audit functions to review management capabilities to increase return on investment, returns on assets and liquidity to safeguard shareholders investments (Rudolf, 2017). With regard to the coordinating activities in manufacturing companies, internal audit status reports are a potentially useful mechanism to achieve financial performance.

The Institute of Internal Audit Profession in Africa (2019) report recommends integration of internal audit functions in the manufacturing companies evaluate the operation activities (including internal controls), quality of information and information systems, legal compliance, fraud, environmental reporting, prevention and detection of fraud to achieve financial performance. Alkafaji and Khallah (2017) conjure that the phase II of Internal Audit evaluation by the IIA in East Africa manufacturing companies suggested that unprecedented growth opportunities, increasing complexity and information symmetry between the shareholders and directors requires effective internal audit controls to achieve financial performance. Companies prioritizes internal audit reports as

core mechanism to improve the effectiveness of governance, risk management and internal controls to protect assets, reputation and sustainable financial performance.

The internal audit status reports provide information about key social, health, economic and environmental conditions in the company to determine the financial performance (Yussain, 2015). The empirical studies carried out with respect to specific environment factors indicates prolonged poor internal audit which may continue to detriment the financial performance of manufacturing companies (AL-Qadasi et al., 2019). The question is whether the investment in internal audit functions relates to financial performance.

Financial performance is a subjective measure of the responsibility of a substance for the consequences of its approaches and operations reflecting Returns on Assets, solvency and liquidity (Bassey & Enang, 2016). The integration of internal audit functions significantly supports financial performance in the companies. Solvency is measures company's capacity and ability to meet the long-term financial obligation (Chelon, 2015). Solvency of the company's predicts capacity to pay long term obligation to achieve going concern. It also evaluates the beneficial effects investment had on company performance in the financial year.

Returns on Assets (ROA) indicates how efficiently the company generates income from its assets (Hedot, 2016). The returns on assets are always compared with previous year ROA and the industry average to determine the performance. In case of an industry average of 1 compared to current ROA of 1.05, it indicates good financial performance

unlike when ROA is below-indicates poor financial performance. Furthermore, liquidity involves the availability of funds to finance the operation activities of the company.

The internal audit stimulates the effectiveness of the board and its committee, management and staff to ensure achievement of financial performance of the company (Colin, 2017). Internal audit enhanced through independence, objectivity and competences support financial performance (Vecon, 2016). The internal audit is premised on five components of internal controls framework include control environment, control activities, risk assessments, information and communication and monitoring of activities to achieve financial performance (Committee of Sponsoring Organizations of the Treadway Commission, COSO, 2014).

Internal audit evaluates the effectiveness of internal controls, risk management and governance practices to ensure employments of competent independent people with the focus on objectivity to perform their duties to achieve financial performance in the company (Leodah, 2018). The agency theory by Stephen and Mitnick (1973) and credibility theory advocated by (Mowbray, 1914) supports the effectiveness of internal audit to achieve financial performance of the company. Agency theory resolves the problem between the agent (such as directors at BCU) and principle (that is shareholders at BCU) to verify their relationship tailored towards financial performance of the company. It is board of directors' duties and responsibilities as agents to ensure effective internal audit at BCU to achieve financial performance. The credibility theory propose that companies have to integrated policies and procedures to estimate the risk in financial performance. Effective policies and procedures are the best internal control practice for the company to achieve financial performance.

In recent year's Ugandan companies through the Uganda Cooperative Alliance (UCA) have initiated development of a comprehensive internal audit committee to the effectiveness of internal controls, risk management and sound corporate governance practices to achieve financial performance (UCA Report, 2014). The internal audit is vibrant in safeguarding the assets and investors wealth in the manufacturing companies (Goodkey, 2017). In Uganda, manufacturing companies encounter decline in share price, material misstatements, misallocation of resource and insolvency attributed to poor financial performance (Gekula, 2015).

The governance of quoted manufacturing companies is questionable due continuous fall in share prices, cost overrun and time over run which deter their financial performance give the integration of internal audit committees (Festo, 2017). The internal audit function in manufacturing companies have compromised with independence, objectivity and competences to create assurance on the quality of financial statements which exposes them to demise of financial failure on the market. The poor financial performance of many listed manufacturing firms left investors disappointed and end up arbitraging on stock exchange market which adversely affect their capital structure.

With adequate checks and balances through internal auditing, a decentralized framework for company management has broken dependencies and promoted downward accountability leading to sound outcomes of financial performance in terms of profitability, returns on assets, equity and investment (UCA report, 2015). Furthermore, owners and managers of companies gain greater administrative autonomy when they can pay their staff from their budget to ensure flexibility and opportunity in career accountability and performance outcomes which affects internal audit quality outcomes

irrespective of internal audits or external audits (UCA, 2016). Cooperative Alliance are constrained with poor financial performance due to ineffective internal audit to make adequate checks and balances within the control activities to ensure quality financial reporting. This nasty performance threatens the investors, employees and others stakeholder justify the relevance of this study.

1.2 Statement of the problem

Internal audit function plays key role in risk assessment, evaluating assurance and effectiveness of internal controls to safe guard shareholder investment by ensuring quality audit reports fairly reflecting correct return on assets (ROA), solvency and liquidity position of the company (Zimmerman, 2016). Internal audit helps management to effectively utilize and safe guard resources to yield high returns on assets, solvency and liquidity which reflects financial performance in the company (Institute of Internal Auditors, 2022).

Despite the above benefits of internal audit, BCU is reported to have been facing persistent challenges in financial performance. For instance, there was a decline in returns on investment by 5% in 2020, reduced returns on assets by 4% in 2021 and constrained with liquidity which results into insolvency position (BCU Annual Report, 2021). Furthermore, BCU Annual report 2022 reveals net loss margin of -5 %, in year 2022 the net profit margin dropped from 9% to 7% and to 0% in 2022). Also, the same report indicated operating net loss of 744 million in 2022. The liquidity position is constrained with Gross margin dropped from 35% to 31% in 2020 and 2021 respectively. The company registered a loss after tax of UGX88 Million compared to a profit after tax of UGX1.9 billion in 2020; Total assets reduced by 5% as at 31st December, 2021 from UGX65 Billion and ROA was 3% in 2021 below that of FY 2020.

In addition, there was a reduction in the gross margin of 4% compared to the prior year (2021: 31%, 2018: 35%) and total overheads increased by 29% which contained solvency and indicating poor financial performance at BCU (BCU Report 2021). Returns on investment declined by -5% in 2021 as reflected in decrease in earnings per share excluding extra ordinary items from \$1.22 in 2020 to -\$0.8 in 2021 to \$0.7 in Aug 2022 (USE Report 2022). This continuous poor financial performance prompted the researcher to examine the extent to which internal audit affects financial performance of BCU

1.3 Objectives of the study

1.3.1 Major objective

To examine the relationship between internal audit and financial performance in manufacturing companies in Uganda, a case of BCU

1.3.2 Specific objectives

- i. To examine the relationship between internal audit objectivity and financial performance of BCU.
- ii. To assess the relationship between internal audit independence and financial performance of BCU
- iii. To evaluate the relationship between internal audit competence and financial performance of BCU

1.4 Research questions

- i. What is the relationship between internal audit objectivity and financial performance of BCU?
- ii. What is the relationship between internal audit independence and financial performance of BCU?

- iii. What is the relationship between internal audit competence and financial performance of BCU?

1.5 Scope of the study

1.5.1 Geographical scope

This study was conducted at BCU located at Doko, Mbale City along Kampala – Jinja Highway and 3 Km from Town Center. The study area was chosen because of the proximity and acquaintance to the researcher in view of its leadership skills and employee engagement.

1.5.2 Time scope

The study focused on the period of four (4) years between 2020 and 2023. It is expected that four years are long enough to capture the bearing effects of internal audit on financial performance of BCU while at the same time short enough to predict what has been happening with respect to study constructs. The data was collected cross sectional. Literature review mainly covered a period of five years from 2020 to 2023.

1.5.3 Content scope

This study focused on internal audit conceptualized in form of objectivity of internal audit, internal audit independence and competence expressed in internal audit as independent variable. The dependent variable is financial performance measured using return on assets, solvency and liquidity. The moderating variable of this study is internal audit policy.

1.6 Significance of the study

The study finding could be of use to the following:

Management of BCU: The study will provide recommendations on appropriate practices to strengthen internal audit to ensure fairly presentation of financial statements, effective utilization of resources, prevention and detection of fraud detection, decision making, and innovation and operation efficiency.

Policy Makers: It will highlight key internal audit issues that can help policy makers, the government, manufacturing firms and other stakeholders to make policies on an informed point of view on how the internal audit gaps can be bridged.

Further researchers and academicians: The study can provide a reference point for future researchers in the area of internal audit and financial performance of manufacturing companies. It will expand knowledge on the internal Audit and financial performance for academicians.

Researcher: The study will build capacity of the researcher in research skills on how apply data collection methodologies, in data analysis and interpretation and report writing. The researcher will also utilize the skills to guide development of effective internal audit system at his work place.

1.7 Justification of the study

BCU is reported to have been facing challenges of financial performance over the period of past four years (Management meeting Min/4/2021). Financial performance of manufacturing companies contribute to the economic development of the country, thus has to be saved from likelihood failure. Internal auditing has been largely recognized as a social phenomenon because its functions are constantly subject to change, depending on

the interaction between the audit profession and the management. From one perspective, the progression of the internal audit reflects an effort by competent audit profession, independence and experience to ensure that policies and procedures are adhered to in order to safe guard shareholders' investment to achieve financial performance (Miller, 2018). The poor financial performance led to decline in share prices which exposes the manufacturing companies on demise of collapse given the integration on internal controls to achieve goals and objectives of the company (Moeller, 2016).

Postula (2020) argues that internal audit premised on internal controls reflects the strength and weakness on operation efficiency of the company. Industrialization is the foundation of economic development (Fesah, 2018), thus requires effective internal audit to achieve financial performance. This therefore, triggered a study to establish the bearing effect of internal audit on financial performance of manufacturing companies in Uganda, case of BCU.

1.8 Definition of key terms

Internal audit: Internal auditing is defined as a competence based, independent, objective assurance and consulting activity designed to add value and improve an organization's operation efficiency. In the context to this study, internal audit is measured in terms of objectivity, independence and competences to ensure safeguarding of investment. 10

Internal audit policy: This is the set of frameworks within which Internal Audit provides objective and independent assurance and advice to the management and those with governance over the processes and systems of internal control and risk in the company.

Objectivity: This is attributed to state of mind of being strait forward with exclusion of bias, prejudice which gives fair and impartial consideration to all matters that are relevant to the task in the hand, disregarding those that are not by firmly managing expectations and adhering to the standard procedure (Auditing Practices Board, 2015). It entails tracking of issues, unbiased assessment and compliance assessment.

Independence: This refers to the freedom from management influence, positioning, situations and relationships which impair internal audit (Tjune, 2012). Internal audit independence can be interpreted as mental attitude that is free from the influence and threats to the effectiveness.

Competence: Competence generally refers to the auditor's ability to perform tasks diligently and in accordance with professional standards and majorly looked at as in terms of professional qualification, experience and knowledge (IAASB, 2013). The Institute of Internal Auditors (IIA) defines competence as the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills and behavior (IIA, 2013).

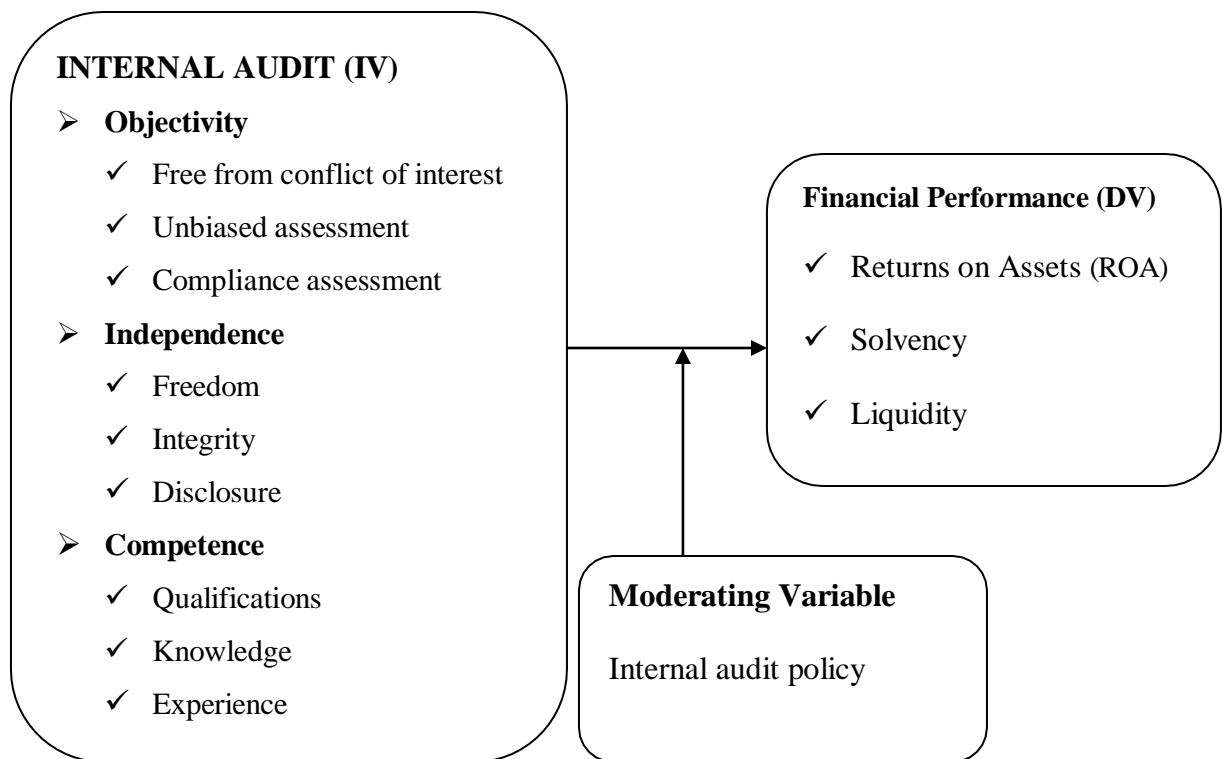
Financial performance: Principally this reflects the overall financial health of the company over a specific period of time. It indicates that how well an entity is utilizing its resources to maximize the shareholders wealth and profitability (Naz, Farrukh &

Faizan,2016). Financial performance is measured in terms of solvency, returns on assets and liquidity of the company.

Returns on Assets (ROA): is defined as a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets) (Marian 2008). ROA compares how well different managers in the company or within the same industry generate profits with the assets they have.

Solvency: This is defined as company's capacity to meet its long-term financial commitments (Naz, 2016). It is measured in terms of company's ability to pay the long term det (debt to equity), its ability to pay interest on the debt (interest cover ration).

1.9 Conceptual framework



Source: Zenil (2016); Alshatti, (2015) and modified by the researcher (2024)

The conceptual framework is the analytical tool used to describe relationship between the independent and dependent variables (Coleh, 2015). The independent variable is internal audit conceptualized in form of internal audit objectivity, internal audit independence and internal audit competences whereas dependent variable is financial performance with construct include solvency, returns on asset and liquidity. The moderating variable is internal audit policy.

Internal audit is the key mechanism adopted to ensure effectiveness of internal audit to achieve financial performance (Hezol, 2017). Utilizing the accountability-based framework as suggested by Chowdhury (1998), six audit concepts (audit independence, knowledge, objectivity, experience, audit scope, auditor ethics and audit reporting and auditing standards) are yardsticks to protect shareholders investment in the investee. Internal audit through audit independence, objectivity and competences strengthens the controls in the entity environment and on occurrence of activities to support financial performance (Zenil, 2016). Internal Audit Policy provides the framework within which Internal Audit provides objective and independent assurance and advice to the Board of Directors of the companies over the processes and systems of internal controls to fair presentation of financial statements (Codel, 2015). The internal audit policy is foundation of the internal audit practices in the company to foster financial performance.

Financial performance of the manufacturing is defined as the state or condition to achieve going concern (Noweh, 2016). Alshatti (2015) asserts that the financial performance of the manufacturing company is attributed to Return on Assets (ROA), solvency and sound liquidity to meet day-to -day operations efficiency. Return on Assets measures the gainfulness for all supporters of capital and company capacity of an association's

administration to produce revenue by using the available organisation resources (Omesa, 2015). The solvency measures the capacity to pay long term obligation measured in terms of debt to equity, interest cover ration among others. The Institute of Internal Auditors (IIA) provides that internal audit function of the companies evaluates the effectiveness of internal control systems in the company to achieve financial performance (Moeller, 2016). The way independent variable relates to the dependent variable with support from moderating variable is illustrated below.

The above conceptual framework indicates that the independent variable is internal audit with dimensions of auditors' objectivity, independence and competence. Objectivity is measured in terms of free from conflict of interest, unbiased assessment and compliance assessment. Independence is measured in terms of auditors' freedom, integrity and disclosure. Competence of internal auditors is measured in terms of auditors' qualifications, knowledge and experience to provide advice to the management on utilization of resource in the company. Whereas the dependent variable, financial performance is measured in terms of solvency, ROA and liquidity. It is the director's responsibility as agents to shareholders to implement effective internal audit to achieve financial performance as supported with agency theory by Mitnick (2013) and credibility theory advocated by (Mowbray, 1914). The moderating variable is the company internal audit policy put in place to strengthen the internal audit functions.

1.10 Conclusion

Financial performance is the challenge to many companies given the implementation of internal audit. Chapter one highlights the need for study by defining the status and operationalization of the study problem. It gives the background of the study, problem

statement to the study, the objectives, conceptual framework that guided the study, significance of this study. The next chapter deals with review of what other authors have discussed on the study in relation to the study variables.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter contains a review of the various literatures by different authors about internal audit and financial performance in manufacturing companies and the existing gaps to be addressed with this study. This chapter reviews the literature under the subsections of theoretical review, conceptual review, review by study objectives and the summary of the literature review. This literature was gathered from various journal articles, internet websites and professional books.

2.1 Theoretical review

This study was supported with the agency theory advocated by Stephen Ross and Barry Mitnick (1973) and credibility theory advocated by (Mowbray, 1914).

2.1.1 Agency theory

Agency theory as first introduced by Stephen and Mitnick (1973) to harmonize the conflict of interest between principle (owners) and agents (managers), known as an agency problem. Agency theory was further elucidated by Mitnick (2013) with insight into institution management. The agency theory is a contract under which a person (the agent) is employed by one or more individuals (principals) to conduct some services for them; consequently, any ensuing decisions for the firm are made by the agent. Mitnick introduced a common insight that advocate for essential imperfect agency relationship in the company.

Mitnick (2013) proposed the agency theory to draw insight in imperfect relationship between principal and agent in the organization. Mitnick (2013) states that agency theory

highlights management behavior, agency cost and the ownership order of the organization. The management at BCU are charged with the responsibility of maximizing shareholders' wealth as agents. An effective internal audit support management to perform their duties to safeguard shareholders' investment to achieve financial performance (Tenol, 2017).

The information symmetry between the management as agents and shareholders as principle is addressed with implementation of effective internal audit with index support of independence, objectivity and their competence to control activities to achieve financial performance (Redol, 2016). Mitnick (2013) explained it as a relationship between principal and agent, which involves the delegation of duties of managing the business affairs with an intention to maximize returns in form of investment, assets and the like. The agents and principals look to get as much conceivable utility with the minimum conceivable use of resources. Therefore, for internal audit to be effective, support from top management as agents is vital to implement controls which allows independence, objectivity and competence-based task execution of audit tasks to safe guard the shareholders' (the principle) assets.

Agency theory also addresses the problem of conflict of the desires of the agents and principals when their attitude toward risk is different. Because of dissimilar risk tolerance levels, the principal and agent may each be inclined to take actions which are at odds with each other. Shareholder wealth maximization may not be pursued as the agents might pursue avenues that are in their own self-interest (Lan et al. 2010). The agency problem in separating ownership and management is therefore the assumed diverging goals of the cooperating parties to safe guard the going concern of the shareholders.

Owners (principals) must therefore ensure their interests are protected through measures like employing external auditors which constitute agency costs but internal audit if effective and efficient, is a way by which principals can ensure and check that management is acting in their interest.

Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agent (management). This study uses the agency theory to determine the impact of internal audit on the financial performance of listed state corporations in Kenya. Mitnick (2013) state that according to the agency theory, a company consists of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources. Mitnick (2013) state that in institution agency theory, agents have more information than principals and this information asymmetry adversely affects the principal's ability to monitor whether or not their interests are being properly served by the agents.

Mitnick (2013) opined that moral hazard constitutes a situation managers maximize the wealth of their principal against their interest. However, principal do not have access to all variable information at the time a decision is being made by an agent, they are unable to determine whether the agents' actions are in the best interest of the firm. The likelihood of the moral hazard, principals and agents engage in contracting to achieve optimality, such as monitoring of the audit for the company. The principal-agent relationship is depicted in agency theory to understand the role of an auditor in making decisions affecting the company. In so doing, the principals place their trust in their agents to act in the principals' best interests.

However, the information asymmetries between principals and agents differing their motives and deviates the trust of principals in their agents and may therefore need to put in place mechanisms, such as the audit, to reinforce this trust. Agency theory therefore, is a useful to support the way management implements effective internal audit to achieve financial performance at the company.

2.1.2 Credibility theory

Credibility theory advocated by (Mowbray, 1914). The credibility theory advocated integration of experience to estimate the individual risk premium to minimize their chances of occurrence and adverse effect on financial performance of a firm. Credibility theory prescribe the individual experiences with support of competence, independently without due influence and objectivity to perform tasks as planned to manage financial risk to achieve financial performance. Chenol (2016) conjures that the credibility of the internal audit helps management to effectively utilize resources to ensure safe guard shareholders' investment. Internal audit is expected to contribute to the effective implementation of the policies to minimize risks of material misstatement to achieve efficiency.

The importance of this theory is attached to credibility associated to the financial statements and creation of assurance on the effectiveness of internal controls at the company. It determines the existence of the credibility in the internal audit process to objectively and independently execute tasks manage risks at less adverse level to achieve financial performance. Internal audit provides assurance to the owners and management of companies and to investors and stakeholders, and along with financial reporting, corporate governance and regulations, supports confidence in the capital markets (Frixol,

2017). Furthermore, Hecoz (2015) emphasis that credibility theory derives from another public perception that the primary function of internal auditing is the addition of credibility to the financial statements to dispose fraud to deliver the hypothetical benefits to support decision making. The theory reduces the information symmetry between management and other stakeholders.

Criticism, the theory does not address the way monitoring of outcomes of credible innovation in managed in the firm (Frixol, 2017). The proponents of credibility ignore the learning experience curve which is core in the risk management. Despite of the criticism, credibility theory is vital in understanding of the way internal audit support firms to achieve sustainable financial performance. It also enhances stakeholders' faith in management's stewardship to control their resources to maximize returns on assets. The lending credibility theory supports the agency theory to examine the considerable effect of internal audit on financial performance of the company.

2.2 Conceptual review

2.2.1 Internal audit

Internal audit is supported with effective internal control system to ensure achievement of financial performance in the company (Chelton, 2017). The Institute of Internal Auditors (2010) explain internal auditing as an independent, objective, assurance and consulting activity that adds value to improves an organization's operations towards achievement financial performance. This helps the company to accomplish its objectives by linking a systematic, disciplined approach to evaluates and improve the effectiveness of risk management, control, and governance processes to direct resources in profitable activities to achieve financial performance. Every company, regardless of its size have some types

of internal control system or process in place to support the effectiveness of internal audit to achieve the set goals and objectives (Bemoren, 2015).

It is therefore imperative to establish whether internal audit bearing effects on financial performance of the company. The Institute of Internal Auditor (IIA) believes that an organisation is best served by a fully resourced and professionally competent internal audit staff that provides value-added services critical to efficient and effective organizational management to achieve financial performance. Wizenno (2017) establishes that internal audit practitioners are charged with assisting the organization management to effectively perform their duties and responsibilities, promoting the establishment of cost-effective controls, assessing risks, and recommending measures to mitigate those risks exposures to enhance financial performance.

Sharma (2016) pointed out that an internal audit is an integral part of the management team furnished with the responsibility to analyses, appraisals, counsel and source information on the activities reviewed and also monitor organizational ethics to ensure effectiveness of internal controls to achieve financial performance. The unanswered question is whether the function performed by internal audit influences financial performance of BCU.

Alzoubi (2019) pointed out that internal audit is put in place to manage governance risks through continuous appraisal of activities to achieve the set goal and objectives on the company. The internal audit principally strengthens the internal control systems to prevent errors and fraud and detect them through independent appraisal in the company (Dellai, 2016). Internal audit can be measured through the three basic aspects of inputs

such as competence, objectivity and independence, output specifically fair internal audit report with clear status of internal controls and environmental factors such as policies and procedure, legal among others which are important in undertaking efficient audit (Redol, 2016). The reliance on internal audit functions requires management support in form of independence and objectivity, and some are related to senior management, such as providing the necessary support for auditing management so that the work can be carried effectively (Omri, 2016). Therefore, internal audit provides valuable information for managerial decision making to achieve financial performance.

2.2.1.1 Objectivity of internal audit

Objectivity refers to an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made (Stewart, 2019). As noted previously, internal auditors are mandated to be objective and independent to ensure improvement of controls in activities of the entity (IIA 2013). The objectivity of internal audit ensures coordination of strong controls to safe guard shareholder investment. Internal audit protects company from the risks of the crash, fraud and errors which is the goal set by all institutions to achieve, thus implies that institutions with internal audit manage to regularly review operation system to achieve financial performance (Chae et al., 2020). It is therefore vital to evaluate the bearing effect of internal audit on the financial performance of the company.

The IIA Code of Ethics (2009) provides basic principles which internal auditing is expected to uphold based on facts, together with rules of conduct which describe the norms of behavior expected of internal auditors to perform work in the company. Indeed,

the principal relating to objectivity requires internal auditors to exhibit the highest level of professional objectivity in tracking information, evaluating, and communicating information with compliance to law about the activity or process being examined. Furthermore, internal auditors are expected to make an unbiased/ balanced assessment of all the relevant circumstances and they should not be unduly influenced by their own or others' interests when forming judgments to feed the management to make decision. Zeban (2019) establishes that internal audit work is substantial indispensable whenever balance assessment is performed to support corporate governance practices in the company. It therefore, imperative to establish whether the internal audit at the company follows the suggested universal principles to perform the audit work to achieve financial performance.

The Chartered Institute of Internal Auditors (2017) proposes the main reason for the emergence of the need for internal audits is the creation value and separation of ownership of institutions from their departments, so that the audit includes examination and control process to report their views on the quality and reliable financial reporting. IIA suggested three rules of conduct related to objectivity. Internal auditors first and foremost shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. The participation provides activities and relationships that may be in conflicts with interest of the company. Secondly internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment; and lastly internal auditors shall disclose all material facts known to them to disseminate their reports. The rules govern the conduct effective audit assignment to deliver useful information to support managerial decision making in the

manufacturing companies. The question is whether the rules are applicable to the internal audit in the context to this study.

Internal audit is a significant tool to maximize returns in the company through effective tracking of valuable information support with unbiased assessment to pre-determine a course of action in department activities to achieve financial performance (Drogalas, 2015). Tracking of information is associated with audit tracking policy such as audit login and audit object access to diligently follow up tracks of each program and transaction that is executed, either by the system or by end users/ officers in the company (Postula, 2020). The unbiased assessment is providing reasonable assurance to the users of financial statements that those statements provide true and fair view of the financial position and operating performance of the company (Drogalas, 2015). Compliance assessment is associated with comprehensive review of company's adherence to regulatory guidelines to prevent risks linked to compliance with laws governing the industry since such litigation constrain financial performance. Therefore, internal audit is mandated to objectively appraisal the controls on company activities to ensure achievement of financial performance.

2.2.1.2 Internal audit independence

Internal audit Independence refers to the independence of the auditor in executing his duties. It is characterized by integrity, freedom and unconditional the audit process. The concept requires performance of internal audit work freely and in an objective manner to ensure the company objectives are met specifically financial performance (Mihret, 2016). Audit independence to free access to information is vital so that auditor's opinions are often impartial, unbiased, as well as free from any undue influence or/and conflict of

interest to override the professional judgment of the professional accounting (Redolf, 2017).

Internal audit is premised on the doctrine of independence to execute tasks freely from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner (IAASB, 2013). In other words, independence is often framed as the means to protect against bias, conflict of interest, or undue influence of others that would override professional judgments to give misleading information. Internal audit is the accountable to the management and therefore need management support to undertake continuous appraisal of activities to avert the possible constraints on financial performance of the company.

The internal audit independence is the ability to make unbiased judgement and decisions based on the audit activities with use of their powers to review facts in activities to achieve financial performance of the company (Hazaea, 2020). Internal audit is as per the need of the company and management is mandated to support its independence to report on deviation from set rules with integrity and unconditioned environment to detection of errors and fraud which detriment financial performance (Mutcher, 2015). Whenever, the internal audit holds out work freely and in an objective manner following international standards and the use of modern control systems is foundation of risk management and strengthen internal controls to achieve financial performance (Codel, 2015).

Indeed, strengthening the audit department independence, regular meetings and continuous training of auditors to keep pace with international standards that regulate the profession of audit activities, contribute significantly to enhancing the financial

performance of institutions (Hazaea et al., 2020). The principle of independence of internal audit need evaluation with this study.

2.2.1.3 Internal audit competence

Competence generally refers to the auditor's ability to perform tasks diligently and in accordance with professional standards (IAASB, 2013). The Institute of Internal Auditors (IIA) defines competence as "the ability of an individual to perform a job or tasks properly, being a set of defined knowledge, skills and behaviour (IIA, 2013). Stewart (2019) says that internal audit competence is attributed to the professional competence of auditor to timely undertake the tasks to facilitate the achievement of the company's goals and objectives. Yazid and Suryanto (2017) stated that auditor's competency consists of three core factors, which are knowledge, experience and qualification to produce high quality internal audit work in the company. The Institute of Internal Auditors (IIA) in 2010, stating that auditor's competency is prefaced on the knowledge, experience, behavioral skill and technical skill ability to perform the internal audit tasks in the company. It worth to note that, competence of internal audit need investigation as suggested in this study

Berney (2016) argues that internal audit competence is supported with internal audit code of ethics to ensure that quality is enhance to provide recommendations for opportunities to achieve financial performance in the company. This code required internal audit team to have the necessary skill, knowledge, and experiences to conduct the internal audit services to reflect audit quality in the company. The quality of audit work is attributed to internal auditor's competency to track audit activities to identify areas of weak internal controls and accord adverse to the management of the company to achieve financial

performance (Boren, 2018). In cases where internal auditors do not meet the required qualifications, they may not perform their audit duties effectively hence, this may compromise their independence in the organization. This is because they will do shoddy jobs to correct and cover up clients who are implicated by the audit reports in the organization. The internal audit professionals are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. Competence guarantees the quality of the audit evidence, regardless of whether the evidence is written, oral, or observed, thus is indispensable from achieve effective internal audit work in the company.

Georlet (2016) conjures those valuable competences possessed by the internal auditor such as knowledge, qualification like ACCA, CPA (U), CMI and others enhance the internal audit quality for the company. Internal audit is supported with push-back, relationship building with the management, communications, teamwork and diversity to promptly perform internal audit assignment to support financial performance of the company (Atkine, 2017). The management is responsible for internal controls while the internal audit operation provides assurance to management and the audit committee that internal controls are effective and working as intended (Ebaid, 2011). Internal auditing requires internal audit team to possess skills to enable them tackle their duties diligently with artistry care and knowledge to deliver complete, accurate and reliable information to the management for decision making and fairly preparation of financial statements (Yurtoglu, 2017). This left unanswered question whether internal audit have competence to perform the tasks which this study intends to address.

2.2.1.4 Financial performance

Financial performance in a company measures the results of firm's policies and operations in monetary terms. These results are reflected in the company's sales growth, increase in profit, losses, investment and share capital in the last four years. Sharma (2016) establishes that increases in shareholders' investment reflects the effectiveness of the management in the utilization of resource to achieve financial performance of the company. The financial performance of the company is essential to measure management capabilities to increase returns on assets, solvency and liquidity position that contributes towards the financial objectives of the company (Henol, 2019). Therefore, it's vital to establish the bearing effect of internal audit supervised by the management on the financial performance of the company.

There are many different ways to measure financial performance by small and medium enterprises in different industries, though all measures should be taken in aggregation. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (MacDonald, 2000). Financial performance is normally derived from sound financial statements as determined by the mechanism through which management effectively control resources with reduction on operating expenses increases returns on assets at the company (Vesto, 2016). Financial performance is the primary objective of the company and therefore requires continuous review to create assurance to shareholders in form of share prices, reputation and the like (Xeno, 2016). This therefore left a gap to establish the financial performance of the company as suggested in this study.

There are a few studies that demonstrate that internal audit improves the financial performance of a company. Afza and Nasir (2014) mentioned that profit margin supported with quality of external audit improves a firm's performance. Companies integrate audit to ensure disclosure of reliable, proper and authentic financial reports to the investors. Furthermore, Jusoh, Ahmad and Omar (2013) claimed that tight internal audit might reduce agency costs where auditors provide an indicator about credibility and integrity of financial reports, which could in turn lead to lower monitoring costs and result in better performance by the corporation. Similarly, Foolad and Shukor (2012), and Farouk and Hassan (2014), reported a significant and positive relationship among internal audit and company performance. Hence, internal audit is expected to have a positive relationship with financial performance.

Returns on Assets (ROA): This ratio is also called Return on Assets (ROA). It is the ratio that shows the relationship between net income and the total assets used to generate the profits by the company. ROA is computed by dividing the net income available with the average long-term finance (equity and debt) during the year (Harrison, 2001). Financial leverage magnification of ROE is underpinned on the fact that the fixed charges funds can be obtained at a cost lower than a company's rate of ROA. Damouri (2013) opines that leverage ratios with sound capital base determines the risk of equity costs to reflect profitability. He further states that other measures for the capital structure include market value-based measures, semi- market value-based measures, and book value-based measures.

Solvency: According to the Cole (2017) solvency is the long-term viability of the company with ability to maintain lower interest cover in the entity. Solvency is the ability

of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth. Fedol (2017) establishes that the ability to service interest on the loan and payment of the principal debt from increased net income indicate financial performance of the company. Solvency is a performance measure used to evaluate the efficiency of company to finance its long-term debts obligation (Farouk & Hassan, 2014). Financing long term obligations indicates the financial health of the company.

Liquidity: This is a ratio between total current assets of the firm and the total current liabilities obligation within one year or normal operating cycle of the firm whichever is greater. To survive, firms must be able to meet their short-term obligations by paying their creditors and also be able to repay their short-term debts. Some degree of liquidity is good for the firm, but a very high liquidity ratio of the company. Liquidity is measured by the following: current ratio, quick ratio, cash ratio, and cash conversion cycle (Panigrahi, 2014). For this purpose of this study current ratio was used as a measure of liquidity. The goal of liquidity management enables firm to maximize profits of its operations while meeting both short-term debt and upcoming operational expenses that is to preserve liquidity (Panigrahi, 2014). This can be achieved through minimizing the risk of inability to settle the short-term obligations as well as avoiding unnecessary current assets investments (Eljelly, 2004).

2.2.1.5 Internal Audit Policy

Geole (2016) argues that internal audit policy set the foundation through which internal audit practices provides objective and independent assurance and advice to ensure safeguard of resources to present fairly the financial statements for decision making. The internal audit policy enhances the operation of internal audit functions to manage risk to

achieve financial performance. Internal audit policy is set workflows to harmonize the violations in the internal controls with focus to objectivity and independence to detect errors and fraud to achieve financial performance (Deloach, 2016). The internal audit policy is the requirement to provide insight into company culture, policies, procedures, and aids board and management oversight by verifying internal controls such as operating effectiveness, risk mitigation controls, and compliance with any relevant laws or regulations to present fairly the financial statements.

Bunome (2018) says that internal audit policy highlights the best practices to implement internal audit functions to support management in operation to achieve desired output of the company. In addition, Verma and Charu (2014) argues that internal audit policy prescribes the functions which coordinate the interaction of team members on management of risk tasks support the financial performance. The internal audit policy evaluates the company's internal controls, including its corporate governance and accounting processes to ensure compliance with laws and regulations and help to maintain accurate and timely financial reporting for management to make decisions.

2.3 Empirical review of literature

2.3.1 Objectivity of internal audit and financial performances

Yazid (2017) establishes that objectivity of the internal audit strengthens the risk management practices which contribute positively on the financial performance of the company. Objectivity of internal audit allows evaluation of activities with unbiased mind which is appropriate to ensure financial performance (Behnal, 2018). Noweh (2016) disclosed that unbiased assessments, judgments and decisions with internal audit has a positive significant bearing effect on the financial performance of the company.

Objectivity is at the heart of value added by the internal audit functions to provide an unbiased opinion on the fairness of financial statements and ultimately financial performance. This therefore justifies the relevance of this study to establish whether internal audit contribution to financial performance of the company suggested in this study.

Leeh (2015) conjures that the internal audit objectivity to improve on quality of audit has a positive significant association on the financial performance of the company at 95%. The audit quality is reflected with expression of true and fair opinion without exception for any financial report that contains material error to achieve efficiency of the company (Yismaw, 2016). Arens, Elder and Beasley (2011) mention that internal auditors must not compromise in giving professional attestation because of biases, conflict of interest or because of influence of someone inappropriate to compromise with quality of financial reports. It is therefore vital to establish whether internal audit objectivity has bearing effect on the financial performance of the company.

Cohen and Sayag (2016) conjure that objectivity requires internal audit to examine and review controls on activities and environment which has significant association on the financial performance of the company. The internal audit function reviews financial information objectively within their audit judgments to support management decision (Tenol, 2017). Punishment regarding auditors' objectivity must be carried out at the whole level; individual, assignment, functional position and organization. The Code of Conduct of Indonesian Government Internal Auditor (2014) explains that internal supervision is an independent and objective assurance and consulting activity to give value added and to improve organization's operation. Hence, objectivity is an important

aspect in determining whether or not the audit task can succeed to achieve financial performance.

Mihret (2016) establishes that objectivity in internal audit has a significant association on the financial performance of the company at 5% level. The improvement in financial performance is obtained with the longer assignment objectivity exercised with the internal audit in the company. Objectivity, according to the definition provided by the Auditing Practices Board (2012), is considered to be “a state of mind that excludes bias, prejudice and comprise and that gives fair and impartial consideration to all matters that are relevant to the tasks at hand to support financial performance. Auditor objectivity is one of the main areas that is consistently vulnerable to audit expectations Alleyne et al. (2016).

According to the Independence Standards Board of the American Institute of Certified Public Accountants (2014), objectivity of internal audit facilitates review of the implementation of management policies and directives to support financial performance. According to Carmichael and Swieringa (2012), the users perceived objectivity of the individual auditor must be secured as well if the audit is going to be of value. In this regard, the objectivity in appearance is important as objectivity in fact as the latter would be less significant if the users do not perceive that objectivity exists in the presented financial statements. This left pending argument whether internal audit has bearing contribution on financial performance of the company.

Auditors are required to utilize their experience toward achieving effectiveness (Intakhan & Ussahawanitchakit, 2014). Even though Wright and Wright (2015) and Wang et al,

(2012) classified the audit objectivity into two that is general audit experience and client specific audit experience. The general auditor objectivity is concerned with the audit knowledge, trainings, skills, expertise that can be applicable to the audit of any client. But Bonner and Lewis (1990) argued that results from both accounting and auditing fields suggest that general auditor objectivity is an incomplete measure of task specific expertise.

Various studies examine the dual roles of internal auditors. Brody and Lowe (2000) find experimental evidence that acting as a consultant can impede internal auditor objectivity, as it may lead auditors to take positions that align with the best interest of their employer. Mathius (2016) uses a survey to investigate the role of internal auditors in the strategic management of organizations. He finds that internal auditors are aware of, involved in, and positively contribute to strategic management in their organizations. Sloane (2010) survey internal auditors in the U.S.A and recommends the relevance of internal auditor objectivity on financial performance.

In addition of the above, Smith (2013) found that both experienced and inexperienced auditors even when they discover relevant information, it's only the experienced auditors that are objective enough and willing to ignore irrelevant information especially when making audit judgments while the inexperience consider the irrelevant fact. According to Donnell (2012), objective auditors may already have the knowledge they need to perform analytical procedures effectively because they learned it through error specific experience also, Tan and Libby (2016) view that, most of the activity of many actual procedures in an audit program is handle by objective auditors, that is explaining and interpreting the

implications of the results of those procedures for further testing while the possible audit adjustment is usually handled by more experience auditors.

2.3.2 Internal audit independence and financial performance

Tilema and Henk (2014) finding that internal audit independence has positive significant association on the financial performance of the company. Internal audit independence provides avenue for execution of tasks free from threats to carry out internal audit responsibilities to achieve financial performance (Komang, 2016). Win-win and Abdullah (2017) explained that internal audit independence has significant association on financial performance through comprehensive adherence to detect material misstatements (technical capability) and reported error (independent auditors). The efficiency of IA supported with independence exerts a high positive effect on adding value to the work and improving financial performance (Postula, 2020).

It is worth noting that independence is vital in the quality of internal audit in the company. Nasrizal (2017) provides that providing independence for internal audit has bearing effect on the quality of audit work to improve the financial performance. Independence is desired with support of necessary resources and their right or authority to act for the success of the company to maximize shareholders' wealth. Within an internal audit financial setting, audit independence is defined as "the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner (IAASB, 2013). In other words, independence is often framed as objectivity or as the means to protect against bias, conflict of interest, or undue influence of others that would override professional judgments.

Auditor independence is important to both the audit profession and the public in general. For the general public, a lack of auditor independence is putting at risk the investment of ordinary people (Gettler *et al.*, 2012). For the audit profession, auditor independence represents professional status and public stewardship (Kleinman and Palmon, 2011) and as Gill *et al.* (2011) stated: independence is the cornerstone of the auditing profession and without independence the auditors' opinion is suspect (p.55). Suspicions on the auditors conduct therefore, lead to an increase in the audit expectations gap. The view of Kleinman and Palmon (2011) and Gill *et al.* (2011) are consistent with the view of the audit profession.

Kibet (2018) revealed that there is greater variation in financial performance of commercial organizations due to changes in internal audit standards, independence of internal audit, professional quality and internal control. This shows that changes in financial performance of commercial organizations could be accounted for by changes in internal audit standards, independence of internal audit, professional quality and internal control. It is also established that there is a strong positive relationship between financial performance of commercial organizations and internal audit standards, independence of internal audit, professional quality and internal control (Sloane, 2010). The effectiveness of internal audit is a measure of success for an internal audit process within an organization to what extent the organization declared successful in its efforts to achieve that goal tailored towards financial performance.

The auditor may be denied access to some records thus unable to audit some areas of the accounting records. Although some accounting records cannot be verified, the rest of the accounting records are audited and they conform to the Generally Accepted Accounting

Principles (Sharma, 2016). Consequently, the financial statements would not reflect the true position of the financial performance of the organization. If the internal auditor checked the rest of the financial records and is satisfied that they conform to generally accepted accounting principles, then he simply states that the financial statements are fairly presented, with the exception of the bank accounts that could not be internally audited due to lack of accessibility (Millichamp, 2018). The internal audit observes and test operation efficiency to enhance financial performance.

According to Yan (2013), internal audit independence has significant association to the financial performance of an organization at 95% level. Kibet (2008) revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competency and internal control. This monitoring role means that auditors are used as a mechanism to enhance credibility of the financial statements so that the public who are not involved in the day to day running of the organization can have some level of confidence in the reported financial position. The audit independence is supported with corporate governance and the accountability of company stakeholders to achieve financial performance.

Sharma (2016) argues that internal auditor's independence is the cornerstone of the auditing profession since their opinion shades light to the management whether the financial performance of the company. The audit Committee must closely monitor the auditor's relationship with the company's management. For this to be done effectively, a membership of the Audit committee is required which together is sufficiently independent of executive management, has a minimum level of financial literacy and has

the ability to ask perceptive questions which are pursued diligently (Sloane, 2010). The presumption of internal audit independence to examine and review management policies, audit techniques and procedures, statement of audit information obtained by the auditor during the implementation of audit procedure support the financial performance (Andrić, 2012). Therefore, an evaluation of effect of internal audit independence on financial performance is necessary for going concern of manufacturing companies.

2.3.3 Competence of internal auditors and financial performance

Mathius (2016) emphasizes that competence of internal audit is the true reflection of effective utilization of resources to achieve financial performance. Competence generally refers to the auditor's ability to perform tasks diligently and in accordance with professional standards (IAASB, 2013). Postula (2020) establishes that competence relates to the expertise, knowledge, and experience guarantee successful work audit which has positive significant association on financial performance of the company. Competences provides audit with careful, accurate and objective assessment to ensure effectiveness of internal control system to achieve financial performance.

Further, years of audit experience has been considered as the measure of general audit competence which significantly influence the financial performance of the company (Wright & Wright 2015). Internal auditor competences through skills, knowledge and experience is achieve through average number of years of internal auditing experience of the internal auditors in internal audit function although does not support financial performance in exclusion of top management of the company (Prawittet, 2018). Contrary, Carpenter et al, (2012) argued that experience does not need to be a function of years on the job, rather that experience can be consider in the proper training environment that

provides practice with feedback. The specific audit experience after understanding the industry support effective examination and review of company operation system to detect fraud and errors to achieve financial performance.

Drogalas (2015) suggests that experiences can provide auditors with either regular knowledge or design knowledge to examine and review controls within the activities to advise management on the course of action to achieve financial performance. Even though one of the advantages of employing more experienced auditors is the complete consideration of possible explanations of events and this is because more experienced auditors' perceptions were frequently accurate (Libby, & Frederick, 2012). The audit experience, it does not mean you have the capacity of detecting fraud but rather its individual experience in fraud detection that will give him the capability of detecting fraud. Therefore, the diversification of such audit knowledge is also fundamental to audit efficiency and audit effectiveness (Mutcher, 2015). In relationship, such knowledge should also play important role in internal audit effectiveness in the public sector organizations.

Internal auditor experience show that specific task experience can improves internal auditor's judgments to support the financial performance of the company (Agoglia, Beaudoin & Tsakumis, 2016). In addition, Asare et al, (2014) also support that client relations concerns may still influence auditors' judgments in reporting, for instance, auditors tend to interpret ambiguous standards in a way to support client-preferred accounting methods which could affect financial reporting and consequently financial performance. Betri (2016) rules of conduct competence of auditors is only going to provide the service as long as they have the knowledge, skills and experience to be

treated to continuously improve the capacity and effectiveness as well as quality of service.

In line with above statement, Donnell and Arel (2010) noted that experience supposed to influence auditors' judgment about information provided by management when it is in consistent with managements self-interest, in the other hand if such information from management is not consistent with managements self-interest, then will view that information with less suspicion to detect the fraud and errors to achieve financial performance. Though Rudolf (2017) argued that the internal audit competence ensures value for money audits which has a positive significant relationship on financial performance for the company.

The internal audit experience on performing a task can then be assessed by measuring the resulting change in the task automatically, despite that experience auditor may have the ability of identifying the right information that will aid his judgment because they gain the experience as a result of training and field experience acquired earlier in their careers (Arel, Kaplan & Donnell 2015). The audit accuracy goes along with the standard to fairly present financial statements. Therefore, internal audit experience tailored to different kind of knowledge and skills which the auditor obtains as a result of tenure of job practice in auditing professions which will enhances the effectiveness.

In the same vein, it's also agreed that financial statements gave a greater confidence if it's being audited and signed by partners who have more auditing experience (Chi et al, 2014). Thus, this show that experienced auditors have the ability to generate more financial statement errors from transaction cycle which in-experienced auditors could not

(Libby & Frederick, 2012). But this is been argued by Carpenter et al, (2012) that accounting profession has been under assault for several years because of the inability of auditors to detect frauds before the issuance of a company's financial statements, because to some extent they ignore the requirement of standard and unfortunately allow their clients to dictate their reporting choices (Asare, et al, 2014).

The auditors with audit experiences are more aware of the impact of regulations in the audit process and thereby improving their audit quality than un experienced auditors (Brown & Jones, 2011; Gaballa & Ning, 2011; Wang et al, 2012) even with respect to knowledge structures Choo and Trotman (1991) found that experienced and inexperienced auditors are entirely different, because experience auditors has more sophisticated ways of using their knowledge than inexperienced auditors. This is because the knowledge structures influence their audit duties, functions as well as their audit activities (Intakhan, & Ussahawanitchakit, 2014). Therefore, experience in audit should also play an important role in audit effectiveness particularly in the public sector organizations.

Knowledge is firm and industry specific and ultimately is determined by top management (Matthew and Sternberg, 2014). Although there likely is considerable overlap between firms especially in related industries, leaders of each specific firm have their own view on the best ways to manage oneself, others and task performance. This, however, does not mean that newly hired auditors must have impoverished knowledge. To the contrary, because of variation in learning opportunities while still a student, e.g., internships, case competitions, office visits, leadership roles in student organizations, new auditors likely already vary considerably in terms of their knowledge for particular organizations.

Tan and Libby (2016) establish that independence, objectivity and technical competences are foundation of internal auditing to support financial performance. They show that experienced managers with top performance evaluations are distinguished by their knowledge, while knowledge is unrelated to whether inexperienced auditors receive top or bottom performance evaluations. These results, however, still allow for the knowledge levels possessed by many relatively inexperienced auditors to be substantial. Along these lines, exhibit 1 recast basic finding in Tan and Libby (2016) so as to better emphasize both mean differences and variation in auditor knowledge by rank. As shown, both bottom-ranked and top-ranked staff auditors fairly often possess knowledge levels rivaling that of top-ranked managers. This provides motivation for examining whether audit firms value these relatively high levels of knowledge possessed by this subset of inexperienced auditors.

For Pohel (2017), knowledge focuses on the evaluation of required knowledge at a certain point of time, knowledge and additional connections to deliver quality services. It serves as an instrument for uncovering weak points, for encouraging improvements and for controlling the existing measures of Knowledge. Albert (2017) claim that Knowledge identifies several issues linked to culture, people, content and processes in an organization, such as knowledge-sharing bottlenecks, lacks of skills and capabilities, problems of understanding of the strategic value of knowledge and its correct interpretation, ineffective transfer of expertise. Knowledge is commonly used to quantify the value of organizations intellectual assets and knowledge health. Therefore, Knowledge should be performed regularly in order to monitor and quantify the progress and usefulness of the KM strategy and action plan.

Henczel (2014) establishes that IA finds out what information resources and services people need to do their jobs and how these resources and services are actually used to achieve financial performance. Considering that “knowledge is information in context”, IA could be regarded as an important part of Knowledge. Subsequently, taking into account that Knowledge addresses the main knowledge dimensions tacit and explicit, organizational Knowledge should focus on both of them. The universal findings require confirmation whether they apply to this study.

2.4 Summary of literature review

In accordance to the review of theories and existing literature, it is believed that internal audit enhances management systems to support financial performance. The potential of manufacturing companies is subject to the internal audit function at the firm as the idea of a positive affiliation to financial performance. Most of the studies like (Agoglia, Beaudoin & Tsakumis, 2016; Tan and Libby 2016) were carried in other organisation which left a gap for this study. The review of literature notes that there has been research that has been done for the most part in the UK, USA, Malaysia, Egypt, Iran, India, Nigeria as well as Singapore. Very few examinations have been completed on the internal audit in Uganda’s point of view and compared it to financial performance of a manufacturing firm; this study will have contributed towards filling this gap. This therefore left a gap to establish the effect of internal audit on financial performance of manufacturing companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design and approaches that was adopted, the study area, target population, sample size and selection, data collection instruments, sampling techniques and procedures, validity and reliability of the instruments, data collection and analysis and anticipated limitation of the study.

3.1 Research design

Research design is the set of arrangement of conditions and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2014). The study adopted a cross-sectional study design with qualitative and quantitative approach. Cross-sectional design is a type of research design in which data is collected from many different individuals at a single point in time without influencing the study variables. This design is chosen because it allowed the immediate reporting of information gathered for a specific point in time. Qualitative approach involves gathering of non-numerical data from the key informants specifically managers and head of departments in the firm and suitable for number less than 30 participants (Creswell, 2014). Quantitative involves collection of numerical data from staff other than managers from the company. The mixed approach supports triangulation of tools and concurrent presentation of findings to eliminate the disadvantage of single approach (Kothari, 2014). Cross-section design was adopted to establish the relationship between independent variable on dependent variable.

Creswell (2012) describes the importance of having a key focus for cross-sectional studies. The data was descriptive (quantitative) and analytical (qualitative) in nature including themes and assertions. This data was collected from multiple sources, including; questionnaire surveys and interviews. Furthermore, quantitative approach established the effect of internal audit on financial performance of BCU. The unit of analysis is BCU and unit of inquiry were staff at the company.

3.2 Study area

This study was conducted at BCU located at Mbale district along Kampala – Jinja Highway and 3 Km off the highway. The study area was chosen because of the proximity and acquaintance to the researcher in view of its leadership skills and employee engagement.

3.3 Population of the study

A population is a group of individuals who have the same characteristics and is further defined in quantitative research as a group of individuals with some common defining characteristics that the research can identify and study (Creswell, 2012). Kothari (2014) defines target population as all individuals, items or units relevant to the study and comprised of individuals, groups, organization, documents, campaigns, incidents and so on where a sample size was chosen. The target population is 120 staff at BCU (BCU HRM Archive 2020). These included the head of departments, deputies and staff from finance department, production department, sales and marketing department, human resource and services department and internal audit department. The selected categories are determined by the unit of command and division of labor at the

company structure and perform tasks geared to the achievement of financial performance. This target gave a representation of staff at BCU in Uganda.

Table 1: Study population

| Departments | Population |
|--------------------|-------------------|
| Finance | 8 |
| Production | 80 |
| Sales & Marketing | 21 |
| Human resource | 6 |
| Internal audit | 5 |
| Total | 120 |

Source: BCU, (2023)

3.4 Sample size

According to Louis and Thornhill (2003) sample size is the determined total number of sampling units needed to be representative of the defined target population; that is, the number of people that have to be included in a drawn sample to ensure appropriate representation of the defined target population. From departments which include Finance department, Production department, Sales and marketing, Human resource and support, and Service and Internal Audit the head and deputy were selected as key informants for the study. Out of 120 staff, a sample size of 92 respondents was selected to represent the target population using Krejcie and Morgan, (1970)'s table to reduce on bias.

Table 2: Sample size

| Departments | Population | Sample size | Sampling technique |
|--------------------|-------------------|--------------------|---------------------------|
| Finance | 8 | 6 | Simple random sampling |
| Production | 80 | 61 | Simple random sampling |
| Sales & Marketing | 21 | 16 | Simple random sampling |
| Human resource | 6 | 5 | Simple random sampling |
| Internal audit | 5 | 4 | Purposive sampling |
| Total | 120 | 92 | |

Source: BCU, (2024)

3.5 Sampling techniques

Adwok (2015) defines sampling technique as the method used for selecting a given number of people from a population. He adds that the success in representing a population depends on how well the sample frame corresponds to the description of the chosen population, the sampling procedure giving each person a known chance for selection and whether it influences the precision of sample estimates.

Therefore, the researcher intended to use a purposive sampling and simple Random sampling techniques. A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study (Palys, 2008). The main goal of purposive sampling was to focus on particular characteristics of a population that are of interest, which best answered the research questions.

According to west (2016), simple random sampling is most basic method of sampling where members of a population have the same chance of being included in the sample. In addition to that, under random sampling all possible samples of a given size have the

same chance of selection. Simple random sampling technique was used to make selection of the respondents from employees and clients.

3.6 Data sources

3.6.1 Primary data

This refers to data collected from the field by the researcher using questionnaires and interviews. The researcher used primary data source to supplement on the already existing literature (Amin, 2005).

3.6.2 Secondary data

Secondary data was obtained from the existing literature that is journals, text books, published financial reports, publications and the different auditors and reports from Uganda Manufacturing Association.

3.7 Data collection methods

Data collection methods are integral part of research strategy. A combination of different data collection method was used to complement each other and avoid the bias associated with one method (Abramson, 1990). The researcher used questionnaire survey and interview survey to collect data for the study. Staff at PA provided the primary information for the study.

Questionnaire survey

The researcher developed questionnaire with close-ended questions to provide answers to the specific objectives of the study from respondents. A closed ended questionnaire gave options with a correct summary of the study (Cress well, 2012). The questionnaire was used to obtain specific responses from many respondents which are easy to analyze. It

gave an accurate profile of the situation and the data provided was used to describe who, what, how, when and where the concern of the variables is intricate in the study.

Interview surveys

Interviews were undertaken with respondents to get their views and opinions on the topic under investigation. Interviews were administered with interview guide containing open ended questions to address the concern for the study. According to Davis (2014) interview is a personal interrogation in which the interviewer attempts to get the respondents to talk freely about the subject of interest.

3.8 Data collection instruments

The study used a questionnaire as quantitative tool and interview guide as qualitative tool to collect data for the study.

3.8.1 Questionnaire

The study used a questionnaire (appendix i) and interview guide (appendix ii) as instruments to collect data in this study. According to Creswell (2012), a questionnaire is a form to be used in the survey design that participants in the study completed and return to the researcher. The basic objective of a questionnaire was to obtain facts and opinions about a phenomenon from people who are informed on the particular issue (Babbie and Mouton, 2011).

Questionnaires were structured to ensure that each respondent is asked the same simple, clear, concise and precise close ended questions and to ensure that the responses made to those questions (Kothari, 2014). The researcher distributed 92 questionnaires to respondents who participated in the study. The details of the questionnaires were explained to participant before so that they understand how to approach questionnaires

and what is expected from them. The questionnaire gave the researcher the opportunity to get participants view and experience on the topic under investigation. Questionnaires were administered following Standing Operating Procedures (SOPs) for prevention of spreading Covid-19. 39

3.8.2 Interview guide

An interview guide was used to collect data from key informants who comprise head of departments and deputies and internal auditors. Face to Face interviews were conducted. Interviews are a good tool as they enable the researcher gather in-depth information around the topic to meet specific needs. The researcher was able to clarify unclear issues in the questionnaire to the respondent. This method was used to collect data from top level managers in the organization. The data assist in clarifying data collected by the structured questionnaires since it involved getting respondents opinion direct from their mouth through face-to-face interaction, phone call was used as an electronic means with full incorporation of SOPs based on the participants consent. Each interview took 15 minutes on average and responses were written on paper following study objectives. The researcher interviewed 02 internal auditors, 6 heads/ deputies of departments from finance, production, sales and marketing and human resource departments at BCU.

3.9 Quality Assurance

3.9.1 Validity

Validity is the extent to which the tool actually measures what its intended to measure. Validity of findings is understood to mean the correctness or precision of a research study (Maruster & Gijnsberg, 2014). Validity of the tool was ensured by generating Content validity Index (CVI). Burke (2000) urges that content validity index helps in examining

the strength of the instrument and whether items generated information of what they are intended to measure. The data collection instruments were reviewed by 05 experts including researcher's supervisors, experts in internal audit functions in manufacturing company and changes in the tool were made depending on expert's judgment and recommendations to ensure that questions in the instruments are relevant to the variables of the study. The questionnaires were pre-tested to 10 staff in another manufacturing company other than the case study to rate the relevance of the questions to address the objectives of the study.

The Content validity Index (CVI) was calculated by;

$$\text{CVI} = \frac{\text{No. of items regarded relevant by judges}}{\text{Total number of items rated}}$$

Table 3: Reliability statistics

| Variable | No. of items | CVI |
|-----------------------------|--------------|-------|
| Internal Audit objectives | 09 | 0.865 |
| Internal Audit independence | 08 | 0.785 |
| Internal Audit competence | 09 | 0.754 |
| Financial Performance | 11 | 0.895 |
| Internal Audit Policies | 04 | 0.754 |

Source: Primary data (2024)

The Content Validity index for Internal Audit objectives was 0.865, Internal Audit independence was 0.785, Internal Audit competence was 0.754, Financial Performance was 0.895 and Internal Audit Policies was 0.754, thus above 0.7 which is recommended by Amin (2005) who assert that the data collection instrument is considered valid to be used in the study, when CVI is 0.7 and above (Amin, 2005). Furthermore Dawson (2015) adjourned than

Content Validity Index (CVI) above 0.7 is adequate to collect valid data for the study. However, the irrelevant questions were eliminated from the final questionnaire.

3.9.2 Reliability

According to Amin (2005), test-retest reliability can be used to measure the extent to which the instrument can produce consistent scores when the same group of individuals is repeatedly measured under same conditions. Reliability refers to the dependability or consistency of data collection instrument. Reliability of an instrument is the ability of the instrument to collect the same data consistently under similar conditions (Odiya, 2009). To ensure reliability of research instruments, data collection instruments were pre-tested to confirm their appropriateness before actual data collection; the pre-test enable the researcher to verify that instruments can collect what is intended to be collected that can generate information to respond to the research questions. The reliability coefficient for Internal Audit objectives was 0.876, Internal Audit independence was 0.723, Internal Audit competence was 0.798, Financial Performance was 0.853 and Internal Audit Policies was 0.769. The reliability coefficient of the variables for data collection tool were above the recommendable 0.7 by Amin (2005). Therefore, the questionnaire was reliable to collect the data for this study.

Table 4: Reliability statistics

| Variable | No. of items | Chronbanch's alpha |
|-----------------------------|--------------|--------------------|
| Internal Audit objectives | 09 | 0.876 |
| Internal Audit independence | 08 | 0.723 |
| Internal Audit competence | 09 | 0.798 |
| Financial Performance | 11 | 0.853 |
| Internal Audit Policies | 04 | 0.769 |

Source: *Primary data (2024)*

3.10 Measurement of variables

This study measured internal audit as the independent variable in form of objectivity of internal audit, internal audit independence and competence in internal audit. The dependent variable is financial performance of manufacturing companies in Uganda measured in form of return on assets, solvency and liquidity. The moderating variable of this study was organization culture. The constructs were scaled on 5-point; 5 = strongly disagree; 4= disagree; 3 = non-committal; 2 = agree; and 1 = strongly agree) for the study. On other hand, the dependent variable is shown as the financial performance conceptualized in form of ROA, solvency and liquidity.

3.11 Data Analysis

Cress well (2014) describes data analysis as a process of systematically applying statistical or logical techniques to describe and illustrate, condense and recap and evaluate data. For this study, two forms of data namely qualitative and quantitative was collected using different instruments necessitating the researcher to separately review, and analyze the data to draw conclusions.

3.11.1 Quantitative analysis

This data was generated from the questionnaire, compiled, sorted, edited and coded to have the required quality, accuracy and completeness for research. It was then be entered into Statistical Package for Social Sciences (SPSS) version 22 to generate descriptive statistics in form of mean and standard deviation; inferential analysis using Pearson correlation to establish the relationship between the variables and regression to examine the effect of internal audit on financial performance at BCU.

3.11.2 Qualitative analysis

The qualitative data collected with interview guide and was analyzed with the help of thematic approach.

3.12 Ethical consideration

The topic under investigation was discussed with participants before they participated in the study. It ensured that participants know exactly what is expected from them together with the costs and benefits before participating in the study. Smith (2013) indicates that researchers must ensure that participants are clear on the fact that participation is voluntary. Participation in this study was voluntary and thus participants were free to take part or withdraw from the study at any time.

Information obtained through this investigation was treated with high level of confidentiality. The data obtained in this study was not used for any purpose other than to achieve the aims of this study and the results were given or explained to the respondents.

The study made a point that no participant is physically and mentally harmed during the study (Davis, 2014). The information contained in this study is the exact information obtained from acknowledged sources and respondents in the study.

All sources used in this study is acknowledged and listed in the list of references. Confidentiality and privacy are a central tenet of every study (Smith, 2013). Names of respondents were not written anywhere on the tools. The rights of respondents were duly respected in this study.

3.13 Study Limitations

The limitations to the study include:

Some respondents were biased while giving information due to reasons not foreseen such as victimization and consequently the research findings may be skewed. The researcher assured all the respondents of anonymity where no name or rank of the respondents was disclosed.

Most of the cases, respondents were naturally skeptical and uneasy when asked to contribute to a study in which they are not aware of its ramifications. To make the respondents feel at ease, the researcher made clear the nature of the study and its proposed objectives.

Finally, the research process was costly and tiresome exercise since the researcher has to incorporate electronic safe means like phone calls to avoid spread of Covid19, engagement of research assistant known at the company. In relation to this, the researcher had to communicate frequently to follow up with the respondents given the prevailing hike in costs of operation as a result of COVID 19 global health pandemic.

3.14 Conclusion

This chapter present the research methodology used to conduct the study to answer the research questions and developing recommendation for the study. The next chapter dealt with the presentation, interpretation and analysis of findings.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

4.0 Introduction

This chapter presents description of the results of data findings in narrative and tabulated manners on internal audit and financial performance of Manufacturing Companies in Uganda: Case of BCU using descriptive statistics including frequency distributions, mean and standard deviation; and inferential statistics including correlation and regression analysis to establish the effects of internal audit on financial performance for meaningful interpretation.

4.1 Response rate

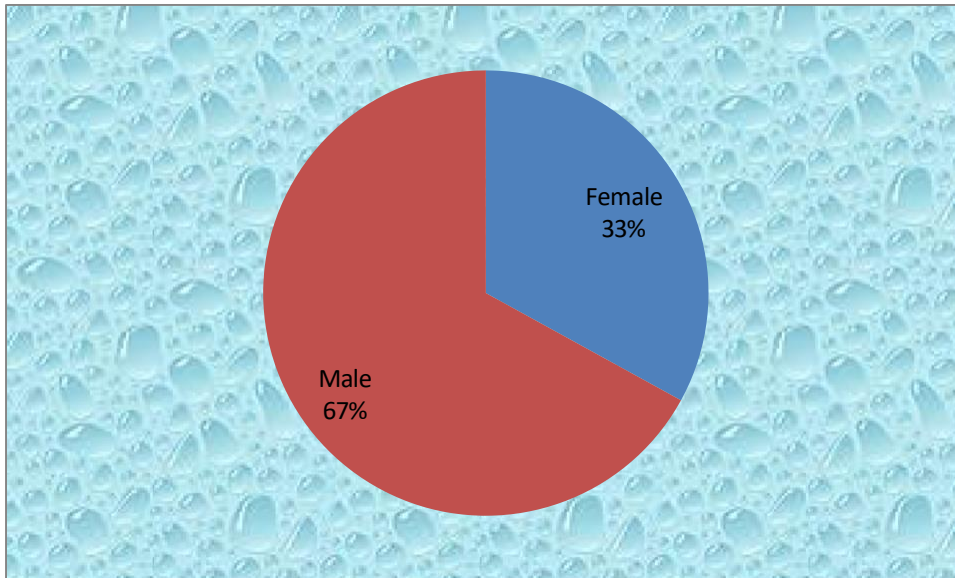
The study used a sample of 92 respondents selected at BCU. The researcher was able to received back 73 filled in questionnaires and interviewed 8 key informants. Therefore, the response rate was 88.0 percent which was sufficient to provide reliable findings and is above the statistic recommended by Obajo (2015) who established that response rate above 75% is sufficient to provide adequate information for the study.

4.2 Demographic characteristics of respondents

This section presents the findings from the demographic information factors which include age bracket, gender, level of education and year of service at BCU. These are presented and interpreted using frequency distribution table and graph.

4.2.1 Gender of respondents

Figure 1: Gender



Source: *Primary data (2024)*

Findings revealed that majority of participants at 67% were male whereas the minority at 33% was female staff at BCU. This implies that BCU employs more male staff than female although both gender's opinions about the company financial performance.

4.2.2 Age of respondents

The age bracket of respondents intended to establish the group category of staff at BCU who are engaged in the study. The group category is either youth, adult or old aged staff employed at BCU.

Table 5: Age of respondents

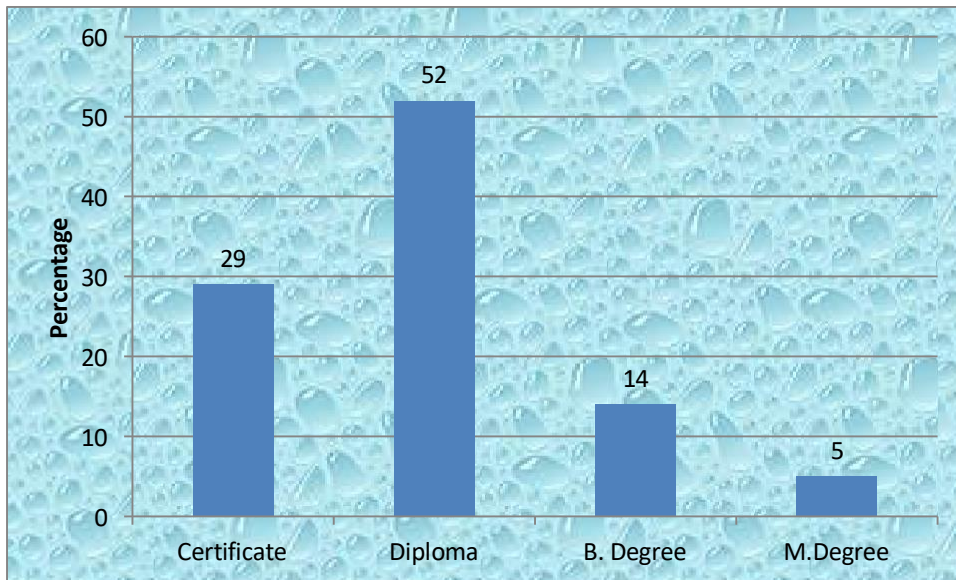
| Age | Frequency | Percent age |
|----------------|------------------|--------------------|
| 18-25 years | 12 | 16.4 |
| 26-35 years | 38 | 52.1 |
| 36-45 years | 18 | 24.7 |
| Above 46 Years | 5 | 06.8 |
| Total | 73 | 100 |

Source: *Primary data (2024)*

Findings revealed that 52.1% were aged between 26 years and 35 years, followed by 24.7% aged between 36 years and 45 years, 16.4% were between 18 years and 25 years and lastly, the least were 6.8% aged above 46 years. Majority 76.8% (52.1% + 24.7%) were energetic youth and adults between 26 years and 45 years who deemed responsible to participate in the study with thorough evaluation of company operations. This implies that BCU employs more youth above 26 years to 35 years, who are vigilant with aspects of internal audit in place and financial performance of the company, thus guaranteed validity and reliability of the data for the study.

4.2.3 Highest education level

Figure 2: Highest education level

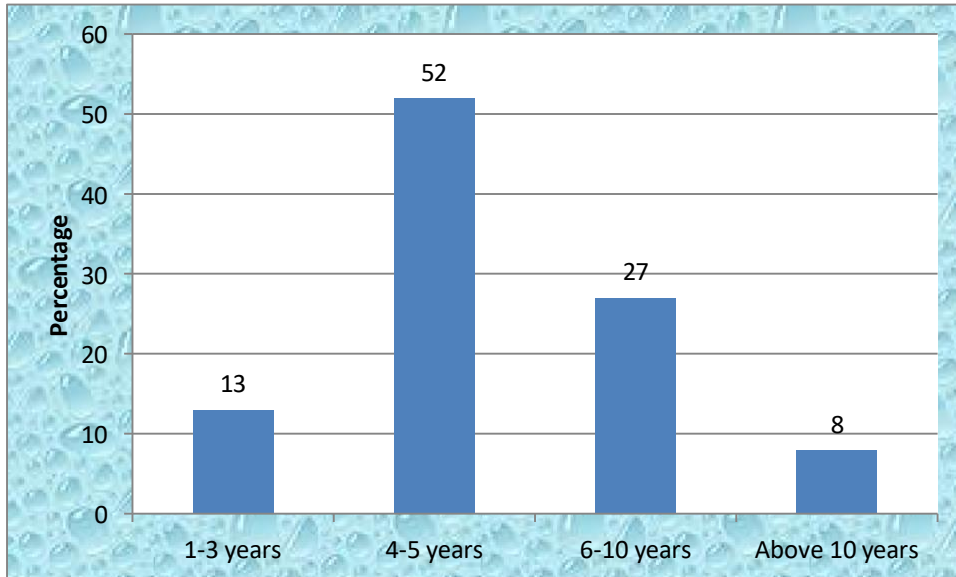


Source: *Primary data (2024)*

Findings revealed that, majority at 52% of staff were higher diploma, followed by 29% with certificates, 14% with bachelor's degree, and lastly 5% with master's degree at BCU. This implies that BCU employs staff with high diplomas in technical manufacturing work since they have hands on skills and knowledge to operate the machines to deliver quality services although all categories of competences are engaged at work and were involved in the study. Machine operations in manufacturing companies require technical/ hands on competent staff to run the operations specifically those with higher diplomas than graduates from universities to yield financial performance.

4.2.4 Period worked at BCU

Figure 3: Period worked at BCU



Source: *Primary data, (2024)*

Findings revealed that majority at 52% of staff have worked between 4 years and 5 years, followed by 27% who have worked above 6 years and 10 years, 13% have worked between 1 year and 3 years and lastly 8% who have worked above 10 years at the BCU. This implies that majority at 87% (52% + 27% + 8%) of staff at BCU have worked above 4 years, thus have required experience to participate to the financial performance of the company.

4.3 Descriptive statistics

Findings are presented using descriptive statistics mainly mean and standard deviations on a Likert scaled range questionnaires following the study research questions. The adopted Likert scale range includes Strongly agree (0.1-1.4), agree (1.5-2.4), Neutral (2.5-3.4), Disagree (3.5-4.4), and strongly disagree (4.5-5) as supported by Rensis Likert (1932). The standard

deviation range is; low standard deviation (0.10-0.39), moderate standard deviation (0.40-0.69) and high standard deviation (0.70-0.99) (Cress well, 2014). This measures the degree of dispersion of responses from the mean to which respondents evaluates the internal audit and financial performance at BCU.

4.3.1 Descriptive statistics on Internal Audit objectivity at BCU

Internal audit objectivity is the state of mind which pre-supposes intellectual honesty with exclusion of undue influence, conflict of interest to provide professional services to support financial performance. Internal audit objectivity is achieved whenever internal audit functions are free from conflict of interest, provide unbiased assessment and compliance assessment to legal aspects and internal audit policies. A number of statements were posed to the respondent assessing the attributes of Internal Audit objectivity at BCU. The basis of interpretation is strongly agree (0.1-1.4), agree (1.5-2.4), neutral (2.5-3.4), disagree (3.5-4.4), and strongly disagree (4.5-5). The table below presents the findings in form of descriptive statistics anchored on mean and standard deviation.

Table 6: Descriptive statistics on internal audit

| Statement on Internal Audit objectivity | N | Min | Max | Mean | Std. Dev |
|---|----------|------------|------------|-------------|-----------------|
| The Internal Auditors perform their activities based on facts at BCU. | 73 | 1.00 | 5.00 | 2.34 | .12 |
| Internal Auditors at BCU provide means to improve controls in the activities. | 73 | 1.00 | 5.00 | 2.12 | .43 |
| Internal auditors have not been accepting anything that may impair their professional judgment | 73 | 1.00 | 5.00 | 3.01 | .76 |
| The internal audit has been providing partial judgment on all financial transactions at BCU | 73 | 1.00 | 5.00 | 4.14 | .12 |
| Internal Audit work at BCU has created value to improve organization's operation | 73 | 1.00 | 5.00 | 2.21 | .13 |
| The internal audit objectively follows up the company records to achieve efficiency | 73 | 1.00 | 5.00 | 2.25 | .21 |
| BCU has internal audit plan to regularly review activities at the company. | 73 | 1.00 | 5.00 | 2.32 | .13 |
| The internal audit provides valuable information to support departments' activities at the company. | 73 | 1.00 | 5.00 | 2.16 | .23 |
| The internal audit undertakes fair examination of operations at BCU. | 73 | 1.00 | 5.00 | 2.29 | .32 |

Source: Primary data (2024)

Findings revealed attributes of Internal Audit objectivity at BCU. Finding whether the Internal Auditors perform their activities based on facts at BCU, results indicate a mean of 2.34 and standard deviation of 0.12. Majority of the respondents agreed which implies that internal auditors are objective to perform their activities based on facts at the company. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. This helps management to track progress against goals and

personal development and make informed decisions to achieve financial performance of the company. The evaluation of facts in the company strengthens the internal control system to undertake efficient operation and financial performance. This is supported with IIA Code of Ethics (2009) that provides basic principles which internal auditing is expected to uphold based on facts, together with rules of conduct which describe the norms of behavior expected of internal auditors to perform work in the company.

Finding whether Internal Auditors at BCU provide means to improve controls in the activities, results indicate a mean of 2.12 and standard deviation of 0.43. Majority of the respondents agreed which implies that Internal Auditors regularly review the operation system to identify areas with weak controls for improvement to support efficient audit and financial performance at the company. The standard deviation indicates moderate variation in responses as given by the respondents, thus not far from the mean. Internal Auditors help company to improve preventive control activities to detect errors or fraud with the support of policies and procedures put in place to manage daily activities to achieve financial performance. This finding agreed with IIA (2013) which provides that internal auditors are mandated to be objective and independent to ensure improvement of controls in activities of the entity.

Finding whether Internal Auditors have not been accepting anything that may impair their professional judgment at the company, results indicate a mean of 3.01 and standard deviation of 0.76. Majority of the respondents were non-committal. This implies that staff are not aware due to either absence of transparency in the flow of information or reluctance to understand the internal audit practice in the entity. The standard deviation indicates high variation in responses as given by the respondents, thus disperse from the

mean. However, accepting secret material gain is the bribe/ corruption which is done inside the curtain walls that makes it difficult to know the perpetrators within the transaction at the company. Further, Internal Auditors are prohibited from accepting secret material items to remain honest and objective to observe professional judgment when carrying out audit at the company.

Finding whether the internal audit has been providing partial judgment on all financial transactions at BCU, results indicate a mean of 4.14 and standard deviation of 0.12. Majority of the respondents disagreed. This implies that internal audit does not provide partial judgment on financial transactions at BCU instead give comprehensive judgment to the management. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Partial judgment on interim reports is vital to prepare for the comprehensive judgment at the end of the financial year. The increasing focus on and disclosure of highly subjective elements in financial reporting such as critical accounting policies and estimates to make economic decision requires partial judgment on quarterly and semi-annual review of internal audit work to achieve financial performance in the company.

Finding whether Internal Audit work at BCU has created value to improve organization's operation, results indicate a mean of 2.21 and standard deviation of 0.13. Majority of the respondents agreed. This implies that internal audit work at BCU review activities, risk assessment and monitoring which creates value to improve operations and controls to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Internal audit activities entail reviewing of work for control purposes to ensure company's objectivities are met.

Chartered Institute of Internal Auditors (2017) proposes the main reason for the emergence of the need for internal audits is the creation of value and separation of ownership of institutions from their departments, so internal audit includes the examination of control process to report their view on the quality and reliability of the financial statements.

Finding whether internal audit objectively follows up the company records to achieve efficiency, results indicate a mean of 2.25 and standard deviation of 0.21. Majority of the respondents agreed. This implies that internal audit objectivity allows quality internal audit work to enable them follow up company records to achieve efficiency. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Efficiency is the component of value for money audit which allows better use of equipment and machines, improving employee's productivity and resource to achieve financial performance. Objectivity drives internal audit conclusion to ensure effective resource utilization to get high volume out- put at BCU to achieve financial performance.

Finding whether BCU has internal audit plan to regularly review activities at the company, results indicate a mean of 2.32 and standard deviation of 0.13. Majority of the respondents agreed. This implies that BCU has internal audit plan to regularly review activities to enhance orderly operation to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. The good internal audit plan act as platform to observe and undertake regular review of activities to add value to the company's operation to achieve financial performance. Internal audit plan provides insight into company's culture, policies, procedures, and aids board and management oversight by verifying internal controls such

as operating effectiveness, risk mitigation controls, and compliance with any relevant laws or regulations aimed at ensuring financial performance.

Finding whether internal audit provides valuable information to support departments activities at the company, results indicate a mean of 2.16 and standard deviation of 0.23. Majority of the respondents agreed. This implies that internal audit at BCU provides unbiased valuable information to support department activities to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Internal audit performs duties as per the needs of the company with the aim strengthening controls and providing valuable management information for decision making to avert any possible problem in the company to achieve financial performance. This agreed with Drogalas (2015) who conjures that internal audit is a significant tool to maximize returns in the company through effective tracking of valuable information support with unbiased assessment to pre-determine a course of action in department activities to achieve financial performance.

Finding whether internal audit undertakes fair examination of operations at BCU, results indicate a mean of 2.29 and standard deviation of 0.32. Majority of the respondents agreed. This implies that internal audit undertakes fair examination of operations with objective review of activities professional in accordance with applicable law and regulation. Fair examination entails review, verification and independent continuous appraisal of activities to sanction corrective measures to achieve financial performance of the company.

Interviewees assert that internal auditors at BCU perform tasks without bias, free from conflict of interest or undue influence from the management to ensure efficiency and effectiveness. The internal audit provides valuable management information to support decision making to achieve financial performance. Internal auditors regularly report to the management with internal audit reports following the approved plan to prevent errors and fraud to achieve company's goals and objectives.

One of the interviewees asserts that *“the internal auditors consult all departments and coordinates strong controls through continuous appraisal process of activities to achieve financial performance. As custodian to controls, internal auditors enhance orderly operations by pressurizing management to implement recommendation on weak internal controls to achieve performance”*.

4.3.2 Descriptive statistics on Internal Audit independence at BCU

Internal audit independence is the mechanism in which internal auditors render impartial and unbiased judgments to the proper conduct of proper reporting financial performance. Auditor independence, in particular, implies “absence of influence or control in the matter of the auditor's conduct, action and opinion of the financial performance. Internal Audit independence is acknowledged in event of auditors' freedom, integrity in the execution of duties and adequate disclosure of information to the users in the company. A number of statements were posed to the respondent assessing the attributes of Internal Audit independence at BCU. The basis of interpretation is strongly agreed (0.1-1.4), agree (1.5-2.4), neutral (2.5-3.4), disagree (3.5-4.4), and strongly disagree (4.5-5). The table below presents the findings in form of descriptive statistics anchored on mean and standard deviation.

Table 7: Descriptive statics on Internal Audit independence

| Statement on Internal Audit independence | N | Min | Max | Mean | Std. Dev |
|--|----------|------------|------------|-------------|-----------------|
| The internal auditors freely perform their work at BCU without threats. | 73 | 1.00 | 5.00 | 2.31 | .17 |
| The internal auditors use their powers to review all the activities at BCU | 73 | 1.00 | 5.00 | 2.07 | .76 |
| The Internal Auditors performs independent evaluation of activities at BCU | 73 | 1.00 | 5.00 | 2.37 | .09 |
| The Internal Audit has access to all the information of the company. | 73 | 1.00 | 5.00 | 1.98 | .27 |
| Internal auditor carries out audit adequacy controls at BCU | 73 | 1.00 | 5.00 | 2.16 | .15 |
| The internal audit has been reporting any deviation from the set rule regardless, who committed it. | 73 | 1.00 | 5.00 | 2.26 | .28 |
| I am satisfied with the level of independent given to auditors to carryout checks into business activities at BCU. | 73 | 1.00 | 5.00 | 3.05 | .14 |
| Proper independence allowed internal audit to improved financial performance at BCU. | 73 | 1.00 | 5.00 | 2.14 | .03 |

Source: Primary data (2024)

Findings revealed attributes of Internal Audit independence at BCU. Finding whether internal auditors freely perform their work at BCU without threats, results indicate a mean of 2.31 and standard deviation of 0.17. Majority of the respondents agreed which implies that BCU allows Internal Auditors to freely perform their work through review,

examination and verification of controls to guide management on resource utilization to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The ability of internal auditors to freely perform activities without threats from the management guarantee forming of independent opinion to support financial performance. This finding agreed with Mihret (2016) who disclose that internal audit work freely and in an objective manner to ensure the company objectives are met specifically financial performance.

Finding whether internal auditors use their powers to review all the activities at BCU, results indicate a mean of 2.07 and standard deviation of 0.76. Majority of the respondents agreed which implies that BCU allows internal auditors to use their powers to review all the activities to strengthen internal controls as well as ensuring risk management to achieve financial performance. The standard deviation indicates high variation in responses as given by the respondents, thus far from the mean. Internal audit powers permit them to adequately review activities and accounting system and related controls to achieve financial performance. This finding agreed with Hazaea (2020) who argued that internal audit independence is the ability to make unbiased judgment and decisions based on the audit activities with use of their powers to review facts in activities to achieve financial performance of the company.

Finding whether Internal Auditors perform independent evaluation of activities at BCU, results indicate a mean of 2.37 and standard deviation of 0.09. Majority of the respondents agreed which implies that Internal Auditors perform independent evaluation of activities to prevent errors and frauds to achieve financial performance of BCU. The independent evaluation of activities plays an important role to raise issues within the

internal controls to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Importantly, independent evaluation of activities produces value on financial information to generate new insights to support performance at the company.

Finding whether Internal Audit has access to all the information of the company, results indicate a mean of 1.98 and standard deviation of 0.27. Majority of the respondents agreed which implies that BCU allows Internal Auditors to have access to all the necessary information to undertake efficient audit to support financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Information accessibility by the internal auditors enables them to continuously appraise, review and examine activities to strengthen internal controls and comprehensive risk assessment to achieve financial performance. This finding agreed with Redolf (2017) who conjures that audit independence to free access to information is vital so that auditor's opinions are often impartial, unbiased, as well as free from any undue influence or/and conflict of interest to override the professional judgment of the professional accounting.

Finding whether Internal Auditor carries out audit adequacy controls at BCU, results indicate a mean of 2.16 and standard deviation of 0.15. Majority of the respondents agreed which implies that Internal Auditor carries out audit adequacy controls detect weak internal controls, errors and fraud to ensure safety of company's resources to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. The audit adequacy controls ensure implementation of appropriate and compliance to legal practice in its

quest to achieve company's set goals and objectives. Internal audit practices are adequate if they reduce either the likelihood or the impact of a negative event happening to waste resources to improve on operations and financial performance at the company.

Finding whether internal audit has been reporting any deviation from the set rule regardless who committed it at BCU, results indicate a mean of 2.26 and standard deviation of 0.28. Majority of the respondents agreed, which implies that the internal audit has capacity to report any deviation from the set rule regardless of who committed it to the management aimed at detecting errors and fraud to achieve efficiency and effectiveness at the company. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. The reporting on the deviation from the set rule improves financial and operation controls to enhance reputation of the company for sound corporate governance in the opinion of customers and investors. This finding agreed with Mutchler (2015) who asserts that internal audit is as per the need of the company and management is mandated to support its independence to report on deviation from set rules with integrity and unconditioned environment to detection of errors and fraud which detriment financial performance.

Finding whether the staff are satisfied with the level of independence given to auditors to carryout checks into business activities at BCU, results indicate a mean of 3.05 and standard deviation of 0.14. Majority of the respondents were non-committal, which implies that staff are not aware of the level of independence given to auditors to carryout checks into business activities at BCU. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. This may also mean that internal auditors independence is reserved to only managements and not clear to the staff

which detriment their trust on the internal audit reports for the company. The independent checks into business activities by internal audit confide the operation efficiency and effectiveness to achieve financial performance of the company.

Finding whether proper independence allow internal audit to improved financial performance at BCU, results indicate a mean of 2.14 and standard deviation of .03. Majority of the respondents agreed which implies that independence promote ethical activities for internal auditors to provide internal audit services free from biases and any conflict of interest to personal benefit to reduce risk of legal and operational actions to improve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closure to the mean. Independence guarantees independent internal audit opinion free from undue influence from the management to direct and control resources to achieve financial performance.

Interviewees assert that internal auditors at BCU are allowed to perform their duties independent from the management to strengthen the internal controls in the company. The internal auditors freely perform their work without threats, uses their powers to review activities, carries out audit adequacy controls, check business activities to form independent opinion to guide management on the operation of the company. Internal audit undertakes review of morale of the account staff, operation of the machines and quality of clay on the market to attract sales for the company.

One of the interviewees *assert that “internal auditors report directly to the audit committee to increases on communication and disclosure to independently form an opinion on the accuracy and correctness of the financial statements of the company”*.

4.3.3 Descriptive statistics on Internal Audit competence at BCU

Internal audit competence entails the use of skills, knowledge, experience and attitude to perform audits and review of financial information for the company. High level of audit competence through professional qualifications such as Certified Public Accountants of Uganda (CPAU), Association of Chartered Certified Accountants (ACCA) among other professional awarding bodies guarantee reporting of quality financial information for BCU. A number of statements were posed to the respondent assessing the attributes of Internal Audit competence at BCU. The basis of interpretation is strongly agree (0.1-1.4), agree (1.5-2.4), neutral (2.5-3.4), disagree (3.5-4.4), and strongly disagree (4.5-5). The table below presents the findings in form of descriptive statistics anchored on mean and standard deviation.

Table 8: Internal Audit competence

| Statement on Internal Audit competence | N | Min | Max | Mean | Std. Dev |
|---|----|------|------|------|----------|
| The internal auditors timely perform their audit tasks | 73 | 1.00 | 5.00 | 2.14 | 0.52 |
| The Internal Auditors exhibits high knowledge to perform audit activity. | 73 | 1.00 | 5.00 | 1.87 | 0.16 |
| The internal audit reports produced have been of high Quality | 73 | 1.00 | 5.00 | 2.43 | .32 |
| The internal audit has been providing recommendations for improvement in areas of opportunities | 73 | 1.00 | 5.00 | 1.92 | .05 |
| The internal audit operations have been providing assurance to management control | 73 | 1.00 | 5.00 | 2.13 | .14 |
| Internal auditors at BCU performs their advisory duties Properly | 73 | 1.00 | 5.00 | 2.12 | .16 |
| Internal Auditor's track audit activities diligently through independent monitoring. | 73 | 1.00 | 5.00 | 2.34 | .15 |
| Internal Audit experience ensures value for money audit to BCU financial performance | 73 | 1.00 | 5.00 | 1.98 | .13 |
| Internal Audit has capacity to appraisal the internal controls for the company | 73 | 1.00 | 5.00 | 2.10 | .23 |

Source: Primary data (2024)

Findings revealed attributes of Internal Audit competence at BCU. Finding whether internal auditors timely perform their audit tasks at BCU, results indicate a mean of 2.14 and standard deviation of 0.52. Majority of the respondents agreed which implies that the internal auditors at BCU timely perform their audit tasks which reflect their competence.

Timely execution of audit tasks indicates that the internal auditors are competent to perform their audit tasks at the company. The standard deviation indicates moderate variation in responses as given by the respondents, thus slightly closer to the mean. The ability to use skills and knowledge to perform audit tasks and assignment justify the competence of the internal auditors at BCU. This finding agreed with Stewart (2019) who says that internal audit competence is attributed to the professional competence of auditor to timely undertake the tasks to facilitate the achievement of the company's goals and objectives.

Finding whether Internal Auditors exhibits high knowledge to perform audit activity at BCU, results indicate a mean of 1.87 and standard deviation of 0.16. Majority of the respondents agreed which implies that the Internal Auditors at BCU exhibits high knowledge to perform audit activity to ensure achievement of financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The acquisition of knowledge through attainment of qualification from professional bodies and in-service training enable internal auditor to have competences to review operation and compliance with applicable law to perform audit activity with aim of ensuring efficiency and effectiveness to support financial performance.

Finding whether internal audit reports produced have been of high quality, results indicate a mean of 2.43 and standard deviation of 0.32. Majority of the respondents agreed, which implies that internal auditors produce high quality audit reports for management to improve financial controls and sanction of corrective measures to achieve financial performance. The standard deviation indicates low variation in responses as

given by the respondents, thus closer to the mean. High quality audit report reflects that internal auditor are competence to add value to the company in order to enhance orderly operations to detect errors and fraud to ensure efficiency. This finding agreed with Yazid and Suryanto (2017) who conjures that auditor's competency consists of three core factors, which are knowledge, experience and qualification to produce high quality internal audit work in the company.

Finding whether the internal audit has been providing recommendations for improvement in areas of opportunities at the company, results indicate a mean of 1.92 and standard deviation of 0.05. Majority of the respondents agreed. This implies that internal audit provides fundamental recommendations for improvement of opportunities to achieve financial performance in the company. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The ability of internal audit to identify and disclose recommendation for exploring opportunities determines the competence of the audit work preparers in the company. This finding agreed with Berney (2016) who argues that internal audit competence is supported with internal audit code of ethics to ensure that quality is enhance to provide recommendations for opportunities to achieve financial performance in the company.

Finding whether the internal audit operations have been providing assurance to management control, results indicate a mean of 2.13 and standard deviation of 0.14. Majority of the respondents agreed. This implies the internal audit operations reviews activities to provide assurance to the management controls in the company to achieve set goals and objectives. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The competence of internal auditors provides

valuable information for managerial decisions to strength the internal control system to achieve financial performance at the company.

Finding whether the internal auditors at BCU performs their advisory duties properly, results indicate a mean of 2.12 and standard deviation of 0.16. Majority of the respondents agreed. This implies the internal auditors have competence to perform advisory duties properly to improve company's compliance with key laws and regulations to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The advisory duties evaluate the performance of a program, review/monitor/assess a specific program gather input from all departments to provide guidance on resource utilization to achieve financial performance.

Finding whether the Internal Auditor's track audit activities diligently through independent monitoring, results indicate a mean of 2.34 and standard deviation of 0.15. Majority of the respondents agreed, which implies that the internal auditors at BCU have skills and knowledge to track audit activities through independent monitoring to safeguard the resource to ensure achievement of efficiency and effectiveness. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. Internal auditors have the competences to review and complete the documentation and rationale for the conclusion pertaining the operation within the company. This finding agreed with Boren (2018) who posit that quality of audit work is attributed to internal auditor's competency to track audit activities to identify areas of weak internal controls and accord adverse to the management of the company to achieve financial performance.

Finding whether the Internal Audit experience ensures value for money audit to BCU financial performance, results indicate a mean of 1.98 and standard deviation of 0.13. Majority of the respondents agreed, which implies that the internal auditors at BCU have experience to ensure value for money audit to ensure achievement of efficiency and effectiveness. Value for money audit is the way of assessing the performance of the company on a broader basis than just profit through 3E's economy, efficiency and effectiveness. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. Competence if internal auditor is measured through their contribution to the high level of achievement to match the money spend and objective achieved in the company.

Finding whether the Internal Audit has capacity to appraisal the internal controls for the company, results indicate a mean of 2.10 and standard deviation of 0.23. Majority of the respondents agreed, which implies that the internal auditors at BCU have capacity to appraise the internal controls to provide guidance on improving the weak controls on activities to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The existence of competent Internal Auditor to appraise the internal control systems in place and provide guidance to the management supports financial performance of the company.

Interviewees assert that internal auditors at BCU are full Certified Public Accountants registered with ICPA (U) and ensure adherence to professional judgment to review and evaluate controls in the activities to support financial performance. The internal auditor performs their tasks accurately, timely and complete for management to make informed decisions to support sustainable financial performance of the company.

One of the interviewees asserts that *“the internal auditors have degrees and subscribe to the professional body (ICPA-U) who regulate their performance which help them undertake efficient audit. The internal audits regularly use their competence to undertake continuous appraisal of activities to frequently advice management on resource utilizations with zero tolerance to errors and fraud to enhance efficiency”*.

4.3.4 Descriptive statistics on financial performance at BCU

Financial performance involves increase on returns on assets, solvency and liquidity of the company. A number of statements were posed to the respondent assessing the measures of financial performance at BCU. The basis of interpretation is strongly agree (0.1-1.4), agree (1.5-2.4), neutral (2.5-3.4), disagree (3.5-4.4), and strongly disagree (4.5- 5). The table below presents the findings in form of descriptive statistics anchored on mean and standard deviation.

Table 9: Descriptive statistics on financial performance

| Statement on financial performance | N | Min | Max | Mean | Std. Dev |
|---|----------|------------|------------|-------------|-----------------|
| BCU has been getting increased earnings from the assets during last three years. | 73 | 1.00 | 5.00 | 2.13 | .25 |
| BCU has earned increased profit margin on its assets in period of last three years | 73 | 1.00 | 5.00 | 2.11 | .17 |
| There has been increased ratio of capital invested in relation to the support received by BCU | 73 | 1.00 | 5.00 | 1.94 | .34 |
| BCU has recognized increase in net income from its assets | 73 | 1.00 | 5.00 | 2.15 | .19 |
| There has been a proportionate increase in income received from BCU's assets | 73 | 1.00 | 5.00 | 2.11 | .17 |
| The company has assets to pay the long-term bills. | 73 | 1.00 | 5.00 | 1.82 | .16 |
| The company regularly pays its interest on the debts. | 73 | 1.00 | 5.00 | 1.96 | .27 |
| BCU has adequate cash flows to service the debt obligation. | 73 | 1.00 | 5.00 | 2.14 | .35 |
| BCU has cash to meet day-to-day operations | 73 | 1.00 | 5.00 | 2.19 | .64 |
| The company has widened the market shares across the Country | 73 | 1.00 | 5.00 | 1.97 | .28 |
| BCU manages to finance all of its activities/ demands | 73 | 1.00 | 5.00 | 2.14 | .29 |

Source: Primary, (2024)

Findings revealed attributes of financial performance at BCU. Finding whether BCU has been getting increased earnings from the assets during last three years, results indicate a mean of 2.13 and standard deviation of 0.25. Majority of the respondents agreed, which

implies that BCU has realized increased earnings from the assets during last three years. The increase in sales realized from clay products while lowering expenses reflects increase in the percentage of return on assets in the company. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. BCU has proportionately reduced on the operating expenses by -15% by using Hoffman kilns which increases the earnings from the assets. The reduction on cost of goods sold while maintaining the current assets also increase the percentage of earnings from assets of the company. This is supported with Vesto (2016) who conjures that financial performance is normally derived from sound financial statements as determined by the mechanism through which management effectively control resources with reduction on operating expenses increases returns on assets at the company.

Finding whether BCU has earned increased profit margin on its assets in period of last three years, results indicate a mean of 2.11 and standard deviation of 0.17. Majority of the respondents agreed, which implies that BCU has earned increased profit margin on its assets in period of last three years to reflect financial performance. The increase on prices charges on the clay products supplied on market with reduction on cost of operation indicates increased profit on the assets of the company. For example, the price of roofing tiles from BCU has increased by 9% in 2017, 7% in 2018 and maintained constant acceleration to 2019 reflects increase on profit margin. Profit margin is difference between selling price and cost price of the product derived on the market. This finding is supported with Afza and Nasir (2014) who mentioned that profit margin supported with quality of external audit improves a firm's performance.

Finding whether there has been increased ratio of capital invested in relation to the support received by BCU, results indicate a mean of 1.94 and standard deviation of 0.34. Majority of the respondents agreed, which implies that BCU invested capital has increased by 10% over years to enhance financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. Strong capital base reflects efficient allocation of capital and maintaining of a conservative gearing level in order to finance developments and maximize returns in the company. For investors, capital base refers to money used to purchase an initial investment and subsequent purchases of that investment to support base level of funding. BCU has increased capital base by expanding its operations to Kamonkoli factory, hence widen market shares to achieve financial performance. This finding agreed with Damouri (2013) who opines that leverage ratios with sound capital base determines the risk of equity costs to reflect profitability.

Finding whether BCU has recognized increase in net income from its assets, results indicate a mean of 2.15 and standard deviation of 0.19. Majority of the respondents agreed, which implies that BCU has realized increase in net income from its assets to achieve performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The increase in net income is the amount of total revenue that remains after accounting for all expenses for production, overhead, operations, administrations, debt service, taxes, amortization, and depreciation, as well as for one-time expenses for unusual events such as lawsuits or large purchases for company to remain solvent to achieve efficiency. BCU is solvent due to increased net income from its assets to generate funds from increased sales which reflects financial

performance. This finding agreed with Fedol (2017) who establishes that the ability to service interest on the loan and payment of the principal debt from increased net income indicate financial performance of the company.

Finding whether there has been a proportionate increase in income received from BCU's assets, results indicate a mean of 2.11 and standard deviation of 0.17. Majority of the respondents agreed, which implies that BCU has realized proportionate increase in income received from its assets. The increase in income from net assets of the company reflects financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. Net income is the amount of revenue left after subtracting all expenses, taxes and costs depreciation, interest and taxes for the company. It is a useful number for investors to assess how much revenue exceeds the expenses of an organization. The high the income, the solvent is the company to finance its operations supported with internal audit.

Finding whether company has assets to pay the long-term bills, results indicate a mean of 1.82 and standard deviation of 0.16. Majority of the respondents agreed, which implies that BCU has assets to pay the long-term bills and remain solvent on the market. The ability to service interest and principal debt reflects adequate liquidity in the company. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. Long term bills are outcome of debts to justify the level of leverage ratio in the company. The lower the level of leverage, the solvent is the company to finance its operation to achieve financial performance. This finding agreed with Farouk and Hassan (2014) who argues that solvency is a performance measure used to evaluate the efficiency of company to finance its long-term debts obligation.

Finding whether company regularly pays its interest on the debts, results indicate a mean of 1.96 and standard deviation of 0.27. Majority of the respondents agreed, which implies that BCU has assets to regularly pay its interest on the debts to maintain leverage ratio at manageable level. Interest is the extra pay charged on the principal debt which indicates solvency and liquidity attributed to the capital structure of the company. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. BCU has lower interest rate cover at 7% which reflects availability of adequate liquidity to service the debt and remain solvency to achieve financial performance. The finding agreed with Cole (2017) who conjures that solvency is the long-term viability of the company with ability to maintain lower interest cover in the entity.

Finding whether BCU has adequate cash flows to service the debt obligation, results indicate a mean of 2.14 and standard deviation of 0.35. Majority of the respondents agreed, which implies that BCU has adequate cash flows to service the debt obligation to maintain the leverage ratio at lower rate. Surplus cash flows indicate excess of cash inflows over cash outflows which reflects liquidity and solvency of the company in the industry. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. Debt obligation is determined the debt securities issued by and loans in respect of money borrowed by the BCU from the Uganda Security Exchange. Capital structure is attributed to the equity and debt portion within the company is justified with effective debt management to support financial performance.

Finding whether the company has widened the market shares across the country, results indicate a mean of 1.97 and standard deviation of 0.28. Majority of the respondents agreed, which implies that BCU has widened the market shares by opened up various sell

point outlets in all city centers in Uganda. Opening up outlets enables the company to distribute clay products nearby to customers to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. BCU is known for distribution of quality building clay products and attributed to prestige in the society. Market share is the portion of a market controlled by a particular company or product. Therefore, BCU controls market share at 85% of building clay products across the country.

Finding whether BCU manages to finance all of its activities/ demands, results indicate a mean of 2.14 and standard deviation of 0.29. Majority of the respondents agreed, which implies that BCU has liquid and solvent to finance its activities/ demands for smooth operation on the market. The advanced technology adopted with Hoffman kilns to provide building materials include roofing tiles, bricks, maxpans, quarry tiles among others enables it to generate revenue to achieve financial performance. The standard deviation indicates low variation in responses as given by the respondents, thus closer to the mean. The internal audit function support effective utilization of resources to finance activities to enhance orderly operation and financial performance.

Interviewees assert that increase on the net profit margin, high mark-up, sales volume, reduction on the operation cost with the support of strong internal control indicates financial performance. The increase on the returns on assets, adequate liquidity to service the short-term and long-term obligations, payment of utilities and maintenance of machines indicates improved financial performance of the company. Issue of unqualified audit report, regularly payment of dividends in this era of Covid-19, wider market shares support financial performance.

One of the interviewees asserts that the” *company has accorded increased earnings from the sale of clay products, increased capital base ratio, increased net income to achieve financial performance*”.

Karl-Pearson’s coefficient of correlation establishes the degree, strength and the direction of the way internal audit relates to financial performance of the company. The basis range is; ± 0.00 to ± 0.49 weak correlation; ± 0.50 - 0 to ± 0.79 moderate correlation and ± 0.80 to ± 0.99 strong correlation. This analysis was done following the specific objectives of this study and the findings are presented in the tables below.

4.4 Correlation analysis

Karl-Pearson’s coefficient of correlation establishes the degree, strength and the direction of the way internal audit relates to financial performance of the company. The basis range is; ± 0.00 to ± 0.49 weak correlation; ± 0.500 to ± 0.79 moderate correlation and ± 0.80 to ± 0.99 strong correlation. This analysis was done following the specific objectives of this study and the findings are presented in the tables below.

4.4.1 Relationship between internal audit objectivity and financial performance of

BCU Table 10: Correlations between internal audit and financial performance

| | Internal Audit objectivity | Financial performance |
|----------------------------|----------------------------|-----------------------|
| Internal audit objectivity | 1 | .789** |
| Pearson Correlation | | |
| Sig. (2-tailed) | | .000 |
| N | 73 | 73 |
| Financial performance | .789** | 1 |
| Pearson Correlation | | |
| Sig. (2-tailed) | .000 | |
| N | 73 | 73 |

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data (2024)

Findings revealed that internal audit objectivity with correlation coefficient (r) of 0.798 and p-value 0.001 has strong positive significant relationship on financial performance at 1% level.

This implies that internal audit objectivity relates with the financial performance at BCU. The objectivity allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made to ensure achievement of financial performance. Furthermore, increase in auditors' objectivity guarantee increases in the financial performance since they move in the same direction. The objectivity attitude of internal auditors enables them to form their opinion without

subordinating their judgment on audit matters to others to achieve financial performance. This finding agreed with Cohen and Sayag (2016) who conjure that objectivity requires internal audit to examine and review controls on activities and environment which has significant association on the financial performance of the company. In addition, Leeh (2015) who conjures that the internal audit objectivity to improve on quality of internal audit has a positive significant association on the financial performance of the company at 95%.

4.4.2 Relationship between internal audit independence and financial performance of BCU

Table 11: Correlations between internal audit independence and financial performance

| | | Internal Audit Independence | Financial performance |
|-----------------------------|---------------------|-----------------------------|-----------------------|
| Internal audit independence | Pearson Correlation | 1 | .854** |
| | Sig. (2-tailed) | | .000 |
| | N | 73 | 73 |
| Financial performance | Pearson Correlation | .854** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 73 | 73 |

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data (2024)

Findings revealed that internal audit independence with correlation coefficient (r) of 0.854 and p-value of 0.000 has strong positive significant relationship on financial performance. This

implies that internal audit independence relates with the financial performance of the company. Independent internal audit facilitates examination and review of financial information produced by the company to achieve performance, thus has high correlation. Internal audit independence takes the same direction with the financial performance of the company. Further, increase in auditor’s independence guarantee financial performance since both moves in the same direction at the company. The independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner to support financial performance. This finding agreed with Yan (2013) who establish that internal audit independence has significant association to the financial performance of an organization at 95% level.

4.4.3 Relationship between internal audit competence and financial performance of

BCU Table 12: Correlations between internal audit competence and financial performance

| | | Internal Audit competence | Financial performance |
|---------------------------|---------------------|---------------------------|-----------------------|
| Internal audit competence | Pearson Correlation | 1 | .654** |
| | Sig. (2-tailed) | | .000 |
| | N | 73 | 73 |
| Financial performance | Pearson Correlation | .654** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 73 | 73 |

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data (2024)

Findings revealed that, internal audit competence with correlation coefficient (r) of 0.654 and p value 0.001 has moderate positive significant relationship on financial performance. This implies that competence of internal auditor relates with the financial performance at 1% level, thus has moderate correlation. The competence of internal auditors is key in ensuring financial performance at the company. Internal audit competence through skills, qualification, knowledge and experiences is key in the execution of audit work to examine financial and operation information which takes same direction with financial performance at the company. Competence of internal audit facilitates reviewing of the economy, efficiency and effectiveness of particular operations or activities of the company to achieve financial performance. The findings agreed with Rudolf (2017) argued that the internal audit competence ensures value for money audits which has a positive significant relationship on financial performance for the company.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings on research objectives, conclusions, recommendations, and areas for further research. Internal audit measured in form of internal audit objectivity, internal audit independence and internal audit competence contribute to financial performance of manufacturing companies.

5.1 Summary of findings

The response rate of 79.3% was adequate to provide data; 76.8% were youth and adults between 26 years and 45 years who were vigilant to give relevant and valid information; 67% were male compared to 33% female; 52% were diploma holders and 52% have worked between 4 years and 5 years at the company. Participants involved were knowledgeable, experienced to provide relevant data for the study.

5.1.1 Effect of internal audit objectivity on financial performance of BCU.

The first objective was to examine the relationship between internal audit objectivity and financial performance of BCU. Pearson correlation revealed that internal audit objectivity with correlation coefficient of 0.798 and p-value 0.001 has strong positive significant relationship on financial performance at 5 % level. Internal audit objectivity takes the same direction with the financial performance at the company.

Objectivity eliminates bias, conflict of interest or undue influence of the management to override professional or business judgment on intellectual honesty to review economy,

efficiency and effectiveness to achieve financial performance. Objectivity is key fundamental principle required for effective internal audit work in the company. 75

5.1.2 Effect of internal audit independence on financial performance of BCU.

The second objective was to analyze the relationship between internal audit independence and financial performance of BCU. Pearson correlation reveals that internal audit independence with correlation coefficient of 0.854 and p-value of 0.000 has strong positive significant relationship on financial performance. Internal audit independence takes the same direction with the financial performance of the company.

5.1.3 Effect of internal audit competence on financial performance of BCU

The third and last objective was to examine the relationship between internal audit competence and financial performance of BCU. Pearson correlation reveals that internal audit competence with correlation coefficient 0.654 and p value 0.001 has moderate positive significant relationship on financial performance. The internal audit competence in form of skills, knowledge and qualification takes the same direction with the financial performance of the company.

5.2 Conclusions

Based on findings of the first objective, internal audit objectivity has positive significant relationship on financial performance. Internal audit objectivity provides fair dealing and truthfulness to perform tasks to achieve financial performance at the company. Objectivity eliminates bias, conflict of interest or undue influence of the management to override professional or business judgment to presupposes intellectual honesty to review economy, efficiency and effectiveness to achieve financial performance. Therefore,

objectivity principle is required for effective internal audit work to support financial performance of the company.

The internal audit independence has positive high significant relationship of financial performance. Internal audit independence through integrity, freedom and disclosure allows straightforward and honest review on financial information to achieve performance in the company. Internal audit independence permit forming of unbiased opinion without being affected by undue influences to compromise professional judgment in reporting of information to achieve financial performance of the company. Therefore, internal audit independence is key in ensuring adherence to the professional and efficient business relationship to achieve financial performance.

The internal audit competence has positive significant relationship on financial performance. The internal audit competence in form of skills, knowledge and qualification is essential in the execution of audit work/ tasks at the company to enhance financial performance. Internal auditors report to the management, thus influence by the management to perform tasks.

5.3 Recommendations

Based on the study, these are suggested possible recommendations for the manufacturing companies to consider.

Company internal audit should be objective in execution of their function to presuppose intellectual honesty free from conflict of interest to achieve financial performance.

The management should allow internal auditors to independently perform their tasks all the time to oversee the company operation without undue influence to support financial performance.

The internal audit should frequently communicate their independent audit findings to management on events within the company to achieve financial performance.

The Internal audit should provide partial judgment on all financial transactions at the company to achieve financial performance.

The internal audit should regularly undertake fair examination of operations and financial transaction to achieve financial performance at the company.

The internal audit should independently carryout checks into business activities to enhance financial performance at the company. The internal audit should evaluate the internal controls to suggest ways to strength the weak components to support financial performance.

The company should clarify the guidelines in the Internal Audit policy for ease implementation to yield desired performance growth.

5.4 Areas for further research study

Relationship between internal audit confidentiality and financial performance of the company

Relationship between internal controls systems and financial performance of company.

The same study can be repeated using in a different but similar environment

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APPENDICES

Appendix I: Questionnaire for employees of BCU

Dear respondent,

I am a student of Uganda Christian University conducting research as a requirement for the award of a Bachelor of science in accounting and finance. I am doing a study about. *“Internal Audit and financial performance of manufacturing companies in Uganda, a case of BCU”*. You have been selected as one of my key respondents in this study because I strongly believe you have the necessary information required for the study. You are kindly required to spare some time and fill this questionnaire. This information obtained will be treated with most confidentiality and anonymity.

Thank for your time and cooperation

Yours faithfully

Wolayo Esther

Researcher

SECTION A: BACKGROUND INFORMATION OF THE RESPONDENTS

Please tick your view in the appropriate box provided

1. What is your age bracket?

a) 18-25

b) 26-35

c) 36-45

d) Above 46 years

2. Gender:

a) Male

b) Female

3. What is your highest level of education?

a) Certificate

b) Diploma

c) Bachelor's Degree

d) Master's Degree

4. How long have you been working at BCU?

a) 1-3 years

b) 4-5 years

c) 6-10 years

d) Above 10 years

INTERNAL AUDIT AND FINANCIAL PERFORMANCE

This section has five sub-sections. Each sub-section has statements related to Internal Audit and financial performance of manufacturing companies. Please indicate by a tick your opinion on each statement using the below given scale.

1-- Strongly Agree, 2 -Agree, 3 — Not Sure, 4- Disagree, 5- Strongly disagree

Section B: Internal Audit objectivity at BCU

| | | | | | | |
|----|--|---|---|---|---|---|
| 1. | The Internal Auditors perform their activities based on facts at BCU. | 1 | 2 | 3 | 4 | 5 |
| 2. | Internal Auditors at BCU provide means to improve controls in the activities. | | | | | |
| 3. | Internal auditors have not been accepting anything that may impair their professional Judgment | | | | | |
| 4. | The internal audit has been providing partial judgement on all financial transactions at BCU | | | | | |
| 5. | Internal Audit work at BCU has created value to improve organization's operation | | | | | |
| 6. | The internal audit objectively follows up the company records to achieve efficiency | | | | | |
| 7. | BCU has internal audit plan to regularly review activities at the company. | | | | | |
| 8. | The internal audit provides valuable information to support departments activities at the company. | | | | | |
| 9. | The Internal audit undertakes fair examination of operations at BCU. | | | | | |

Internal audit independence

| | | | | | | |
|----|--|---|---|---|---|---|
| 1. | The internal auditors freely perform their work at BCU without threats. | 1 | 2 | 3 | 4 | 5 |
| 2. | The internal auditors use their powers to review all the activities at BCU | | | | | |
| 3. | The Internal Auditors performs independent evaluation of activities at BCU | | | | | |
| 4. | The Internal Audit has access to all the on information of the company. | | | | | |
| 5. | Internal auditor carries out audit adequacy controls at BCU | | | | | |
| 6. | The internal audit has been reporting any deviation from the set rule regardless who committed it. | | | | | |
| 7. | I am satisfied with the level of independent given to auditors to carryout checks into business activities at BCU. | | | | | |

| | | | | | | | |
|----|--|--|--|--|--|--|--|
| 8. | Proper independence allowed to internal audit has led to improved financial performance at BCU | | | | | | |
|----|--|--|--|--|--|--|--|

Internal audit competence

| | | | | | | |
|----|---|---|---|---|---|---|
| 1. | The internal auditors timely perform their audit tasks | 1 | 2 | 3 | 4 | 5 |
| 2. | The Internal Auditors exhibits high knowledge to perform audit activity. | | | | | |
| 3. | The internal audit reports produced have been of high quality | | | | | |
| 4. | The internal audit has been providing recommendations for improvement in areas of opportunities | | | | | |
| 5. | The internal audit operations have been providing assurance to management Control | | | | | |
| 6. | Internal auditors at BCU performs their advisory duties properly | | | | | |
| 7. | Internal Auditor’s track audit activities diligently through independent monitoring. | | | | | |
| 8. | Internal Audit experience ensures value for money audit to BCU financial Performance | | | | | |
| 9 | Internal Audit has capacity to appraisal the internal controls for the company | | | | | |

Financial performance

| Return on Assets | | 1 | 2 | 3 | 4 | 5 |
|-------------------------|---|----------|----------|----------|----------|----------|
| 1 | BCU has been getting increased earnings from the assets during last three years. | | | | | |
| 2 | BCU has earned increased profit margin on its assets in period of last three years | | | | | |
| 3 | There has been increased ratio of capital invested in relation to the support received by BCU | | | | | |
| 4 | BCU has recognized increase in net income from its assets | | | | | |
| 5 | There has been a proportionate increase in income received from BCU’s assets | | | | | |
| Solvency | | | | | | |
| 6 | The company has assets to pay the long-term bills. | | | | | |
| 7 | The company regularly pays its interest on the debts. | | | | | |
| 8 | BCU has adequate cash flows to service the debt obligation. | | | | | |

| | | | | | | |
|------------------|--|--|--|--|--|--|
| Liquidity | | | | | | |
| 9 | BCU has cash to meet day-to-day operations | | | | | |
| 10 | The company has widened the market shares across the country | | | | | |
| 11 | BCU manages to finance all of its activities/ demands | | | | | |

Appendix II: INTRODUCTORY LETTER

UNIVERSITY, MBALE UNIVERSITY COLLEGE.
A Centre of Excellence in the Heart of Africa

Academic Registrar office

o BCU

Dear Sir/Madam,

Re: Academic Research

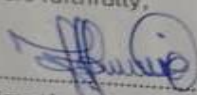
Christian greetings!

We are honored to introduce to you Mr. Mrs./Miss WOLAYO ESTHER
Of Registration Number; 5231MBC/BBA/013 pursuing a Masters'
Degree / Postgraduate Diploma / Bachelor's Degree
BUSINESS ADMINISTRATION


He/ she is required to carry out an academic research on the topic
INTERNAL AUDIT AND FINANCIAL PERFORMANCE
OF COOPERATIVE UNIONS IN UGANDA.

and thereafter produce a well bound hard cover research report (MAROON) in color for undergraduate
and three (BLACK) copies for Postgraduate students as a University requirement for the award of a
degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.
Thank you.
Yours faithfully,


Timothy Akampurira
Academic Registrar UCU-MUC

28 FEB 2024



Permission granted
to carry out a research
from the Union on the
above topic from the
UN on for one week
(from 23rd to 29th/05/24)
22/05/24

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