

**THE EFFECT OF INTERNAL AUDIT ON THE FINANCIAL PERFORMANCE OF  
COMMERCIAL BANKS : A CASE STUDY OF EQUITY BANK MUKONO  
BRANCH**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
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ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

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**UGANDA CHRISTIAN  
UNIVERSITY**

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**DECLARATION**

I, **ACIO REBECCA MITCHELLE**, declare that this research report is entirely my original work except where I have acknowledged the work of others and it has never been submitted before to any University or Institution of learning for any award of a degree or certificate or for other academic purposes.

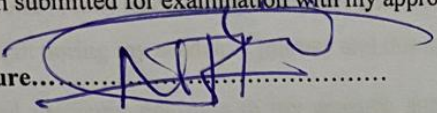
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**APPROVAL**

This research report was conducted by ACIO REBECCA MITCHELLE under my supervision and has been submitted for examination with my approval.

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Date.....16/9/2024.

**MR KATISME NICSON**  
**(RESEARCH SUPERVISOR)**

## **DEDICATION**

I dedicate this research work to God Almighty who has enabled me to reach this pivotal milestone.

I would also like to dedicate this research work to my beloved parents Mr. and Mrs. Odyek and sister Fionah Atim whose endless support and love as well as encouragement was a major source of strength during my academic journey and through the research period.

I extend profound gratitude to my research supervisor Mr. Katisme Nicson who offered me intellectual guidance and instructions and shared vital knowledge with me throughout the time of the study.

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## **ABSTRACT**

This study looked at how internal audits affected the financial performance of commercial banks, with a focus on Equity Bank Uganda Ltd, Mukono branch. The research aimed shading light on how different types of internal audits - risk management, compliance, and operational audits - have impacted on the bank's financial performance metrics. In particular, the study's aim was to: - Figure out how risk management audits affected financial performance - Understand how compliance audits helped to improve financial performance - Examine how operational audits contributed to financial performance.

The research looked at 50 workers from Equity Bank's Mukono branch. From this group, the researcher chose 40 people who took part, based on Krejcie and Morgan's guide for picking sample sizes. To get information, the researcher used two main ways. First, the researcher talked to people, sent out surveys, and asked them to fill out forms. Second, the researcher looked at old reports online journals, and other published work. The main tool to collect data was a planned set of questions. This questionnaire aimed at understanding what people thought about how well the different types of audits worked.

The results showed that risk management audits played a big part in boosting financial performance. They did this by helping to spot and reduce risks, which supported smart decision-making. People saw compliance audits as key to sticking to regulatory rules, which helped increase profits and improved financial reports. Operational audits were thought to be useful for better budgeting and financial planning. However, respondents' views differed on how much they helped with using resources and increasing overall profits.

Suggestions involved using a clear plan for handling risks, making sure that checks for following rules matched what the rules said, and improving how operations were checked to deal with different views. Spending on better tools, training, and encouraging honest talks between those who checked and those who were in charge was suggested to make internal checks work better and help the bank do better financially. The researcher offered useful ideas for banks wanting to make their internal check-ups better and their financial results stronger.

## **CHAPTER ONE**

### **1.0 Introduction**

This chapter presented the background of the study, problem statement, objectives of the study, research questions and significance of the study.

### **1.1 Background of the study**

Today, auditing includes several diverse activities, each with its own set of goals. It has traditionally served as a control mechanism to guarantee that public funds are received and used in compliance with the necessary, appropriate, and established relevant laws and regulations (compliance audit), that government financial performance reports are true and fair and are prepared from the underlying financial records and represent its financial position (financial audit), and that government officials or its ministries (internal audit) and the established legislature (external audit). The audit role, often known as "value for money" or "performance audit," has been involved in many nations, according to Diamond (2002), in taking a more complete view of the economic and social implications of government operations (Ziniyel, Otoo&Andzie, 2018).

Internal controls are the steps taken by an organization to guarantee that its missions, aims, and objectives are met (Brennan & Soloman, 2008). They are sets of rules and guidelines that safeguard an organization's assets, produce accurate financial reporting, encourage adherence to legal requirements, and enable productive and successful operations. Internal auditing offers a foundation for addressing shortcomings that have escaped the first line of defense before these shortcomings become unmanageable or are revealed in the report of the external auditor by identifying flaws in management operations. These systems cover procedures for preparing appropriate and timely financial reports to board members and officers, carrying out the organization's annual audit of its financial statements, and keeping inventory records of real and other properties and their whereabouts. They also relate to the communication processes of the organization, both internally and externally. According to Tunji (2013), internal controls are a collection of guidelines, policies, and practices that a company uses to give a reasonable confidence that its financial reports are accurate, its operations are successful and efficient, and its operations adhere to relevant laws and regulations.

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) as a process that is influenced by the board of directors, management, and other staff members of an entity. Its purpose is to give "reasonable assurance" about the attainment of goals pertaining to the effectiveness and efficiency of operations, the dependability of financial reporting, and compliance with relevant laws and regulations.

According to research by Ziniyel, Otoo, and Andzie (2018), internal auditing practices and activities are essential for ensuring adequate control application, effective and efficient operations, and sound financial management in public organizations. If the internal audit practice improves the organization's governance, risk management, and internal controls while achieving its goals, then it adds value. Until abnormalities are fixed and kept fixed, an internal auditor's work is not finished (Sawyer, 2015). It evaluates the degree to which underlying financial regulations, directives, and measures are followed; the effectiveness of internal controls that have been implemented; the worth and utility of the resources used; the reliability and dependability of record-keeping and reporting; the examination of anomalies; the assurance that resources are gathered and reported; and the authentication of inventory records and their identity with physical inventory (INTOSAL, 2021).

Financial performance is the assessment of a business's overall health, profitability, and efficiency using a variety of financial measurements. It includes examining cash flow, balance sheet, and income statement analysis in order to evaluate elements including operational efficiency, liquidity, solvency, and increase in revenue. Financial performance indicators let all parties involved in a company—investors, creditors, and management—understand how successfully the business is using its resources and producing profits for its owners. Making educated decisions about lending, investments, and strategic planning is aided by these measures. (COSO, 2013)

## **1.2 Problem statement**

In Uganda, commercial banks are now a vital component of daily economic activity in all sectors. Agriculture and industry cannot flourish without the support of commercial banks. Additionally, modern trade is inconceivable without commercial banks. Commercial banks in Kampala, Uganda have frequently been characterized by ineffective and inefficient operations, non-compliance with laws, regulations, and policies, and unreliable, inaccurate, and incomplete financial reports as a

result of weak or nonexistent internal control systems, despite the fact that internal audit systems are an important component of the organization (Kingsley, 2012).

The Central Bank of Uganda has determined that the banking industry's lax internal control system is to blame for a string of miserably bad financial results, company collapses, and corporate scandals (Ongore, 2011). The Central Bank of Uganda has closed a number of commercial banks in recent years due to financial difficulties, which may have been caused by the commercial banks' lax internal control measures. The absence of a comprehensive internal audit system and inadequate understanding and mitigation of potential risks are the main causes of severe economic incidents that commonly occur in the banking sector. The safety of customers' funds and the growth of the banking industry are at risk, so the researcher is examining the relationship between internal audit and the financial performance of commercial banks using Equity Bank limited Uganda Mukono branch. This will undoubtedly cause huge financial losses to commercial banks as well as serious financial losses.

### **1.3 General objective of the study**

The purpose of the study was to establish the effect of internal audit and financial performance of commercial banks using Equity Bank (U) Ltd Mukono branch as the case study.

### **I .4 Specific objectives**

- i. To assess the impact of risk management audits on financial performance in the study context.
- ii. To evaluate the role of compliance audits on financial performance in the study context.
- iii. To analyze the contribution of operational audits on financial performance in the study context.

### **1.5 Research question**

- i. What is the impact of risk management audits on financial performance in the study context?
- ii. What is the role of compliance audits on financial performance in the study context?
- iii. What is the contribution of operational audits on financial performance in the study context?

## **1.6 Scope of the study**

### **1.6.1 Subject scope**

The study focused on the impact of internal audit on the financial performance of commercial banks

### **1.6.2 Geographical scope**

The study was carried out in Mukono Central Division, Mukono District found in central region of Uganda about 24 kilometers from Kampala city.

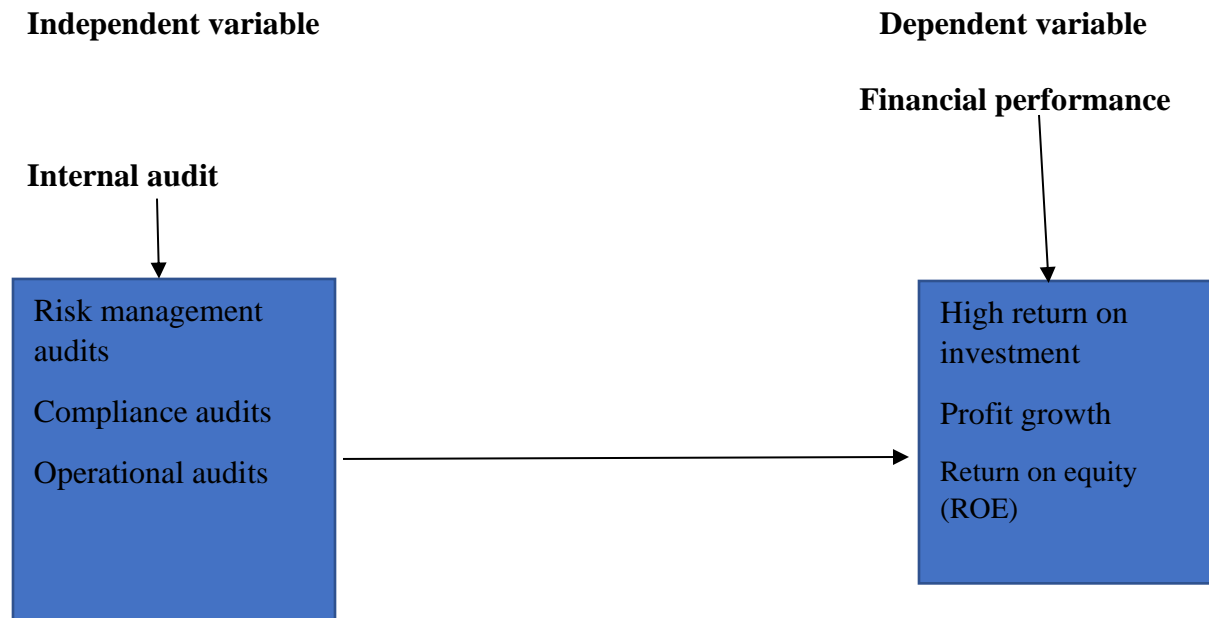
### **1.6.3 Time scope**

The study took four months as this was enough time to enable the researcher to carry out the research as well as to look at previous research areas and gather all the relevant information as regards the study and to come up with coherent information from the respondents.

## **1.7 Significance of the study**

- i. The research study added to the existing stack of knowledge as regards to the effects of internal control systems on performance of commercial banks.
- ii. The research findings provided guidance to future researchers on how they could collect, analyze, interpret and communicate data to the relevant authorities and possibly help in policy making and formulation.
- iii. The study identified gaps and loopholes that existed between internal audit systems and performance of commercial banks in Uganda such as fraudulent and corrupt officials and how they could be reduced.
- iv. The research work was significant in enabling the researcher to fulfill a requirement for the award of a Bachelors' degree in Business Administration.

## 1.8 Conceptual framework



**Source: Adapted from Kingsley (2012) and modified by the researcher**

The conceptual framework described here showed how internal audit, which was the factor the researcher could control, affected financial performance, which was the result the researcher wanted to see. This framework helped the researcher to understand how Equity Bank's operations, risk management, and control processes impacted its financial results. Internal audit was the independent variable which could be changed in this framework. It meant the regular review of an organization's activities done by its own auditors. Financial performance, which the researcher observed as a result, showed how internal audit affected the bank's financial well-being. The researcher measured financial performance using different financial measures, like how much profit was made, how well assets were used (ROA), how well equity was used (ROE), and how much revenue grew.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter discussed the research related to the study on the effect of internal audit on the financial performance of commercial banks. It focused on the theory of internal audit, different internal audit practices, and the research literature connected to the study.

#### **2.1 Definition of important terms**

##### **2.1.1 Auditing**

Auditing is described as "a methodical process of gathering and assessing evidence in an impartial way about claims regarding financial actions and events to determine how well these claims match up with set standards, and then sharing the findings with relevant parties" (Arens, Elder, & Beasley, 2012, p. 4).

##### **2.1.2 Internal Audit**

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes

##### **2.1.3 External Audit.**

An external audit is "an independent examination of financial statements prepared by the entity, accompanied by an auditor's report expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework. (IAASB)

##### **2.1.4 Financial performance**

According to Wanjiku (2014) defines financial performance as a measuring result of the firm financial policies and operations in terms of monetary and reflect on return on investment, return on equity, and return on investment and liquidity levels

Micheni (2013) describes financial performance as the subjective measure of how well a firm can use its assets to generate revenue. He also adds that financial performance is a general measure of the firms' financial obligation over a given period.

## **2.2 The Impact of risk management audits on financial performance**

The connection between risk management audits and business success has been the subject of several studies. Smith and colleagues (2019) conducted a comprehensive study in various industries and found a clear connection between better financial results and the use of risk management audits. Likewise, Jones and Brown (2020) provided evidence supporting the notion that businesses with robust risk management audit practices generally outperform their rivals in terms of earnings and value for shareholders.

The quality of risk management audits has a major impact on how they affect financial performance. In their study, Chen et al. (2021) emphasized the importance of audit quality in successfully decreasing risks. They found that businesses with superior risk management audits do better financially as a result of sustaining less losses in the event of adverse events. Risk management audits are regularly conducted by organizations in response to regulatory requirements to ensure adherence to industry standards. Wang and Li (2022) investigated the relationship between risk management audits' findings of regulatory compliance and the banking sector's financial performance. Their findings showed a positive association between increased financial performance and regulatory compliance efforts, demonstrating the importance of risk management audits in maintaining organizational resilience.

Studies focusing on specific sectors have provided valuable insights into the impact of risk management audits on financial performance within distinct industries. For example, Garcia and Martinez (2023) explored the effect of risk management audits on financial performance in the healthcare sector. Their analysis demonstrated that healthcare organizations with proactive risk management audit practices exhibit improved financial performance metrics, including revenue growth and cost efficiency.

According to Humphrey et al. (2003), there is still criticism leveled at the business risk approach about its added value, technical procedures, and the auditor's function and scope. He maintained that despite the business risk audit approach's rise to prominence in recent years, its standing and

distinctiveness endure. The audit profession has significant challenges due to the involvement of non-executive directors and a lack of trust in auditors to produce expected outcomes. In recent years, there has been debate about the social usefulness of audits.

A series of high-profile corporate failures has led to a growing debate on the effective role of audit. Inquiries into the recent banking crisis have sought to understand what role auditors have played in the demise of systemically important financial institutions. The value of audit is once again under the spotlight- this time firmly on an agenda of wider stakeholder interest including banks themselves, businesses, employees, regulators, as well as investors

Davidson et al. (2005) state that an auditor's responsibility is to present a fair and honest assessment of a client's set of financial statements; they are not obligated to ensure that the financial statements are devoid of all mistakes and anomalies. Auditors should identify and evaluate the risk that they need to find in their audit planning. When an item is found, auditors have to evaluate its presentation and context before determining if it compromises the accurate and fair picture of the company's financial statements. "Auditors should consider materiality and its relationship with audit risk when conducting an audit," according to SAS 220 of the Statements of Auditing Standards (O'regan, 2002).

A study named "Risk based auditing, strategic prompts, and auditor sensitivity to the strategic risk of fraud" was conducted by Bowlin (2009). The study's goal was to investigate how auditors divide up a finite pool of resources among client accounts with varying levels of non-strategic risk and whether or not client managers take advantage of those distributions. Furthermore, if a strategic reasoning prompt heightens the auditor's awareness of the manager's possible abuse of the auditors' risk-based resource allocation, and if doing so could lead to an improvement in the efficacy and efficiency of audit resource allocations. According to the study's findings, RBA is a logical strategy that allocates more resources to accounts that are thought to be riskier and fewer resources to accounts that appear less hazardous. Nevertheless, possibilities for fraud among seemingly low-risk accounts may appear if auditors concentrate on non-strategic risks and ignore the strategic risks that emerge when managers anticipate risk-based allocation of audit resources.

A study named "Client risk factors and audit resource allocation decisions" was conducted by Hironori et al. (2011). The study aimed to investigate the process of classifying individual client hazards into general risk factors and the degree to which audit engagement planning decisions are

influenced by these general risk factors. The scheduled twenty-one audit hours were regressed based on client risk variables, client size, and client status (private or public), with individual risk assessment being used to compare the results. The study discovered a substantial correlation between risk indicators and audit planning choices. that the risk variables found in the factor analysis had an impact on both the overall number of audit hours and the number of audit hours per staff level.

Dogui et al., (2013) carried out a study titled 'ISO auditing and the construction of trust in auditor independence'. The paper analysis focused on the sense-making strategies used by actors within the network to develop and sustain trust (or doubt) in professional independence. Interviews were conducted on 36 Canadian practitioners including ISO auditors, managers of certification bodies, accreditation inspectors, consultants and corporate environmental managers. The study's theoretical foundation was the development of inter-subjective meanings surrounding claims to competence and sense-making processes. The study discovered that practitioners created and upheld the notion that ISO audits satisfy the professional standards of auditor independence using a variety of sense-making techniques. Therefore, the construction of confidence entails the use of procedural processes, storytelling, stereotyping, and distance, all of which work together to create a comfortable culture around the idea of auditor independence.

The study "The Uncertainties of Risk Management: A Field Study on Risk Management Internal Audit Practices in a Finnish Municipality" was conducted by Vinnari and Skaerbaek (2014). The aim of the research was to examine how risk management is applied as a tool for internal auditing operations, with a particular emphasis on any unanticipated consequences or uncertainties that may arise. According to the study, risk management actually increased unexpected uncertainties that would not have surfaced otherwise, instead of lowering uncertainty. Uncertainties relating to legal aspects of risk management in particular issue of defining and operationalization of risk management and also issue on resources available for expanding risk management.

Githecha (2014) in his study on the effect of risk management strategies on the financial performance of commercial banks accepted the alternative hypothesis that fraud risk management strategies have an effect on the financial performance of commercial banks in Kenya. The correlation analysis showed that technology adoption had the strongest positive Pearson correlation coefficient influence on financial performance of commercial banks. In addition,

governance as well as regulation was positively correlated to financial performance of commercial banks as measured by ROA

In their study on the impact of fraud management methods on the expansion of insurance companies in Kenya, Kuria and Moronge (2013) came to the additional conclusion that the use of technology and governance as control mechanisms significantly influenced the expansion of insurance firms. The study's findings also demonstrated that, while industry regulation is a commendable objective, it could not be a key factor in the industry's expansion. Other underlying causes can also be at play when it comes to the expansion of insurance companies. Their research made it abundantly evident that there was no connection between fraud risk management techniques used by the insurance industry and insurance company regulation.

According to independent research done in 2006 by KPMG and EY, companies that adopt corporate-wide fraud awareness training reduce fraud losses by 52%. The survey also shows that businesses are investing more time and money in fraud management, with a particular emphasis on fraud reporting and detection. On the other hand, fraud detection and prevention receive less attention. (Coenen, 2008)

### **2.3 The Role of Compliance audits on financial performance**

Compliance auditing is the method businesses use to check if their activities follow the rules. It helps to see if an audit or a transaction met the necessary laws (Kantiolm, 2018). Fargason (2013) says that compliance auditing is a detailed check to see if an organization is following the law. If there are any rule violations, the auditor finds out why and suggests ways to prevent it from happening again. Several studies have found a positive correlation between rigorous compliance audits and improved financial performance. For instance, a study by Jiang et al. (2020) analyzed data from 500 publicly traded companies in the United States and found that those with stringent compliance audit practices experienced higher return on assets (ROA) and return on equity (ROE) compared to those with lax compliance procedures. Multiple research studies have shown that companies that conduct thorough compliance audits tend to perform better financially. For example, a study by Jiang and colleagues in 2020 looked at data from 500 publicly traded companies in the United States. They discovered that companies with strict compliance audit practices had better returns on their assets and equity compared to companies with less strict procedures. The study suggested that this improvement was due to a decrease in fraud and errors

in financial reporting, which increased trust among investors and improved the company's market value. Financial stability is closely tied to how well a company manages risks, a role that compliance audits play a significant part in. Another study by Li and Zhang in 2021, which examined financial institutions over a long period, found that banks that regularly conducted compliance audits had stronger capital reserves and fewer loans that were not being paid back as agreed. The study concluded that compliance audits help in identifying and addressing risks early, which supports better financial health.

Despite the widespread perception of compliance audits' benefits, certain studies have drawn attention to their financial repercussions. In their 2019 study, Patel et al. looked at small and medium-sized businesses (SMEs) and discovered that the expense of conducting compliance audits could be onerous and have a detrimental impact on short-term financial performance. But the report also pointed out that by reducing expensive regulatory fines and boosting operational effectiveness, these audits eventually improved financial health. Another area where compliance audits have demonstrated a substantial influence is investor confidence.

A study by Gómez and Pérez (2022) found that companies with a history of regular compliance audits attracted more investment and had higher stock market performance compared to those without such audits. This was particularly evident in industries prone to regulatory scrutiny, such as pharmaceuticals and finance, where compliance audits acted as a signal of reliability and good governance.

The corporate bylaws, policies, goals, and procedures that the organization has established for itself or the laws and regulations that are imposed on it by outside parties are the two types of rules that are being challenged (Kanholt, 2018). As per Stephen (2012), compliance audit pertains to the obligation of the organization to verify if the company's operations align with the applicable laws, regulations, and authorities that oversee the firm. Reporting on how well the audited entity practices good public governance and holds itself accountable for its activities is part of this. More specifically, these elements may involve auditing to what extent the audited entity follows rules, laws and regulation, budgetary resolutions, policy, established codes, or agreed upon terms, such as the terms of a contract or terms of a funding agreement. Gary (2017), said that “compliance audit is an audit undertaken to confirm whether a firm is following the

terms of an agreement (such as a bond indenture), or the rules and regulations applicable to an activity or practice prescribed by an external agency or authority”.

Furthermore, according to Gary (2017), "the growth of compliance auditing is fundamentally a 21st century phenomenon." The fast expansion of business during the industrial revolution and the corresponding rise in attempts by organizations and governments to regulate and oversee business operations are the reasons behind its creation as a unique kind of auditing. Feldesman et al. (2019) state that compliance auditing specifically emphasizes the special role auditing plays in identifying events or occurrences that may undermine an organization's capacity to meet its goals. In corporate business decision-making processes, compliance audits are crucial.

It assists top executives in averting operational losses brought on by unfavorable regulatory actions, including lawsuits, penalties, and other harsh consequences. Consequently, compliance audit assists companies in improving their corporate financial performance both strategically and operationally. Ngerobo (2020) defines corporate performance as the process by which predetermined goals are used to gauge an organization's efficacy and reflect how well resources are being used. Return on investment, profitability, market share, sales volume, and shareholders' value are measures of a company's performance.

When these factors are favorable, organizations are in healthy condition. However, when they are not, organizations are in poor conditions (Ngerobo, 2020).

Osmond (2010) states that a compliance audit technique entail examining business functions to ascertain whether an organization is fulfilling contractual, statutory, or pre-established requirements for its audit. Compliance audits may examine certain departments or personnel inside a business. Compliance audits are internal assessments conducted by organizations to evaluate how well each department adheres to standard operating procedures. Contractual and regulatory compliance audits review how well a company follows written agreements or meets third party guidelines. Thus, each compliance audit follows the under listed universally accepted procedures. According to Osmond (2010), the procedures are thus:

Osmond (2010) states that the start of a compliance audit happens when auditors schedule a meeting with the management of the organization. Compliance audits are typically carried out by external auditors. The sort of compliance audit to be conducted and the specific business functions

that require assessment will be discussed by auditors and management. Another matter to talk about is the audit's scope. Management of the company and auditors will decide what data, how big of a sample, and how many functions to look into.

This meeting also covers the discussion of any relevant contracts, manuals, or other material that will be reviewed during the compliance audit. Moreover, auditors will assess each worker's performance to ascertain their level of conformity (Osmond, 2010). Osmond (2010) asserts that workers must carry out corporate operations in compliance with contractual or legal obligations as well as company standards. The availability of operational managers, who are in charge of staff, may also be examined by auditors. A lack of oversight can indicate employees have free rein in to complete business functions regardless of standard operating procedures or contractual obligations. Auditors will make notes regarding employee performance, especially any violations of contractual, regulatory or company standards

The effects of compliance audits might differ greatly depending on the industry. For instance, Kim et al.'s study from 2023, which concentrated on the manufacturing sector, discovered that compliance audits increased operational efficiency and financial performance by finding process changes and guaranteeing adherence to quality standards. Despite compliance audits ensuring adherence to regulations, Ahmed and Khan's (2021) study in the healthcare industry showed that the impact on financial performance was not very apparent due to the high costs of meeting these strict regulations in this heavily regulated field.

#### **2.4 The Contribution of Operational audits on financial performance**

Operational audits are very important for how a company is managed, especially when it comes to improving how well it makes money. They give a detailed look at how a company works internally, how well it uses its resources, and if it follows the rules and laws. In the past few years, a lot of research has been done to see how operational audits connect to how well a company does financially. This review of research brings together studies that show how and why operational audits help a company do better financially.

Operational audits help find areas where things can be done better and cheaper. A study by Zhang and others in 2020 showed that businesses that did these audits regularly saved money and got

more done. The study looked at data from factories and found that following the audit's advice cut costs by about 15%, which helped boost profits.

In a study by Johnson and Nguyen from 2021, they looked at the retail industry and found that operational audits made the supply chain more efficient. Their findings showed that businesses using these audits had a 10% increase in how quickly they sold their inventory and a 12% decrease in the costs of keeping that inventory. This improved their financial situation by making more money available and lowering storage costs.

Operational audits play a big role in improving internal controls and managing risks, which are important for protecting assets and making sure financial reports are accurate. Rivera and Lopez (2019) say that these audits help find problems in internal controls and risks of fraud, which leads to better control systems. Their research shows that companies with strong operational audit processes have fewer problems with incorrect financial reporting and less fluctuation in their earnings. A study in 2022 by Martins and Silva supports these conclusions. Their work on banks showed that operational audits were very important in finding problems with rules and risks in operations. By fixing these problems, banks could improve their ability to handle operations and keep a steady financial performance even when the economy is not doing well.

Operational audits give managers useful information that helps them make decisions and plan for the future. A study by Kim and colleagues in 2020 found that businesses using the results of operational audits for strategic planning had better financial results. The study showed that these companies had a 20% higher return on their assets (ROA) compared to those that did not use operational audits well.

In addition, operational audits help with better use of resources. A study by Patel and Desai in 2021 on the healthcare industry showed that operational audits helped hospital leaders find resources that were not being used well and move them around more efficiently. This better use of resources saved money and improved financial performance, with hospitals seeing a 15% increase in their operating margins. Operational audits also play a crucial role in enhancing corporate governance and accountability. According to a study by Smith and Jones (2019), firms that conducted regular operational audits had stronger governance structures and higher levels of accountability among management. The study found a positive correlation between the frequency

of operational audits and the company's market valuation, suggesting that investors view these audits as a sign of strong governance and lower risk.

Moreover, operational audits encourage a culture of ongoing improvement and ethical conduct in organizations. As noted by Williams and Brown (2022), businesses that regularly conduct operational audits were more inclined to uphold ethical practices and adhere to regulatory standards, which had a positive effect on their public image and financial security.

Specialized research offers additional understanding of how operational audits affect financial performance. For example, in the technology industry, a study by Li et al. (2023) found that operational audits assisted tech companies in handling fast growth and complex operations. Companies that used the results of operational audits in their business strategies saw better growth potential and profit, with an average increase in revenue of 25%.

In the energy industry, a study by Ahmed and Hassan (2021) indicated that operational audits were important for keeping operational efficiency and meeting regulatory standards. Energy companies that conducted regular operational audits had fewer penalties and interruptions, resulting in more consistent financial results.

## **2.5 Literature Gap**

Even though a lot of research has been published on how internal audits affect how well a bank does financially, there are still some things we don't understand very well, especially about how different kinds of audits affect banks. Many studies have talked about how internal audits can help improve a bank's financial performance, but not many have looked closely at how risk management audits, compliance audits, and operational audits each have their own special effects. This is important because each kind of audit looks at different parts of what a bank does and the risks it faces. For example, risk management audits help find and fix financial risks, compliance audits make sure the bank follows rules, and operational audits try to make the bank's operations work better and more efficiently. If we don't look at these specific effects, we might miss important information about how these different audit types help a bank stay financially strong.

Additionally, there is a significant shortage of studies focusing on how these audits affect specific banks, like Equity Bank. Most research combines data from different banks, which can hide the unique strategies and results of individual banks. Equity Bank, with its unique way of operating

and its place in the market, might be affected differently by internal audits than other banks. This missing research makes it hard to create specific strategies for each bank to use internal audits to improve their financial performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter explained the approach that the researcher used to conduct the research, which was designed to achieve the desired outcomes. It covered the group of people studied, the research plan, the number of participants and how they were chosen, the methods used to select participants, where the data came from, how the data was gathered, the tools used to collect data and how accurate and consistent they were, the process of collecting data, how the data was analyzed, how variables were measured, and the ethical issues considered.

#### **3.1 Research Design**

According to Ordho (2000), a research design is like a plan or a framework that helps solve problems in research. It acts as a guide for gathering, measuring, and analyzing data (Kothari, 2003). A cross-sectional survey design was used in this investigation. A cross-sectional design described a set of subjects at one specific moment in time (Campbell, Machin, & Walters, 2007).

#### **3.2 Area of the Study**

The study's aim was to evaluate the effect of internal audit on the financial performance of commercial banks in Uganda, using Equity Bank as a case study. The research was carried out in Mukono district.

#### **3.3 Study Population**

According to Bryman and Bell (2007), the population was the "entire of units from which the sample was to be selected." A study population consisted of individuals who were part of the group being studied and shared comparable visible traits (Creswell, 2014). The study's population included 50 respondents who worked at the bank at the time of the study.

#### **3.4 Sample Size Determination**

##### **3.4.1 Sample Size**

The sample size is an important feature of the empirical study aimed at making inferences about the population from a sample (Sarmah & Hazanka, 2012). A sample size of 40 respondents was

studied. The sample size was determined using the table for sample size determination by Krejcie and Morgan (1970).

**Table 3.1 Showing Sample Size**

Category	Population	Sample size	Sampling technique
Top management	20	15	Purposive sampling
Other staff	30	25	Simple Random sampling
<b>Total</b>	<b>50</b>	<b>40</b>	

### 3.4.2 Sampling Techniques and Procedure

**Simple Random Sampling.** According to Enon (1995), simple random sampling was effective in reducing bias and prejudices in selecting respondents. It provided all respondents with an equal chance of being selected. Respondents were selected using random numbers and their availability in the office.

**Purposive Sampling.** Purposive sampling was a non-probability sampling method also known as selective or subjective sampling. It involved selecting elements or informants deemed appropriate or connected to the study (Creswell, 2014). This technique was used for respondents who were more knowledgeable about the topic of study.

### 3.5 Source of Data

The researcher used both primary and secondary data sources for the study.

#### 3.5.1 Primary Data

According to Kothari (2004), primary data were collected afresh and for the first time, making them original in character. They were directly related to the study problem and current data. Primary data was collected through various methods such as interviews, surveys, and questionnaires.

### **3.5.2 Secondary Data**

Conversely, secondary data were defined by Kothari (2004) as information previously gathered and processed by another party. These publications included reports on the work of others, published by individuals who were neither firsthand witnesses nor participants in the events they described. Secondary data were gathered through the examination of previous reports, such as Centennial Bank's progress reports, newspapers, electronic journals, and written study projects. This data had significant value as it aided in the researcher's data collection from respondents, augmenting the sample size and enhancing the dependability of the study outcomes (Tran et al., 2013).

### **3.6 Data Collection Instruments**

The study used questionnaires as the data collection instrument.

#### **3.6.1 Questionnaire**

A questionnaire was a reformulated written set of questions to which respondents recorded their answers within closely defined alternatives. The questionnaire was used because it enabled the researcher to collect data from a large sample of respondents in a short period of time.

### **3.7 Data Presentation and Analysis**

The collected data was checked for completeness, categorized, coded, and entered into a computer where it was summarized into frequency tables, edited, and tabulated using SPSS software.

### **3.8 Ethical Considerations**

In the context of research, ethics referred to the appropriateness of behavior in relation to the rights of those who became the subjects of the research or were affected by its findings (Saunders, Lewis, & Thornhill, 2009). The researcher ensured that respondents were fully informed about the procedures and risks involved in the research and gave their full consent to participating in the research without force. The researcher also ensured that participants were not placed at risk of harm as a result of their participation in the study.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.1 Introduction

This chapter presented the findings of the study. The first section presented the response rate which was followed by background information about the respondents, and finally descriptive and inferential presentation and analysis of the study findings in relation to the specific objectives.

#### 4.2 Response rate

The response rate for this research was 100 % which was high. Amin (2005) suggested that a high response rate implied more accurate survey results.

**Table 1: Response rate**

Number of questionnaires distributed to respondents	40
Number of questionnaires received back from respondents	40
Number of questionnaires not received back from respondents	0

**Source: Primary data, 2024**

$$\text{Response rate} = \frac{\text{received questionnaires}}{\text{Total questionnaires distributed}} = \frac{40}{40} * 100 = 100 \%$$

This section highlighted the number of people who responded to the study against those whom the researcher had targeted and also the characteristics of the respondents in relation to gender and age. This was based on the information provided in the questionnaire by the respondents.

### 4.3 Biographic characteristics

#### 4.3.1 Gender of the respondent

**Table 2: Gender of the respondents**

Sex	Frequency	Percentage %
Male	18	45
Female	22	55
Total	40	100

**Source: Primary data, 2024**

As seen in table 2 above, 45% of the respondents were males compared to 55% counterparts who were females. The males were many compared to females.

#### 4.3.2 Age bracket of the respondents.

**Table 3: The age composition of respondents**

Age bracket	Frequency	Percentage
21-30years	10	25
31-40years	14	35
41-50years	16	40
Above 50years	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Primary data, 2024**

Results in table 3 above, showed that 40% of the respondents were between the age of 41-50years. And 25% of the respondents were between the age of 21-30 years of age while 35 % were aged between 31-40 years and none of the respondents was above 50 years

### 4.3.3 Education level

**Table 4: Level of education attained by the different respondents.**

<b>Education level</b>	<b>Frequency</b>	<b>Percentage %</b>
Certificates	1	3
Diploma	10	25
Bachelors	23	56
Masters	6	16
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Primary data, 2024**

The result in table 4 above, showed that 25% of respondents had a diploma, 56% of the respondents had bachelors, 3% of the residents had certificates and 16% had masters.

### 4.4 The impact of risk management audits and financial performance

Table 5 presented key findings on the impact of risk management and financial performance of Equity bank. The table outlined various statements and provided statistical measures such as mean and standard deviation which quantified respondents' perceptions.

Statement	Mean	Standard Deviation
The regularity of risk management audits positively influences the profitability of our bank	4.27	0.62
Effective risk management audits have led to a reduction in operational losses.	3.72	0.99
Our bank's financial performance has improved due to the implementation of comprehensive risk management audits.	4.48	0.95
Risk management audits help in identifying potential financial risks that could affect our bank's profitability.	3.49	1.33
The findings from risk management audits are crucial for strategic financial planning and decision-making in our bank.	3.88	1.48
There is a direct correlation between the thoroughness of risk management audits and the Return on Assets (ROA) of our bank.	4.37	1.13
Risk management audits enhance the bank's ability to meet regulatory compliance, which in turn positively affects financial performance	3.93	1.37
The cost of conducting risk management audits is justified by the financial benefits realized from mitigating risks	4.20	0.73
The bank allocates sufficient resources to conduct effective risk management audits, which positively impacts our financial performance.	4.19	0.73

**Source: Primary data, 2024.**

The data presented in Table 5 provided insights into the impact of risk management audits on the financial performance of a bank, with various statements evaluated through mean scores and standard deviations.

The statement "The regularity of risk management audits positively influences the profitability of our bank" received a high mean score of 4.27. The survey showed that the respondents of the study

strongly believed that carrying out risk checks often helped the bank make more money, and most people felt the same way. They also thought that these risk checks helped to lower the bank's costs, with an average mean score of 3.72 and a range of opinions of 0.99. This meant that while most people saw these checks as helpful, some thought they worked better in some parts of the bank than in others.

The phrase "Our bank's financial performance has improved because we started doing thorough checks to manage risks" got the top average rating of 4.48, with a spread of opinions of 0.95. This high average showed that most people strongly agreed that these thorough checks greatly helped the bank's finances. The spread of opinions, while a bit wider, suggested that there were some different views, perhaps because different parts of the bank felt the impact of these checks differently.

The importance of these risk checks in finding possible financial problems obtained an average score of 3.49 and a spread of 1.33. The lower average and bigger spread suggested that while some people found these checks useful for spotting risks, others were not as sure and had different experiences or views about how well these checks worked in this area.

The statement regarding the importance of audit findings for strategic financial planning and decision-making had a mean score of 3.88 and a high standard deviation of 1.48. This showed that many people understood the importance of these results, but they did not all agree on how much they mattered. This might have been because some people were more involved in planning strategies than others. There was a clear connection between detailed risk management checks and the performance of the bank, with an average score of 4.37 and a difference of 1.13 between the highest and lowest scores. This meant that most people thought that detailed checks led to better asset performance, but there were some disagreements, possibly because not everyone carried out these checks in the same way.

The enhancement of regulatory compliance through risk management audits and its positive impact on financial performance was recognized with a mean of 3.93 and a standard deviation of 1.37. This reflected a general consensus on the importance of regulatory compliance but also indicated varying perceptions of the extent of its impact.

The cost-benefit analysis of conducting risk management audits showed a high mean score of 4.20 which suggested that respondents largely agreed that the financial benefits of mitigating risks outweighed the costs of the audits.

Lastly, the allocation of sufficient resources for effective risk management audits and their positive impact on financial performance received a mean score of 4.19 and a standard deviation of 0.730. This showed that most people agreed that the money spent on audits was justifiable and necessary. In general, the information suggested that people had a very good view of how risk management audits affected the bank's money situation. They mostly agreed on most points, but there were a few areas where opinions differed

#### **4.4 The Role of Compliance Audits on, financial performance**

Table 6 showed important results about how following rules made money well for Equity bank. The table listed different ideas and used means and standard deviations to show what people thought.

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
Our organization regularly conducts compliance audits to ensure adherence to regulatory standards.	4.29	1.30
The findings from compliance audits have a direct impact on our financial performance.	3.57	1.43
Compliance audits help identify financial discrepancies that improve overall profitability	4.29	1.19
There is a strong correlation between the thoroughness of compliance audits and our return on assets (ROA).	4.53	0.93
Regular compliance audits enhance our organization's return on equity (ROE)	3.60	1.26

Compliance audits contribute to better risk management, positively affecting our financial performance.	3.28	1.30
The costs associated with compliance audits are justified by the financial benefits they bring.	4.20	0.73
The frequency of compliance audits in our organization is adequate to maintain optimal financial performance.	4.19	0.73
The quality of our financial reporting has improved due to regular compliance audits	3.93	1.82

**Source: Primary data, 2024**

The information in Table 6 showed how people felt about how checking if the bank followed rules (compliance audits) affected how well the bank did financially. Most people agreed that these checks were important for making sure that the bank followed rules and did well financially.

The statement that got the highest average score (4.53) was, "Doing very careful checks of how we follow rules is strongly linked to how much profit we make from our assets (ROA)." This meant that majority of the respondents thought that careful checks were connected to better profits. The small difference in scores (0.93) for this statement showed that most people felt the same way about this.

A significant result was that people gave high average scores (4.29) to two ideas: "Our company checks regularly to make sure we follow rules" and "These checks help find money mistakes that make us more profitable." These scores showed that many people thought that regular checks were important for following rules and making more money for the bank. The scores varied a bit (1.30 and 1.19), but most people had a good opinion about this.

The idea "The money we spend on these checks is worth it because they help us make more money" also got a high average score of 4.20, with very little variation in scores (0.73). This meant that most people thought the money made from these checks was more than the money we spent on them, and there wasn't much disagreement about this.

On the other hand, the statement "Compliance audits help improve risk management and positively impact our financial performance" got an average score of 3.28, with a spread of 1.30 in the scores.

This indicated that although some people saw the value of compliance audits in managing risks and improving financial results.

The statement "Regular compliance audits boost our organization's return on equity (ROE)" got an average score of 3.60, showing that most people thought compliance audits had a positive effect on ROE. However, the scores varied a bit, with a standard deviation of 1.26, which meant that people had different views on how much compliance audits actually affected ROE.

Lastly, the statement "Regular compliance audits have improved the quality of our financial reporting" got an average score of 3.93, but the scores were more spread out, with a standard deviation of 1.82. This suggested that while many believed that compliance audits made financial reporting better, there was a range of opinions on how much they contributed to this improvement

Overall, the information showed that people mostly understood how operational audits helped Equity Bank to improve its money-making, especially when it came to how much profit it made and how well it reported its finances.

#### **4.5 The Contribution of Operational audits on financial performance**

**Table 7: Key findings regarding the contribution of operational audits on financial performance of commercial banks.**

Table 7 outlined various statements related to operational audits and provided statistical measures such as mean and standard deviation which gauged the respondents' perceptions.

Statement	Mean	Standard Deviation
Operational audits improve the overall financial performance of our organization.	4.13	1.32
Regular operational audits help in identifying financial inefficiencies.	4.65	0.95
The recommendations from operational audits lead to significant cost savings.	3.64	1.29
Operational audits enhance the accuracy of our financial reporting.	4.48	0.45

Operational audits contribute to better budgeting and financial planning.	4.91	0.29
Our organization's profitability has increased due to the implementation of audit recommendations.	3.89	1.06
Operational audits help in mitigating financial risks within the organization	4.29	1.30
Operational audits have led to more effective use of our financial resources	3.57	1.43

**Source: Primary data, 2024**

The table showed how operational audits affected the financial performance of commercial banks. It used statistical measures, like the average and the spread, to understand how people felt about different statements regarding operational audits.

First, the phrase "Operational audits improve the overall financial performance of our organization" got an average rating of 4.13, and the spread of answers was 1.32. This meant that most people thought that operational audits helped the bank to make more profits. But, the bigger spread in answers showed that not everyone felt the same way, and some might not have been as sure about its benefit.

The statement that got the highest average rating, 4.91, was "Operational audits contribute to better budgeting and financial planning," and the spread of answers was very small, just 0.29. This showed that almost everyone agreed that operational audits really helped with making better plans on how to spend and manage money, which probably also helped the bank's financial performance.

On the other hand, the phrase "Operational audits have improved how we use our money" got the lowest average rating of 3.57, along with a wide range of opinions, shown by a standard deviation of 1.43. This meant that some people thought that operational audits were good for making better use of money, but others did not see much difference, so there were different views on this point.

The phrase "Regular operational audits find problems with how we use money" got a high average rating of 4.65 and a standard deviation of 0.95, which showed that most people believed that these

audits were good at finding issues in how the bank handled its money. The smaller standard deviation here means that people generally agreed on this.

The phrase "Operational audits improve the correctness of our financial statements" got an average rating of 4.48, and the variation in responses was small, at 0.45. This showed that most people thought that operational audits were important for making financial statements more accurate, which was key for overall financial success.

About the effect on profits, the statement "Our company's earnings have gone up because of following audit advice" got an average rating of 3.89, and the variation in responses was larger, at 1.06. Although the average rating indicated a generally positive view, the bigger variation suggested that there was some disagreement or difference in how people felt about the impact of audit advice on profits.

Finally, the statement "Operational audits help reduce financial risks in the organization" received an average score of 4.29, with a spread of 1.30 in the scores. This showed that most people agreed that operational audits helped to lower risks, but there was some difference in the extent to which they thought it helps.

Overall, the data showed that people generally had a good opinion about how operational audits improved financial performance, especially when it came to budgeting, financial planning, and reducing risks. But there were some areas where opinions varied more, like how well financial resources were used and how much operational audits directly affected profits.

## CHAPTER FIVE

### DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presented the discussion, conclusions and recommendations of the study on internal audit and financial performance. The first section presented a summary of the study findings in relation to the specific objectives. This was followed by a discussion, conclusion, and recommendations of the study in relation to the specific objectives of the study.

#### 5.2 Discussion of the key findings

##### 5.2.1 The impact of risk management audits and financial performance

The results showed that people had a very good view of how risk management checks affected the bank's money-making ability. Those asked thought that doing these checks often and regularly was vital in making the bank more profits. Most people agreed that these checks were very important for keeping the bank's finances strong since they identified and fixed possible problems. This matched what experts said about the importance of regular checks in keeping the bank stable and profitable. Researchers like Lenz and Hahn (2015) mentioned that regular risk management checks were key for finding possible issues and making sure that the bank's actions matched its financial aims. This study's similar results showed the importance of checks in improving the bank's financial performance.

The people who answered the survey also noticed that checking for risks helped lower the amount of money lost during operations. Most of them thought that these checks helped to reduce losses, but they had different opinions on how much they helped in the different parts of the bank. This difference might have been because each department had its own type of risks, which changed how well the checks worked. Arena, Azzone, and Mazza (2015) found that how well these risk checks worked depended on the situation in each part of the company. Their research showed that while these checks usually worked well, they could have different effects in different departments, which matched what Equity bank's workers said.

The use of thorough risk management checks was seen as a major reason for the bank's improved financial results. Most people agreed that these checks helped, even though there were small disagreements, probably because of different experiences in various parts of the bank. The general

agreement on the benefits of these thorough checks showed that detailed and well-done checks were important for financial success. This idea was also supported by Fraser and Simkins (2016), who said that these comprehensive risk management checks were key for finding and fixing any possible financial problems, which led to better financial results.

The importance of risk management audits in finding possible financial risks got different reactions. Some people saw their worth, while others were not as sure about how well they worked. This showed that the depth and range of audits differed, causing people to have different levels of trust in their ability to find risks. Power (2007) said that how well audits worked in finding risks depended on how carefully they were done. The different opinions from the bank's workers who took part in the study showed this challenge and hinted that there were possible ways to make audits better, so they covered more ground.

Respondents recognized the significance of audit results for long-term financial planning and choices, but there was a wide range in how much they valued this. This difference could have been because some respondents were more involved in strategic planning than others. As Hopwood (2007) noted, the effect of audit results on strategic decisions changed based on those who were involved in the planning. This matched what was found at the bank, where those who were more involved in strategic planning saw the value of audit results in a different light.

A clear connection was noticed between how carefully banks checked their risk management and their Return on Assets (ROA). People agreed that careful checks were related to higher ROA, though there were a few different views. This supported what experts had said before about careful checks leading to better financial results. For instance, experts such as Beasley, Clune, and Hermanson (2005) believed that strict risk management, including careful checks, led to higher ROA, showing how important good checks were for financial success.

The improvement in following rules and regulations, checked through risk management reviews, and its good effects on financial results were noticed, even though people had different ideas about how much it really helped. This meant that while obeying rules was thought to be important, different people saw its effect on money matters in different ways. Prawitt, Sharp, and Wood (2012) said that following rules was very important in keeping a good financial situation, but how much they helped could be seen differently based on the rules and the people involved.

Finally, the bank's workers who answered the survey thought that doing checks to manage risks was a good idea because the money saved from avoiding problems was more than the money spent on the checks. This idea was backed by Nair and Bhattacharyya (2019), who said that good risk management, including these checks, usually saved the company more money than it cost and helped it to do better financially.

### **5.2.2. The role of compliance audits and financial performance**

The results showed that the bank's workers believed that checking if Equity Bank followed rules was important for making the bank more money. Most of them agreed that doing these checks effectively helped the bank to make more money, especially from its assets. This matched what experts said, that doing these checks would help the bank use its resources better and work more efficiently, which made more money in the end. Researchers like Ojo (2018) and Adewoye and Akanbi (2019) said that these checks were very important for making sure the bank followed the set rules and did well financially. They said that banks that carried out these checks often were usually in better financial shape, because these checks helped to find and fix problems that could cause trouble in terms of financial losses or regulatory penalties.

Respondents also pointed out how important it was to do regular checks to make sure companies were following rules and resolving money problems. This idea matched what Alzahrani and Aldrees (2020) said, that doing these checks often was really important in ensuring that set rules were followed and money was kept safe. Their study showed that companies which always performed checks identified problems early and this helped them to keep making money and made their investors feel better. The idea that these checks helped to keep making money for the company fits with the bigger idea that these checks were not just something the companies had to do for formality but a smart way for them to handle their money.

Another important finding from this study was that the expenses related to compliance audits were worth it because they led to financial gains. This idea was backed by research, like the work by Glover and Prawitt (2014), which showed that investing in compliance audits resulted in significant financial benefits by avoiding costly mistakes, fraud, and penalties from regulators. These studies emphasized that although compliance audits had high initial costs, their long-term advantages in enhancing financial performance and managing risks were much greater than these costs.

However, not all the respondents agreed on the extent to which compliance checks helped with managing risks and making money (called return on equity or ROE). Some thought these checks made risk management and money-making better, but others were not sure about this. This difference in opinions might have been because risk management was seen to be complicated, and its benefits were not always easy to see or measure like other money results. Research, like Power's from 2016 showed that even though compliance checks were important for finding and fixing risks, how much they helped with return on equity changed based on the situation and how well the whole risk management plan worked.

Lastly, although many people thought that checks on following rules made the financial reports at Equity Bank better, the different opinions showed that people saw this improvement in different ways. This matched what experts said about audits and financial reporting, which was that well implemented audits improved the quality of financial reports.

### **5.2.3 The Contribution of Operational audits on financial performance**

The results showed that most people thought that operational audits were helpful in improving the financial performance of banks. They believed that these audits were important for tasks like budgeting, financial planning, and finding areas where things could be done better. These audits were also seen as useful for making sure financial reports were accurate and for reducing financial risks in the bank. However, opinions differed on how much operational audits helped to save money and increase profits directly. While respondents agreed that operational audits had several benefits, their effects differed based on the financial area and the person's perspective.

These results agreed with what other studies had found, which was that operational audits were important in improving how organizations managed their money and controlled their systems. For example, studies by Sawyer and others (2003) showed that operational audits helped make organizations more efficient by finding and fixing problems with their finances. Likewise, Lenz and Hahn (2015) said that operational audits led to more accurate financial reports and better choices about money, which helped the overall financial health of the organization. The study also found that people had different views on how operational audits helped with making the best use of resources and increasing profits. This was supported by research from Asare and others (2013), who pointed out that the success of operational audits depended on how well the organization followed and used the audit's suggestions in its financial practices.

### **5.3 Conclusion**

In conclusion, the findings from the bank aligned well with existing literature, and reinforced the benefits of risk management audits in enhancing financial performance. The positive perceptions among respondents suggested that these audits played a major role in identifying and mitigating risks, improving profitability, and supporting strategic decision-making. However, the variability in some responses pointed out areas where the effectiveness and impact of audits could further be enhanced, especially in terms of risk identification and the perceived value of audit findings for strategic planning.

Compliance audits played a crucial role in enhancing financial performance, particularly in terms of profitability and financial reporting. However, the varied perceptions regarding the impact of compliance audits on risk management and return on equity suggested that further exploration was needed to fully understand the conditions under which compliance audits were most effective in these areas.

Operational audits were generally perceived by the workers at the bank to be a major influence on financial performance particularly regarding enhancing budgeting, financial planning, and the accuracy of financial reporting. However, there was some variability in respondents' perceptions, especially on the effect of operational audits on the effective use of financial resources and the overall profitability of the organization. While most respondents agreed on the positive contributions of operational audits, the mixed opinions on certain aspects highlighted the need for further exploration and perhaps refinement of audit practices to maximize their impact across all areas of financial performance.

### **5.4 Recommendations**

To improve how commercial banks, detect and handle risks, it is important to use a clear and thorough method for finding and reducing risks. Banks might want to use better tools and tech to look at risks more closely and accurately. Doing more and better checks on risk management can help spot new risks and change strategies as needed. Auditors should get training that's updated

often with the newest ways to manage risks. Also, having good communication between auditors and leaders can make sure the results of audits are used in making important decisions.

To make compliance audits more effective in boosting financial performance, banks need to ensure their audit methods match up with rules and industry expectations. Setting up a strong system for compliance audits that involves frequent updates and checks can help deal with differing views on their benefits. It's also a good idea to keep talking with those involved to make sure compliance audits are tackling their issues and helping with risk control. Creating clear instructions and training for auditors about the importance of compliance in financial statements and risk control can help close gaps and increase the perceived value of these audits

To improve how people view operational audits, it's important to make these audits better and concentrate on important parts like budgeting, money planning, and using resources well. Banks could try a more combined way of doing these audits, bringing together different departments to work together. They should also regularly listen to what people say about the audits and use that to make the audits better. Giving auditors more training can help them do their jobs well. By always checking and changing how audits are done, banks can make sure these audits help improve their overall financial health.

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**APPENDIX 1**

**QUESTIONNAIRE**

**UGANDA CHRISTIAN UNIVERSITY**

**SCHOOL OF BUSINESS**

I am Acio Rebecca Mitchelle a student of Uganda Christian University conducting a research study on the “effect of internal audit on financial performance of commercial banks” using Equity bank as my case study in Mukono Municipality as a requirement for the award of Bachelor’s degree in Business and Administration of Uganda Christian University.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality.

**SECTION A: Demographic Data**

Please tick (✓) in the appropriate box  as the most agreed answer to the following statements.

1. Gender of the respondent.

Male

Female

2. Age group of the respondent.

21-30 years

31-40 years

41-50 years

above 50 years

3. Education level of the respondent.

Primary level

Secondary level

Certificate level

Diploma level

Bachelor’s level

Masters Level

Others specify.....

**SECTION B**

Rate your degree of agreement using a scale of 5=Strongly agree, 4=Agree, 3=Not sure, 2=Disagree and 1=strongly disagree.

<b>A</b>	<b>The impact of risk management audits and financial performance</b>	5	4	3	2	1
1	The regularity of risk management audits positively influences the profitability of our bank					
2	Effective risk management audits have led to a reduction in operational losses.					
3	Our bank's financial performance has improved due to the implementation of comprehensive risk management audits.					
4	Risk management audits help in identifying potential financial risks that could affect our bank's profitability.					
5	The findings from risk management audits are crucial for strategic financial planning and decision-making in our bank.					
6	There is a direct correlation between the thoroughness of risk management audits and the Return on Assets (ROA) of our bank.					
7	Risk management audits enhance the bank's ability to meet regulatory compliance, which in turn positively affects financial performance					
8	The cost of conducting risk management audits is justified by the financial benefits realized from mitigating risks					

9	The bank allocates sufficient resources to conduct effective risk management audits, which positively impacts our financial performance.					
<b>B</b>	<b>The role of compliance audits and financial performance</b>					
10	Our organization regularly conducts compliance audits to ensure adherence to regulatory standards.					
11	The findings from compliance audits have a direct impact on our financial performance.					
12	Compliance audits help identify financial discrepancies that improve overall profitability					
13	There is a strong correlation between the thoroughness of compliance audits and our return on assets (ROA).					
14	Regular compliance audits enhance our organization's return on equity (ROE)					
15	Compliance audits contribute to better risk management, positively affecting our financial performance.					
16	The costs associated with compliance audits are justified by the financial benefits they bring.					
17	The frequency of compliance audits in our organization is adequate to maintain optimal financial performance.					
18	The quality of our financial reporting has improved due to regular compliance audits					
<b>C</b>	<b>The contribution of operational audits on financial performance</b>					
19	Operational audits improve the overall financial performance of our organization.					
20	Regular operational audits help in identifying financial inefficiencies.					

21	The recommendations from operational audits lead to significant cost savings.					
22	Operational audits enhance the accuracy of our financial reporting.					
23	Operational audits contribute to better budgeting and financial planning.					
24	Our organization's profitability has increased due to the implementation of audit recommendations.					
25	Operational audits help in mitigating financial risks within the organization					
26	Operational audits have led to more effective use of our financial resources					

**Thank you**