

**THE ROLE OF THE INTERNAL AUDIT FUNCTION AND THE
PERFORMANCE OF GOVERNMENT INSTITUTIONS
A CASE STUDY OF UGANDA REVENUE AUTHORITY**

BY

NAFUNA SARAH ELIZABETH

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Declaration

I Nafuna Sarah Elizabeth declare that this work is original and has never been presented in any institution for any award.

Signed..... Date

NAFUNA SARAH ELIZABETH

Approval

I certify that this research report was done under my supervision and the report is submitted with my approval.

Signed..... Date

DR. CHARLES C. SSENDYONA

Dedication

This research work is dedicated to my Mother (Ms. Male Sarah) whose dedication and inspiration has enabled me attain this level of education. I also dedicate it to my Sisters (Maureen Kizito, Nambi Sophia and Diana Mbabazi) and my nephews and niece (Alvin, Christian, Charlene, Comfort and Cole).

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I thank God for bringing me this far.

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Abbreviations

AG	Auditor General
BAC	Board Audit Committee
CG	Commissioner General
CAE	Chief Audit Executive
CEO	Chief Executive Officer
LGU	Local Government Units
CIIA	Chartered Institute of Internal Auditors
CIAC	Commissioner Internal Audit& Compliance
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
IAPS	International Auditing Practice Statement
IAC	Internal Audit and Compliance
ISSAI	International Standards of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
OAG	Office of Auditor General
PAC	Public Accounts Committee
SPSS	Statistical Package of Social sciences
URA	Uganda Revenue Authority

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Abstract

The purpose of the study was to understand the role of internal audit and the performance of Government institutions. The objectives of the study were to examine the scope and priorities of the internal audit function, to examine the internal control system and reporting function in URA and to establish the level of independence of the internal audit function in URA. A Case study was selected for this research and the researcher used both qualitative and quantitative research design. The study was also cross-sectional in nature with a population of 20 staff and data was collected using questionnaires. Key findings in the research included: less effort was devoted to performance improvement audits and Risk management compared to Compliance and Advisory Audits, Priorities and work plan of the Internal Audit was to a greater extent determined by the Risk function rather than Management, the internal audit work plan was approved by the Board Audit Committee, Staff had autonomy in making audit recommendations and that internal Auditor's independence resulted into an improvement in performance, as process loopholes could independently be reported and the solutions to process improvements suggested. Recommendations were increased diversity in the nature of audit work, and continuous assessment of control activities, procedures and policies. Areas of further research may include the role of internal audit on risk management and performance.

CHAPTER ONE:

INTRODUCTION

1.0 Background of the Study.

According to the International Professional Practices Framework (IPPF), internal audit is defined 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”.

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the Institute of Internal Auditors’ (IIA) International Standards for the Professional Practice of Internal Auditing is essential in meeting the responsibilities of internal auditors and the internal audit activity. The International Standards of Supreme Audit Institutions (ISSAIs) which are issued by the International Organization of Supreme Audit Institutions (INTOSAI) present general terms to allow adoption in different national contexts with an understanding that implementation will be governed by the environment in which the internal audit activity carries out their responsibilities and in accordance with the applicable laws. In Uganda, The office of the Auditor General of Uganda (OAG) is the Supreme Audit Institution

(SAI). The OAG undertakes external audits of government ministries and their respective offices to ensure accountability and also oversees the work of the internal audit function. The internal audit function in Uganda was established in 1997 and is statutory for local governments.

The role of internal auditing can be identified as involving three main elements; evaluation and improvement of risk management, control and governance processes and Auditors use tools such as financial audits, performance audits and investigative and advisory services to fulfill each of these roles (Deloitte, 2011).

The internal audit function has received increasing attention as an important component of the government financial management and a tool for improving the performance of the Government sector (IMF report, 2002). That governments should apply themselves to continuously improving their performance, particularly with respect to the management of public funds and the stewardship of public assets, appears now to be a generally accepted principle of good governance (Ian, 1999). The International Auditing Practice Statement (IAPS, 2003), states that the need for an internal audit functions will usually be governed by size, risk, and complexity of a business.

According to Chr Michelsen Institute (CMI report 2005) the Initiatives within the general framework of the poverty reduction strategy process in Africa have been centered on government ministries, and audit institutions have been sidelined. It highlights that the SAI' independence is compromised by lack of autonomy in relation to appointment and dismissal procedures, financial

matters, and access to relevant and timely information which sets a wrong precedence for the internal audit function. It adds that the functioning and quality of the Internal Audit (IA) within spending units is of relevance since there is tight interplay between the SAI and the internal audit function.

A weak IA adds to the workload of the SAI and diminishes the effect of external audit. It further may lead to inadequate follow up of audit findings as recommendations and corrective actions are not taken by the auditees, thus rendering the recommendations the SAI reports superfluous. The CMI report (2005) also highlights that the internal audit function in Government institutions in Uganda is not sufficiently funded and is thinly staffed hence it was not easy to see whether they did their job.

According to the new vision News Paper dated November 25th 2012, the office of the Prime Minister of Uganda was reported to have lost over 12million Euros which was Irish aid money in what is quoted to have been a very “sophisticated, well thought out fraud involving a high level of collusion at a senior level. In its earlier News Paper dated October 24th 2012, it had been stated that the office of the Auditor General had been prompted among others by revelations of the paper of payments made to private bank accounts of civil servants to do Government work. It further added that the account on which the money had been channeled was held with the central bank but “had fallen off the audit radar”. On November 11th 2013, the new vision News Paper reported that the office of the Prime Minister of Uganda had lost over 60 billion which was meant for war veterans and victims under the Luweero- Rwenzori Development programme. Over the years, a number of graft scandals have hit the country which include; the Chogm

scandal in 2007, Global Fund scandal in 2008, Temangalo scandal in 2008, ID scandal in 2010, bicycle scandal in 2011, microfinance and Specioza Kazibwe scandal 2011, Hassan Basajjabalaba compensation scandal in 2011 and the Pension's scandal 2012.

1.1 Statement of the problem

Internal auditing is a professional activity which involves advising organizations on how to better achieve their objectives through managing risks and improving internal controls (Sy and Tinker, 2009).

A surge of debilitating problems related to the failure of internal audit systems has continued to unfold despite the existence of decentralized internal control systems (JARD, 2006; Kakumba, 2003; Francis and James, 2003; Crook, 2003; Kiyaga-Nsubuga, 2001 & Kakumba 2008).

It is also evident that there has been misuse of power and numerous practices which implies that there are still significant managerial and capacity handicaps in the control of statutory institutions responsible for enforcing good internal audit practice (OAG-report, 2012:28).

Despite efforts by Government to set up statutory institutions to enforce the internal audit function, accountability and performance, the researcher still feels that there are still gaps which need to be addressed and therefore the motivation to study the role of the internal audit function and the performance of Government Institutions using URA as a case study.

1.2 Objectives of the study

- i. To examine the scope and priorities of the internal audit function in URA.
- ii. To examine the internal control system and reporting function in URA.

- iii. To establish the level of independence of the internal audit function in URA.

1.3 Research Questions

- i. What is the scope and priorities of the internal audit function in URA?
- ii. How is the internal control system and reporting function carried out in URA?
- iii. What is the level of independence of the internal audit function in URA?

1.4 Purpose of the Study.

The purpose of this study was to examine the role of internal audit and performance of Government institutions using Uganda Revenue Authority as a case study.

1.5 Scope of the Study

The URA Act was established on 5 September, 1991. The Act establishes the Authority as a central body for the assessment and collection of specified revenue, to administer and enforce the laws relating to such revenue and to provide for related matters.

This study was conducted at the Internal Audit and Compliance Department which is one of the seven departments in the Authority. The department is located at its headquarters in Nakawa.

The study took a period of one month.

1.6 Significance of the study

- i. Findings are intended to assist Government in enhancing the role of the internal audit function in the performance of Government institutions

- ii. The study will provide literature that will increase the body of the existing knowledge and this will provide a basis for further research.

1.7 Conclusion

As highlighted above, Auditing is a traditional instrument that maintains a grip on government activities and provides information to administrations, elected officials, and (sometimes) constituents. It is generally seen as an indispensable element of the regulatory system. This study will therefore seek to achieve the objectives of establishing the scope and priorities, nature internal control system and reporting function as well as the independence internal audit.

The study will also be significant to the various stakeholders as indicated above.

CHAPTER TWO:

LITERATURE REVIEW

2.0: Introduction

This chapter concentrates on the review of the available literature by scholars and academicians in the line with the research objectives.

2.1: The scope and priorities of the internal audit function

The scope of work of the Internal Audit function encompasses the examination and evaluation of the adequacy of all organization systems of internal controls together with the efficiency and effectiveness of management performance in carrying out assigned responsibilities.

Internal Audit provides an independent and objective assurance and consulting service that is designed to add value and improve the organization's operations which are geared towards helping the organisation accomplish its objectives by bringing about a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance.

According to the Chartered Institute of Internal Auditors (CIIA) Financial Code as at July 2013, the Scope and Priorities of internal audit shall include; Risk assessments and prioritisation of internal audit work, internal governance, the setting of and adherence to the risk appetite, the evaluation of information presented to the Board and Executive Management for strategic and operational decision making, the risk and control culture of the organisation, risks of poor

customer treatment giving rise to conduct of reputational risk, capital and liquidity risks and outcomes of processes among others.

This therefore implies that the scope and Priorities of an Internal Audit function is unrestricted and may involve all the above priorities.

However the Chief Audit Executive should establish risk based plans to determine the priorities of the internal audit activity (Rudd, 2001). Internal audit needs to understand the expectations of its primary stakeholders (senior management and the audit committee) and align its activities accordingly. This alignment ensures that the internal audit function and key stakeholders share the same priorities when it comes to applying internal audit resources to risk management and control. By maintaining good communication, internal audit can also ensure that its priorities continue to match those of its key stakeholders as they evolve (Mallin, 2011).

2.2. Internal Control systems and the reporting function

Internal control may be defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records. It will be observed that the concept of internal control goes beyond financial and accountancy matters and the custody of company assets to include controls designed to improve operational efficiency and ensure adherence to company policies. The board of directors should have the responsibility for approving strategies and policies and ensuring that senior management is monitoring the effectiveness of the internal control system (Basle, 1998:2).

Foulks, (2004) defines internal control system as comprising of the control environment and control procedures adopted by directors and management of an organization in achieving its objectives by ensuring practical, orderly and efficient conduct of an organization. This may include adherence to policies, safe guarding assets, prevention and detection of fraud accuracy and competences of accounting records and timely preparation of financial reports.

According to Whittington (1999), an internal control system consists of policies and procedures established to provide reasonable assurance that the organization's related objectives are achieved. The concept of reasonable assurance recognizes that no structure is perfect and that the cost of the entity's internal control should not exceed the benefits to be derived.

Consistency with the firm's objectives of maintaining optimum cash balance in order to meet the firm's obligations as and when they fall due, and the awareness of the different risks associated with the various sources and uses of funds, is important in streamlining the policies and procedures for accessing, using, recording and custody of cash (Pandey, 1995).

According to Swamy (1994), internal controls in accounting system serves the function of ensuring that all transactions carried out are suctioned and authorized by management. This is important because all activities of the organization are performed in line with the laid down policies. All transactions should be accounted for in the relevant books of accounts regularly, correctly and systematically (Millichamp, 1996). This should be according to the application reporting framework, like the relevant legislation and applicable Accounting Standards.

According to Foulks, 2005, this should lead to proper accountability of all assets and liabilities of the firm.

The reporting in Internal Audit should be accurate that is free from errors and distortions and faithful to the underlying facts. The Objective should be Fair, impartial, and unbiased and is a result of a fair minded and balanced assessment of all relevant facts and circumstances. Though the OAG and the Inspector General of Government have continued to castigate local Government Units (LGUs) in Uganda not only for misappropriation of billions of shillings annually, but also for gross incompetence and abuse of authority, which undermines accountability, efficient and effective performance, institutional reports still highlight local government institutional decay which suggests problems in the internal systems of control (Kakumba 2008: 5). However even where (internal administrative) controls play a vital role, they can be abused and thus, may fail to ensure good governance (Olowu (2003: 46)

Whereas there have been several attempts to evaluate local governments' performance in over a decade-long, these attempts have tended to focus on the general issues of financial management, personnel and political decentralization. There has hardly been any major investigation to evaluate the capacity and effectiveness of control systems put in place to enhance accountability at local government sphere (Kakumba, 2008).

2.3 Independence and Authority of Internal Audit.

Independence refers to the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement,

functional and organizational levels. Objectivity on the other hand refers to the 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. The IIA Code of Ethics (IIA, 2009b) consists of a number of basic principles which internal auditors are expected to uphold, together with rules of conduct which describe the norms of behaviour expected of internal auditors.

The Chartered Institute of Internal Auditors states that the Chief Internal Auditor should be at a senior enough level within the organisation (normally expected to be at Executive Committee or equivalent) to give him or her the appropriate standing, access and authority to challenge the Executive. Subsidiary, branch and divisional Heads of Internal Audit should also be of seniority comparable to the senior management whose activities they are responsible for auditing.

Internal Audit should have the right to attend and observe all or part of Executive Committee meetings and any other key management decision making fora. Internal Audit should have sufficient and timely access to key management information and a right of access to all of the organization's records, necessary to discharge its responsibilities.

(Christopher, Sarens & Leung, (2009) examined the independence of the internal audit function in a sample of 34 Australian companies through the function's relationship with both management and the audit committee. An e-mail based survey of CAEs identified a number of threats to independence stemming from internal audit's relationship with the audit committee. These threats include CAEs not reporting functionally to the committee, the audit committee not

having sole responsibility for appointing, dismissing and evaluating the CAE and audit committee members lacking expertise in accounting. Sarens and De Beelde (2006a) used a case study approach of five Belgian companies to explore the expectations and perceptions of both senior management and internal auditors with respect to the relationship between the two parties. They found that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship with the audit committee is weak. They also found that senior management's expectations significantly influence internal audit and that the support of senior management is critical to the acceptance and appreciation of the internal audit function within the organization. Van Peurseem (2005), in a multiple case study of six senior internal auditors in New Zealand, found that internal auditors' close relationship with management can place their independence from management at risk.

The primary reporting line for the Chief Internal Auditor should be to the Chairman of the Audit Committee. In exceptional circumstances, the Board may wish for Internal Audit to report directly to the Chairman of the Board, or delegate responsibility for the reporting line to the Chairman of the Board Risk Committee, provided the Chairman of the Board Risk Committee and all the other Committee members are independent Non-Executive Directors. The reporting line must avoid any impairment to Internal Audit's independence and objectivity.

This therefore exemplifies the fact that the internal audit function should be independent and authoritative enough to be effective.

2.4 Conclusion

From the above, we can observe that the results on prior studies relating to scope and priorities of the internal audit function as well as those relating to the Internal Control systems and the reporting function of internal audit are generalized. The priorities and scope of the audit function therefore largely depend on the organization in question and the internal control systems and reporting structure put in place depends on the control environment. This implies that the application of the above procedures varies based on the organization in question.

For research that has been conducted in the area of Independence and Authority of Internal Audit function, the researchers mainly used surveys and the research was carried out in other jurisdictions and cultures with different culture dimensions other than Uganda. The researchers do agree that the independence of the internal audit function is important and that its relationship with the Board is vital in exercising its authority.

For the case of Uganda, cultural dimensions such as power and political involvement could add insight into our understanding of the role of the internal audit function in the performance of Government Institutions. Use of a different research design other than surveys could also give the researcher different research findings. The researcher therefore seeks to study how the role of internal audit relates to the performance of Government Institutions using Uganda Revenue Authority as a case study.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The research questions which the research design addressed are;

- i. What is the scope and priorities of the internal audit function?
- ii. How is the internal control system and reporting function in URA?
- iii. What is the level of independence of the internal audit function in URA?

The contents of the chapter will cover the research design, study population, sample size, sampling procedures, data collection methods, data analysis and limitations to the study.

3.1 Research design

A Case study was selected for this research because the researcher felt the need to research about the research problem using this particular group making it an intrinsic case (Stake, 1995).

The study used both quantitative and qualitative research design. Qualitative design was chosen because the study required an in depth understanding of a particular group of people (Merriam, 1998).

Descriptive method was used to describe the characteristics of the research. The study was also cross-sectional in nature because the researcher gathered data once over a period of days in order to answer the research questions. The selection of this approach is based on the assumption that qualitative approach would help in exploring the role of internal audit and performance of Government institutions. This was presumed to be of help to the researcher when making deductions, analyses and conclusions.

3.2 Study population

The study population included all staff of the Internal Audit Department in URA. The population size was 20 respondents

3.3 Sampling design and sample size.

The sample size consisted of all Managers (six), Supervisors (ten) and officers(six) in the department. These were purposely selected because of their knowledge or information regarding the area of the study. They also provided also specific views on the internal audit function and performance of Uganda Revenue Authority.

3.4 Data collection methods

Data was collected using the questionnaire method and content analysis of documentation method.

3.4.1 Questionnaire Survey Method

The researcher administered the questionnaire in person to the respondents. This method was selected due to the fact that it is time saving, many respondents were covered within a short time and sensitive questions could be confidentially answered by respondents. A questionnaire method gave time to the respondent to think and analyze the questions asked before giving an appropriate answer.

A Likert scale of five containing statements which the respondent was asked to evaluate was used. It was a five order scale in which SD=1 was Strongly Disagree, D= 2 was Disagree, NS= 3 was Not Sure, A= 4 was Agree and SA= 5 was strongly agree.

3.4.2 Documentary Review

Documentary review included the review of assurance and consultancy reports from the internal Audit and Compliance department, the review of both the internal audit Charter and internal audit manual, and the review of the URA Act. Data from secondary sources was supplemented with primary sources to enable the researcher come up with comprehensive conclusions.

3.5 Data Collection Instruments

3.5.1 Questionnaires

Meyer, (1999) observes that questionnaires are used to collect data when targeted respondents are many in number. The questionnaires were used to collect data from the respondents.

3.6 Validity and Reliability of Instruments

3.6.1 Validity

In order to ensure the validity of the data collection instrument, the researcher after designing the instruments carried out a peer review and possible amendments were made.

3.6.2 Reliability

This was achieved through pre-testing 15% of the instruments, and after the exercise, questionnaires were pre-drafted if found yielding.

3.7 Data Analysis

After collecting data, it was sorted and coded so as it is input in excel for analysis. The analysis was done using percentages and Mean so as to indicate the aggregate opinions of respondents per each question and generalizations were made.

3.8 Conclusion

This study adopted an appropriate research design and an entire population based on the population size. The data collection methods used which was mainly a questionnaire enabled the researcher to collect useful information which was later analysed as presented in chapter four.

CHAPTER FOUR

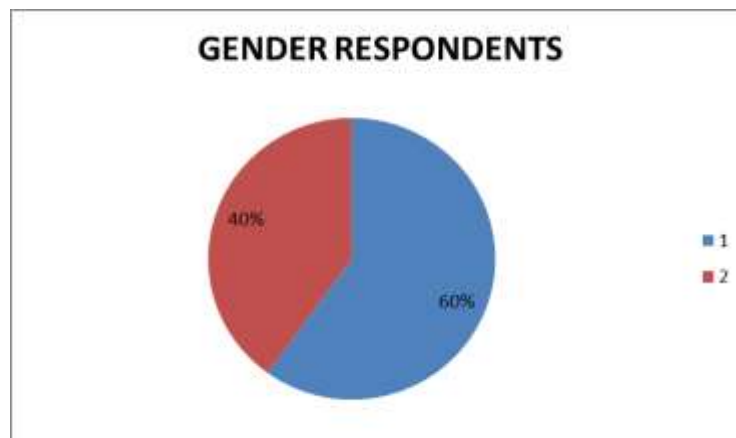
PRESENTATIONS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter contains the presentation, interpretation and discussion of the findings to provide answers to the research problem. The first gives the back ground of the respondents and then presents the findings. Frequency tables and percentages, by the help of SPSS and Microsoft office Excel were used to analyze data, pie charts and bar graphs were also used to make presentation of data upon which analytical representation is made. The findings relate to the role of internal audit function and the performance of Government Institutions the Case of Uganda Revenue Authority.

4.1.1 Findings on the gender of respondents.

Figure1: Showing the Gender of respondents



Source: Primary Data

During the Analysis Using Microsoft Excel tables, Female employees were coded with color Maroon and Male employees were coded with Blue. From the findings the number of male staff (60%) was more than that of female (40%) meaning that the much as there is a discrepancy in the Percentages, the organisation has taken all measures in ensuring gender balance within the department.

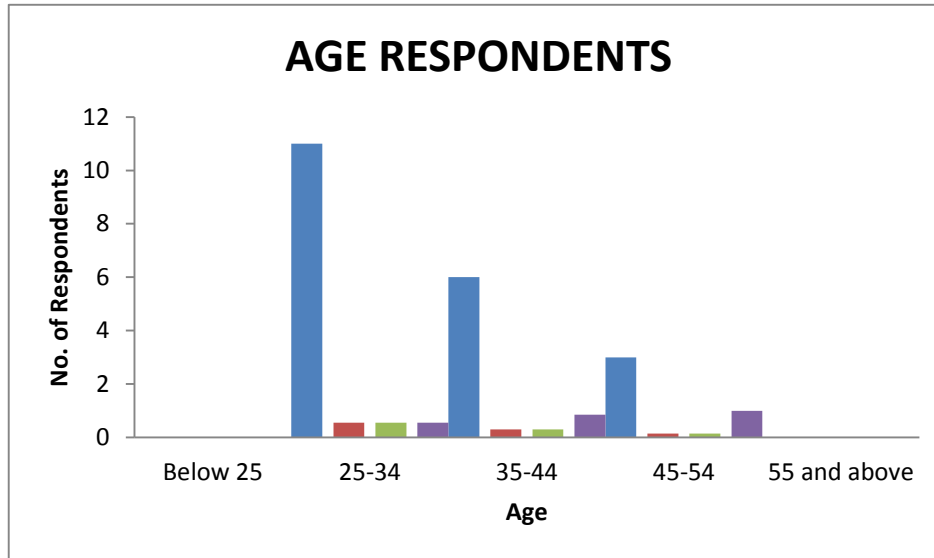
4.1.2 Findings on the age bracket of respondents

Table 1: Age bracket of the respondents

Response	Frequency	Percentage	Validity	Cumulative Percentage
Below 25	0	0%	0%	0%
25-34	11	55%	55%	55%
35-44	6	30%	30%	85%
45-54	3	15%	15%	100%
55 and above	0	0%	0%	
Totals	20	100%	100%	

Source: Primary Data

Figure 2: Age bracket of the respondents.



Source: Primary data.

The data from the figure above reveals that the majority of the workers in the organization fall under the age group of 25 – 34 (55%), followed by those in the age group of 35 – 44 (30%) and 45 – 54 years (15%). This implies that the organization recruits the active age bracket of 25-44 for effective service delivery and organizational performance.

It was further observed that 55% have professional qualifications or are pursuing their professional qualifications and have a minimum of 3-5 years’ experience in the Internal Audit Environment.

This also implies that the department’s human capital is well placed to carryout internal Audit work in the organisation hence enhancing performance of the organisation.

4.1.3 Findings on the Scope & Priorities of Internal Audit.

Table 2: Scope and priorities of Internal Audit

1. Scope	Responses	mean
Compliance	20	4.35
Advisory	20	4.3
Risk management	20	2.00
Performance improvemnet Audits	20	4.2
2. Restrictions		
No restrictions on scope	20	4.6
Escalation of scope limitations is done	20	4.6
3.Priorities		
Set by Management	20	1.75
Determined by Risk Function	20	4.45
4. Approval of workplan		
Is done by Board Audit Committee	20	4.6
communication of audits at beginning and end of Audit	20	4.35

Source: Primary data.

The researcher established that the activities of the internal audit department involve carrying out Compliance Audits, Advisory, Risk Management and performance improvement Audits. The findings indicated that the staff in the department conducted more of Compliance Audits (mean =4.35) followed by Advisory (mean=4.3), performance improvement (mean=4.2) and then Risk Management audits (mean=2).

The findings imply that less effort has been devoted to performance improvement audits and Risk management and as such this may be among the reasons for the slothful performance in the risk management process of the Uganda Revenue Authority.

It was also established that the respondents have not been restricted in the scope of the work (mean= 4.6) during their day to day operations and some have gone ahead to bring the issue to the attention of the supervisors (mean=4.6) much as the results of the reporting were not disclosed for confidentiality reasons.

It was further established that the priorities and work plan of the Internal Audit and Compliance is to a greater extent determined by the Risk function (mean = 4.45) rather than Management (mean=1.75). It can therefore be deduced that Risk is the Major driver of Internal Audits in Uganda Revenue Authority.

It was also established that the internal audit work plan is approved by the Board Audit Committee (mean=4.6) which depicts a good control environment for the institution.

It was further established from the Interviews conducted that the Internal Audit carries out Entry and Exit meetings with the clients at the beginning and the end of the audit (mean=4.35) which pointed to efficiency of Audit management by Uganda Revenue Authority.

4.1.4 Findings on the Reporting and Nature of the in Internal Audit function.

Table 3: Reporting and Nature of the Internal Audit Function

Reporting	Number of Respondents	Mean
Auditee	20	4.9
CG	20	4.6
BAC	20	4.5
OAG	20	4.15
Nature of the internal audit recommendation		
Improvements in the Risk Management frame work	20	4.05
Change in departmental structures	20	4.05
Staff training	20	3.85
Increase in resource allocation	20	4.21

Source: Primary Data

The table above shows in detail where the Audit reports are submitted, for follow up on the recommendations that are made in the reports made by the auditors. From the research, it was highly (mean= 4.9) established that the respondents strongly agreed that auditors submit their reports to the respective Commissioner who is the business process owner of the respective department which is being audited (Auditee). It was also established that the respondents strongly agreed (mean =4.6) that the CG commissioner also received copies of the reports.

The respondents also agreed that BAC (mean= 4.15) as well as the CG (mean = 4.6) also received copies of o the audit reports with specific audit recommendation points (mean= 4.4).

It was further established that the audit reports have different recommendations and that staff agreed that recommendations have been made in the area of improving the resource allocation (mean=4.21), Risk management Frame work (mean=4.05), change in the Departmental structures (mean = 4.05), and Staff training (mean=3.85).

The study of the reporting function reveals that the Uganda Revenue Authority Internal Function has been efficient on the reporting and dissemination of the Audit findings and this is evidenced by the creation of the Board Audit Committee that has gone ahead to review and scrutinize the audit work plan as well as the audit reports in order to ensure efficiency in the Internal Audit Department.

It can also be noted that the autonomy given to staff to make Audit recommendations unlimitedly is a pointer to the fact that the organisation values feedback from the Internal Auditors.

It was further observed that the majority of the respondents agreed that they made recommendations in regard to Risk management, staff training, improvement of procedures and process, more resource allocation among others. Such are core issues that need immediate consideration and their being addressed implies that the organisation is tending towards peak performance.

4.1.5 Findings on the Independence and Authority of Internal Audit.

Table 4: Independence and Authority of Internal Audit

Independence and Authority of Internal Audit.	Number of Respondents	Mean
I participate in departmental meetings discussing the departmental performance	20	3.5
Internal Auditors have sufficient and timely access to key management information and a right of access to all of the organization's records, necessary during discharge of your responsibilities	20	4.25
The primary reporting line for the head of IAC department is to the Chairman of the Audit Committee.	20	4.37
The secondary reporting line for the head of IAC department is to the Commissioner General for administrative purposes.	20	4.45
The Board of Directors is responsible for the appointment of the head of the Internal Audit and Compliance department and removing him/her from post	20	4.05
The Chairman of the Audit Committee is accountable for setting the objectives of the head of IAC department and appraising his/her performance	20	3.75
The Chairman of the Audit Committee is responsible for recommending the remuneration of the head of IAC department and the audit staff to the Benefits & Remuneration Committee	20	2.15

Source: Primary Data

From the above findings on the Independence and Authority of Internal Audit, the following were established.

The respondents agreed (mean=3.5) that they participate in the departmental meetings while discussing the departmental performance. They also Agreed that they as internal auditors have sufficient and timely access to key management information and right of access to all the organizations' records necessary during the discharge of their responsibilities (mean = 4.25).

The respondents further agreed that the primary reporting line for the head of IAC is the chairman of the Audit committee (mean = 4.37) and the secondary reporting line for CIAC is the Institutional head who is the CG for Administrative purposes (mean= 4.45).

The respondent further agreed that the Board is responsible for appointing the head of IAC department(mean= 4.05) and removing him/her and agreed that the Chairman Board Audit committee is accountable for setting objectives of the head of IAC department and appraising his/her performance (mean= 3.75). The staff however disagreed that the Chairman of the Audit Committee is responsible for recommending the remuneration of the head of IAC department and the audit staff to the Benefits & Remuneration Committee (mean= 2.15).

4.2 Conclusion

In conclusion, staff agreed that the role and Mandate of Internal audit function is clearly defined in the audit charter which is easily accessible by staff.

It was also established that the priorities of the internal audit function are clearly defined and that they include Advisory services, Performance improvement audits, Compliance audits but they disagreed that they include the risk Management function. They also agreed that the audit scope is not restricted and in case it is the problem can be escalated. They also agreed that communication with the Board and the Auditee is clearly spelt out and that setting the audit work plan majorly depends on risks rather than Management. They also agreed that the reporting function is also spelt out and that recommendations can be made within the different spheres of the institution.

CHAPTER FIVE
SUMMARY OF FINDINGS,
CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study was designed and carried out to establish the role of internal Audit and the performance of government institutions a case study of Uganda Revenue Authority. It investigated the scope and priorities of the internal Audit, the reporting function of the Internal Audit and its independence while performing its tasks of Uganda Revenue Authority.

5.2 Summary of findings.

5.2.1 Scope and priorities of the internal audit function

The findings established that the activities of the internal audit department involve carrying out Compliance Audits, Advisory, Risk Management as well as performance improvement Audits.

It was also established that the respondents agreed that they have not been restricted in the scope of the work during their day to day operations and some have gone ahead to bring the issue to the attention of the supervisors much as the results of the reporting were not disclosed for confidentiality reasons.

It was further established that the priorities and work plan of the Internal Audit and Compliance is to a greater extent determined by the Risk function rather than Management.

It can therefore be deduced that Risk Management is the Major driver of Internal Audits in Uganda Revenue Authority and the nature of work by the majority of Internal Audit staff is carrying out Compliance audits.

5.2.2. The role of the reporting function in enhancing organisation performance.

It was established that the audit reports are submitted to the Board Audit committee with specific recommendations such as Improvement in risk management, staff training, and more allocation of resources among others.

The finding relates to the recommendation by the CIIA which emphasizes the need for concise recommendations in the Audit report.

5.2.3 The level of independence of the Internal Audit functions in URA.

The research findings show that independence narrowly positively and significantly relates to URA's performance. This would mean that internal Auditor's independence results into an improvement in performance, as the loopholes are independently reported and the solutions to these improvements suggested. It also revealed that URA internal Auditors are independent with an in house established Board Audit Committee.

5.3 Summary of conclusions.

The study concludes that the scope and priorities of the Internal Audit function should not be restricted as this will enhance better performance. It has also been deduced from the study that

the internal audit function has to be given autonomous independence as this will help improve performance and decision making.

5.4 Recommendations

The findings revealed that internal Auditors were performing their duties as required of them however there are restrictions in the scope and priorities of the Internal Auditor to specific nature of work activities related to risk Management. In a bid to further improve performance, it is recommendable for management to ensure that there is diversity in the nature of work done and a balance stroked to ensure optimal performance.

URA should maintain the existing control environment, information and communication, assurance services as per results of the findings which showed a positive significant effect on how this attributes to performance. However continuous improvement control activities, procedures and policies should be regularly revised at least annually to meet the very changing and complicated business environment and ensure they are communicated to the implementers.

5.5 Areas of further research

The research was carried on the role of internal audit and performance of URA. From the findings, there is still a gap as on whether risk management should be a function of internal audit or be left to management and as such, one can carry out a research on the role of internal audit on risk management and performance.

Performance in this study was restricted to revenue collection and risk levels. Further research about the role of internal audit function to organizations in respect to other parameters may be done.

5.6 Conclusion.

It can be concluded that the Internal Audit function plays a very significant role in the performance of government institutions and therefore it should have clear and defined roles, scope and priorities and good systems that would enable valid reporting and a high level of independence as discussed above.

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Appendix 1

QUESTIONNAIRE

This questionnaire is designed to help gain a clear understanding of the role of the Internal Audit function and the performance of public institutions a case study of Uganda Revenue Authority. **This research is intended for academic purposes and is carried out as partial fulfillment for the award of Masters of Business Administration of Makerere University**

You are considered as one of the resourceful persons and as such you are kindly requested to spare sometime and respond to the questions/statements frankly and honestly. Your response will be treated with utmost confidentiality and as such, you do not have to write your name on the questionnaire nor should you disclose your answers to other respondents. Thank you for accepting to participate in this study.

SECTION A: DEMOGRAPHIC (TICK THE CORRECT BOX)

1. Gender

Male Female

2. How old are you?

Below 25 25-34 35-44 45-54 55 and above

3. What is your marital status?

Single Married others

4. What is your highest level of education status?

Certificate Diploma Bachelors Masters and Above

5. State any professional qualification you have obtained if any?

6. How many years have you worked with this organization?

Less than 1 1-3 3-5 5-8 8- 10 and 10 Above

7. Please tick the section you work in Internal Audit & Compliance Department?

Domestic Taxes Audit Customs Audit Financial & Management Systems
 Audit
 Information Systems Audit Compliance

8. What is your rank in Internal Audit & Compliance Department?

Officer Supervisor Manager Ass Commissioner
 Commissioner

9. How many years have you worked in Internal Audit & Compliance Department?

Less than 1 1-3 3-5 5-8 8- 10 and 10 Above

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the Following statements below (SD=1 Strongly Disagree, D= 2 Disagree, NS= 3 Not Sure, A= 4Agree and SA= 5 strongly agree)

SECTION B: ROLE & MANDATE OF INTERNAL AUDIT		SD(1)	D(2)	NS(3)	A(4)	SA(5)
1	There exists Internal audit Charter in the Internal Audit & compliance department	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	The internal audit charter publically displayed for the staffs of the department to read.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION C: SCOPE & PRIORITIES OF INTERNAL AUDIT

			SD(1)	D(2)	NS(3)	A(4)	SA(5)
1	Please tick the nature of your work in Internal Audit & Compliance Department	Risk Management	1	2	3	4	5
		Advisory services	1	2	3	4	5
		Performance improvement audits	1	2	3	4	5
		Compliance audits	1	2	3	4	5
2	I am not restricted on the scope of my work by the people I audit		1	2	3	4	5
3	I am able to raise the issue of limitation of scope to my supervisor when it happens		1	2	3	4	5
4	In setting priorities and work plan, is Internal Audit & compliance work plan determined by;	Management	1	2	3	4	5
		Risk function	1	2	3	4	5
5	The Internal Audit plan and any connecting change to it are approved by the Audit Committee.		1	2	3	4	5
6	At the beginning and at the end of the audit, I hold entry and exit meetings with your clients		1	2	3	4	5

SECTION D: REPORTING

			SD(1)	D(2)	NS(3)	A(4)	SA(5)
1	After completion and sign off of an audit report, the audit report is submitted to;	Commissioner of the respective department audited	1	2	3	4	5
		Commissioner General	1	2	3	4	5
		Auditor General	1	2	3	4	5
		Board Audit Committee	1	2	3	4	5

2	Internal Audit reports include specific recommendation that address identified risks.	1	2	3	4	5	
3	The nature of the internal audit recommendation can include any of the following.	Improvements in the Risk Management frame work	1	2	3	4	5
		Change in departmental structures	1	2	3	4	5
		Staff training	1	2	3	4	5
		Increase in resource allocation	1	2	3	4	5

SECTION E: INDEPENDENCE AND AUTHORITY OF INTERNAL AUDIT

		SD(1)	D(2)	NS(3)	A(4)	SA(5)
1	I participate in departmental meetings discussing the departmental performance	1	2	3	4	5
2	Internal Auditors have sufficient and timely access to key management information and a right of access to all of the organization's records, necessary during discharge of your responsibilities	1	2	3	4	5
3	The primary reporting line for the head of IAC department is to the Chairman of the Audit Committee.	1	2	3	4	5
4	The secondary reporting line for the head of IAC department is to the Commissioner General for administrative purposes.	1	2	3	4	5

5	The Board of Directors is responsible for the appointment of the head of the Internal Audit and Compliance department and removing him/her from post	1	2	3	4	5
6	The Chairman of the Audit Committee is accountable for setting the objectives of the head of IAC department and appraising his/her performance	1	2	3	4	5
7	The Chairman of the Audit Committee is responsible for recommending the remuneration of the head of IAC department and the audit staff to the Benefits & Remuneration Committee	1	2	3	4	5

THANK YOU