

MAKERERE UNIVERSITY BUSINESS SCHOOL

AUDIT COMMITTEE CHARACTERISTICS, INTERNAL AUDIT PERSONNEL CHARACTERISTICS,
PERCEPTIONS OF ORGANISATIONAL JUSTICE AND INTERNAL AUDIT QUALITY.

THE CASE OF MDIs and MFIs

BY

CATHERINE MWIRI WAMATSEMBE

(ACCA, Bsc Hons Applied Accounting, Oxford Brookes)

REGN. NO.: 2005/HD10/2723U

DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD OF THE DEGREE
OF MASTERS OF SCIENCE IN ACCOUNTING AND FINANCE OF MAKERERE UNIVERSITY.

SUPERVISORS: ASSOC. PROF.SAMUEL SEJJAKA

HAJJI TWAHA KAAWAASE

DECLARATION

I, Catherine Mwiri Wamatsembe, declare that this dissertation is my original work resulting from my independent research and investigation, and has never been submitted or published in any university or any institution of higher learning. Due acknowledgement has been made where works of other scholars was used.

Signature:

.....

Date:

.....

APPROVAL

This is to certify that this dissertation has been submitted for the award of the degree of Master of Science (Accounting and finance) degree of Makerere University with my approval as the university supervisor.

Signature:

Date:

ASSOC. PROF. SAMUEL SEJAKA
MAKERERE UNIVERSITY BUSINESS SCHOOL.

Signature:

Date:.....

HAJJI TWAHA KAAWAASE
SENIOR LECTURER
MAKERERE UNIVERSITY BUSINESS SCHOOL.

DEDICATION

I dedicate this work to my dear husband Mr. Wilson Wamatsembe and my lovely children: Cliff Albert, Edwin, Venny, Marvin and Doreen who endured my absenteeism from home as I pursued this course. I can't forget my Dad Joah and Mum Kevin for their encouragement in my education since I started school.

ACKNOWLEDGEMENT

I extend my sincere gratitude to my supervisors Assoc. Prof. Samuel Sejjaka, Hajji Twaaha Kawaase, and Prof. Dr. Thomas Walter for the guidance and invaluable support offered to me that has enabled me complete this study. Likewise I thank Mr. Moya Musa and Dr. Ntayi for the assistance and advice on the various consultations that have enabled me finalise my research.

I would also like to thank the staff of B.O.U, MDIs and MFIs who agreed despite the confidentiality levels in banks to provide information and more especially the research assistants Ben and Peter who endured the resistance and basking sun collecting data that was used in compilation of this report.

Finally, I would like to thank my dear friends Sarah and Fred, of Msc Accounting and Finance class 2005/06 for the encouragement and challenge that motivated me through the period of study.

TABLE OF CONTENTS	Page No.
Declaration.....	i
Approval.....	ii
Dedication.....	iii
Acknowledgements.....	iv
Abstract.....	v
Table of contents.....	vi
List of tables and figures.....	x
Acronyms.....	xi
Abstract.....	xii
 CHAPTER ONE - Introduction	
1.0 Background.....	1
1.1 Statement of the Problem.....	2
1.2 Purpose of the study.....	3
1.3 Research objectives.....	3
1.4 Research questions.....	3
1.5 Significance of the study.....	4
1.6 Scope of the Study.....	4
1.6.1 Area scope.....	4
1.6.2 Subject scope.....	4
1.7 Conceptual Framework.....	4

CHAPTER TWO- Review of related literature

2.1	Introduction.....	6
2.2	Audit quality.....	6
2.3	Audit committee characteristics and Audit quality.....	7
2.3.1	Independence of Audit committee on audit quality.....	8
2.3.2	Audit committee financial knowledge and experience on quality	9
2.3.3	Interaction between audit committee and internal audit Personnel.....	9
2.4	Internal audit personnel characteristics and internal audit quality	10
2.4.1	Education and experience on audit quality.....	10
2.4.2	Competence.....	10
2.5	Perceptions of organizational justice.....	11
2.5.1	Procedural justice.....	11
2.5.2	Distributive justice.....	12
2.6	Audit personnel characteristics and perceptions of organizational Justice	13
CHAPTER THREE- Methodology.....		14
3.1	Introduction	14
3.2	Research method	14
3.3	Survey population	14
3.4	Sample size and selection	15
3.5	Data collection.....	15

3.5.1	Data sources and instruments	15
3.5.2	Instruments of data collection.....	15
3.6	Measurement of variables	16
3.6.1	The dependent variable: Audit quality.....	16
3.6.2	Independent variables: Audit committee & internal audit ...	16
3.6.3	Perceptions of organizational justice.....	17
3.7	Research Instruments.....	17
3.7.1	Validity and reliability	17
3.8	Data analysis	18
3.9	Anticipated Limitations	19

CHAPTER FOUR- Data presentation, Interpretation, and Discussion

of the results

4.1	Introduction.....	20
4.2	Response rate.....	20
4.2.1	Response by gender and designation.....	21
4.2.2	Marital status by gender.....	22
4.2.3	Marital status by age group.....	23
4.2.4	Education by financial institution distribution.....	24
4.2.5	Period with institution by financial institution.....	26
4.3	Descriptive Statistics.....	27
4.4	Establishing audit committee characteristics, audit personnel characteristics and perceptions of organizational justice.....	29
4.4.1	Factor analysis for Audit committee characteristics.....	29

4.4.2	Factor analysis for internal audit personnel characteristics.....	32
4.4.3	Factor analysis for perceptions of organizational justice...	35
4.4.4	Factor analysis for Audit quality.....	37
4.5	Relationship between audit committee, audit personnel characteristics, perceptions of organizational justice and audit quality	39
4.5.1	Audit committee characteristics ad audit quality.....	40
4.5.2	Internal audit personnel and audit quality.....	40
4.5.3	Perceptions of organizational justice and audit quality.....	41
4.6	The regression model.....	43
 CHAPTER FIVE- Summary of findings, Conclusion, and Recommendation		44
5.1	Introduction.....	44
5.2	Summary of findings.....	44
5.3	Conclusion and Recommendation.....	45
5.3.1	Audit committee characteristics.....	45
5.3.2	Internal audit personnel characteristics.....	45
5.3.3	Perceptions of organizational justice.....	46
5.4	Areas for further research.....	47
	References	48
	Appendix 1 questionnaires	54

LIST OF TABLES AND FIGURES

Table 1	Survey population.....	14
Table 2	Sample summary.....	15
Table 3	Reliability coefficients.....	18
Table 4	Response rate by category.....	21
Table 4.1	Analysis per designation of staff and gender.....	21
Table 4.2	Marital status by gender.....	22
Table 4.3	Marital status by age group distribution.....	23
Table 4.4	Education by financial institution distribution.....	25
Table 4.5	Period with institution by financial institution.....	26
Table 4.6	Descriptive statistics for the variables.....	27
Table 4.7	Factor analysis Results: Audit committee characteristics.....	30
Table 4.8	Factor analysis Results: Internal Audit personnel characteristics.....	33
Table 4.9	Factor analysis Results: Perceptions of organizational justice.....	36
Table 4.10	Factor analysis Results: Audit quality.....	38
Table 4.11	Zero order correlation.....	40
Table 4.12	Regression Model.....	44
Figure 1	Conceptual framework.....	5

ACRONYMS

AC	Audit committee
IA	Internal audit
TEA	Texas Education Agency
OECD	Organisation for economic cooperation and development.
MDI	Micro –Deposit Taking institutions
MFI	Micro-finance institutions
B.O.U	Bank of Uganda
SEC	Securities and Exchange Commission
CIA	Chief internal auditor
IIA	Institute of internal auditors

ABSTRACT

According to B.O.U annual report 1999, the role of internal audit is an important part of corporate governance and one of the mechanisms of system checks and balances in any financial institution. The study evolved around the relationship between factors that could impact on the quality of internal audits in the MDIs and MFIs.

A conceptual framework adopted from *Zain et al* (2006) and modified to suit the study was developed to show the relationship between the variables.

The specific objectives were: to establish audit committee characteristics, audit personnel characteristics, perceptions of organizational justice, and audit quality. They also explained the relationship between the three variables and audit quality.

A cross sectional design was used based on qualitative and quantitative techniques. It targeted 150 employees in total; 40 from MDIs and 110 in MFIs purposively selected.

The findings revealed a positive correlation between the constructs of audit committee characteristics, audit personnel characteristics, perceptions of organizational justice and audit quality. It was also revealed that audit quality in these financial institutions is fairly good citing low competences and experience on the personnel characteristics and low commitment and loyalty on perceptions of organisational justice. As per the regression model, perceptions of organisational justice were the major predictors of audit quality.