UGANDA MANAGEMENT INSTITUTE

MANAGEMENT OF THE INTERNAL AUDIT FUNCTION AND FINANCIAL ACCOUNTABILITY IN LOCAL GOVERNMENT OF UGANDA

BY

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DECLARATION

I Felicia Betty Kugonza declare that, this dissertation is my original work and has never beenpublished or submitted for any award in any other institute or university.

Signed ………………………………………….
Felicia Betty Kugonza

Date …………………………………………

APPROVAL

This dissertation has been submitted for examination with our approval as Institute Supervisors

Signed: ………………………… Signed: ……………………………

MS. JEMIMA NINSIIMA **MR. MAYANJA KAMBUGU**

Date:……………………………….

Date:…………………………………….

DEDICATION

I dedicate this piece of work to my Mother for her moral and parental encouragement

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Am greatly idebted by many people who contributed to the success of this thesis. My special thanks also go to my supervisors MS JeminahNinsima and Mr. Kambugu Mayanjafor their commitment and guidance that has made this work a success.

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LIST OF ABBREVIATIONS

CAAT	:	Computer Assisted Audit Tools
CVI	:	Content Validity Index
IAF	:	Internal Audit Function
MoLG	:	Ministry of Local Government

ABSTRACT

The purpose of the study was to establish the extent to which the management of the internal audit function influences financial accountability in the Local Governments of Uganda. the objectives of the study were to examine the extent to which internal audit Governance influences financial accountability in Local Governments of Uganda, to examine the extent to which internal audit resources influences financial accountability in the Local Government of Uganda, and to examine the extent to which internal audit automation influences financial accountability in Local Governments of Uganda. The study used a cross-sectional study design using quantitative and qualitative approaches on a population of 220 internal auditors in local governments of Uganda at the level of district principal auditor, senior auditors and auditors. The study found out that internal audit governance was a significant predictor of the variance in financial accountability (adjusted $R^2 = 0.251$). Internal audit resource was a significant predictor of the variance in financial accountability (adjusted $R^2 = 0.119$) while internal audit automation was a significant predictor of the variance in financial accountability. The study concluded that the interference with the internal audit independence adversely affects financial accountability in local government of Uganda. It was also concluded that the human and resource constraints in the management of the internal audit function adversely affect financial accountability in local governments. It was also concluded that the inadequate information and communication networks adversely affected the performance of internal audit roles and financial accountability in local governments.

To enhance financial accountability on local governments of Uganda the study recommends that the local government administration should;- sensitize stakeholders on the need to respect the independence of the internal audit function; in liaison with the relevant central government ministries that should train internal auditor in audit related IT skills and continuous professional development to enhance their audit competencies; in liaison with MoFPED that should link to integrated audit tools with adequate analytical capacity to enable them extract audit related data, analyze and generate internal audit reports such as the IFMIS.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study examined the extent to which the management of the Internal Audit Function (here after IAF) has influenced accountability of local governments in Uganda. Internal Audit function management in this study is conceived to be the independent variable while financial accountability is the dependent variable. This chapter covers the background to the study, the statement of the research problem, purpose, objectives, research questions, hypothesis, conceptual framework, scope of the study, significance, justification and operational definition of terms and concepts.

1.2 Background to the Study

1.2.1 Historical background

The history of internal audit can be traced back from 4000 B.C and it is said that formal record-keeping systems were instituted by organized businesses and governments in the Near East for purposes of correctly accounting for receipts and disbursements and collecting taxes. The public finance systems in Babylonia, Greece, the Roman Empire, and the City States of Italy are reported to have initiated and developed a detailed system of checks and counterchecks at around 1800 B.C. and A.D (O'Reilly et al., 1998).

Specifically, these governments were worried about incompetent officials prone to making bookkeeping errors and inaccuracies as well as corrupt officials who were motivated to perpetrate fraud whenever the opportunity arose. The Bible also contains examples of internal controls such as the dangers of dual custody of assets, the need for competent and honest employees, restricted access, and segregation of duties (ibid).

Morin (2003) further highlights that, history also has it that the European countries fully embraced internal auditing in the last two centuries and was later introduced into the United States. As business activities grew in size, scope, and complexity, a critical need for a separate internal assurance function that would verify the (accounting) information used for decision-making by management became vital. Management needed some means of evaluating not only the efficiency of work performed for the business but also the honesty of its employees.

Around the turn of the 20th century, the establishment of a formal internal audit function to which these responsibilities could be delegated was seen as the logical answer. In due course, the internal audit function became responsible for careful collection and interpretive reporting of selected business facts to enable management to keep track of significant business developments, activities, and results from diverse and voluminous transactions (Mautz, 1964).However, Chun (1997) reports that before the 1950's internal audit function activities in many organizations focused on financial audit and internal audit department were heavily involved in the review of financial statements. At present, however internal audit takes on a much broader and deeper perspective just as suggested in the IIA's statement of responsibilities of internal auditors:

> *"One of the foundations of representative democracy is that the legislature as custodians of public money, be held accountable by the electorate. The legislature has to ensure that mechanisms and procedures are in place to facilitate financial accountability" (IIA, 2006, P-2)*

Globalization of business, technological advancements, increasing business failures, and widely publicized fraud have encouraged entities to place more emphasis on the internal audit functions and internal control system (Zabihollah, 1995). Thus Worldwide the demand for internal auditors continues to grow due to the function of internal auditing as a risk evaluation and management unit. At the same time many giant international companies have collapsed because of weak auditing practices, the likes of Enron, Maxwell and WorldCom.

In the late 1990s and the new millennium, accountability has become an important topic in the discussion about the legitimacy of international institutions. Because there is no global democracy to which organizations must account, global administrative bodies are often criticized as having large accountability gaps. One paradigmatic problem arising in the global context is that of institutions such as the World Bank and the International Monetary Fund (IMF) who are founded and supported by wealthy nations and provide aid, in the form of grants and loans, to developing nations (Hunt, 2008).

With the structural Adjustment Program (SAP) introduced by World Bank and IMF in the early 1990s, governments in developing countries adopted centralized forms of governance alongside the decentralized forms of governance and functional units empowered to perform specialized functions in government entities aimed at enhanced accountability and service delivery (Kauzya, 2007).

In Uganda for example Section 90 of the Local Government Act CAP 243 provides for the establishment of the internal audit departments in the local governments with a view of assisting the Local Government provide public goods and services in an effective, efficient and economic manner. As a service department to the organization, the internal audit function objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to proper economic use of resources. The internal audit is autonomous and reports directly to the district council. According to section 90of the Local Government Act CAP 243, every district,city,municipal or town council shall provide for an internal audit unit. The head of the internal audit department shall prepare quarterly reports and shall submit them to the council giving a copy to the local government public accounts committee.

In retrospect, the SAP spanning both the central and local governments, public sector finance forms an integral part of the society and impacts on all social, economic, and political dimensions of a country (Visser& Erasmus, 2002). The state generally assumes responsibility for the welfare, health and prosperity of its citizens, an objective achieved by providing effective service delivery to the electorate (ibid) a role the internal audit function provides through assurance that it will be achieved.

The historical perspective offers an insight into the evolution of the internal audit function and its management world over but there is an anecdotal empirical finding on the management of the internal audit function and its contribution to accountability in local governments of Uganda. This study therefore was interested in covering the raised knowledge gaps by providing current practices in the internal audit function managementand its contribution to financial accountability under decentralized form of governance in a developing country.

1.2.2. Theoretical background

The study was guided by the Principal Agency Theory (PAT) proposed by Jensen and Meckling (1976) which asserts that the responsibility for control is vested in the board and management, the shareholders' agents. The board, which only meets a few times each year, in turn, appoints management (as their agents), to manage the organization. While the independent external auditors provide assurance to the shareholders on the quality of the financial statements, it is the independent internal audit function that provides assurance to the board, via the audit committee.

Some studies which have used the PAT are of the view that accountability is central in the principal/agentrelationships where accountability is depicted as a statutory obligation with a legitimating requirement and an emergent obligation central to thefunctions of financial reporting (Glynn, 1987; Humphrey *et al.*, 1993).Day and Klein (1987) in support of the PAT and accountability notes that two elements are involved in establishing accountability in principal/agent relationships thus the specification of the scope of the accounts that an agent has to provide and the presence of mechanisms whereby agents can be held to account. The first of these raises questions about the range of matters on which agents must furnish information. The second directs attention to the institutional means by which agents are bonded to a principal and the processes by which information will be verified, judged and debated, and rewards or penalties assigned (ibid).

The scope of the accounts that agents are required to provide vary. Cutt (1978) for example, suggests three foci of ascending complexity. These are accountability for fiduciary procedures; economy and efficiency; and effectiveness. In the same vein Day and Klein (1987) nominate fiscal regularity, process efficiency and programme effectiveness. Stewart (1984) proposes a more extensive ladder which includes accountability for: probity and legality; the adequacy of internal control systems; performance in relation to established standards; outcomes in relationship to objectives; and the acceptability of outcomes.

The PAT therefore, underpinned this study as it proposes the need for accountability by the agent to not only show how the 3 Es (Economy, efficiency and Effectiveness) were achieved, but also accounting for the reliability and validity of financial reports and the adequacy of the internal controls in the local government. To enhance accountability by the agent, there is need for an independent audit function which is well resourced and uses modern information systems.

The study was also guided by the institutional theory by Di Maggio and Powell (1983) which posits that organizations are set to passively succumb to institutional coercive, normative and mimetic pressures in order to obtain the legitimate social support of stakeholders internal and external to the entity through efficient and ethical utilization of resources. In contexts where institutional, technical and legitimate pressures are acting, organizations seek to obtain not only efficiency but also legitimacy, and must identify and satisfy the requirements of their stakeholders (Neilsen&Rao, 1987).

The institutional theory underpinned this study as it suggests the need to have an internal audit function which is independent, well-resourced and automated toeffectively manage the IAF by giving it independence like other similar institutions for enhanced public financial accountability.

The study was also guided by the business process reengineering (BPR) model which refers to the radical redesign of business processes to achieve dramatic improvements in performance (Hammer, 1990). That is, the reengineering process has to account for quantum leap improvement in performance and involves core competencies of the business. Davenport and Short (1990) maintain that BPR is cross-functional in nature; and it is predominately an IT-enabled approaches of automation. The BPR, as with all advocated improvement models according to Hammer and Champy (1993) is believed to achieve organizational efficiency and effectiveness.

Hung (2006) while building on the BPR model observed that BPR arose to challenge traditional wisdom about how work should be performed. These included shared databases, making information available at many places; expert systems, allowing generalists to perform specialist tasks; telecommunication networks, allowing organizations to be centralized and decentralized at the same time; decision-support tools, allowing decision-making to be a part of everybody's job.Lai and Mahapatra (2004) also suggested that the use of IT is complemented with wireless data communication and portable computers, allowing field personnel to work office independent; interactive videodisk, to get an immediate contact with potential users; automatic identification and tracking, allowing things to tell where they are, instead of requiring to be found and high performance computing, allowing on-the-fly planning and re-visioning.

While borrowing from the BPR theory, this study identified key concepts of audit automation aimed at enhanced performance of the internal audit function and financial accountability on local governments. By using automated audit tools and communication networks, it is anticipated that the internal auditor in the local government will be in position to access all audit required transactional data needed to perform audit operations and enhance the financial accountability in local governments.

1.2.3. Conceptual background

The guidance taskforce of the Institute of Internal Auditors-IIA (2001) defines the internal audit function as:

> An independent objective assurance and consulting activity/unit designed to add value and improve organizations 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

The new definition shifts the focus of the internal audit function from one of assurance to that of value added and attempts to move the profession towards a standards-driven approach with a heightened identity (Bou-Raod, 2000). The new objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, recommendations and pertinent comments concerning activities reviewed (Chun, 1997). This can only be achieved through an effective management of the internal audit function through governance of the internal audits function, provision of audit resources and audit automation (Burnaby et al., 2007; IIA, 2006). These study therefore while borrowing from the above authors conceptualized the IAF management to include governance, deployment of internal audit resources and audit automation.

According to Elia (2005) financial accountability refers to the obligation on the part of public officials to report on the usage of public financial resources and answerability for failing to meet stated performance objectives. In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions, products, decisions, and policies including the administration, governance, and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences.

This study borrows from the above conceptual perspective of financial accountability and conceptualized accountability to include three indicators of financial controls, validity and reliability of financial reports and attainment of value for money by a local government.

1.1.2.Contextual background

Effective public financial accountability in Uganda is dependent on the success with which the elected representatives in Parliament enforce accountability on those who have a responsibility of handling public funds. Financial accountability and control in Central and local Governments is equally regulated by the Public Finance & Accountability Act (PFAA) 2003. The PFAA (2003) Section 4; puts it clear that Minister in charge should ensure that systems are established throughout Government for planning, allocating, and budgeting for the use of resources in order to improve the economy, efficiency and effectiveness of Government; consider all requests for the issue of moneys from the Consolidated Fund and, where the Minister considers it appropriate, approve their inclusion in estimates of expenditure for submission to and enhance the control of Parliament over public resources and public moneys by maintaining transparent systems.

The same Act under Section (8) cites the duties of accounting officers in regard to accountability of public funds. Section 8 (2) stipulates that---

> an accounting officer shall control and be personally accountable to Parliament for the regularity and propriety of the expenditure of money applied by an expenditure vote or any other provision to any Ministry, department, fund, agency, local government or other entity funded wholly through the Consolidated Fund, and for all resources received, held or disposed of, by or on account of that Ministry, department, fund, agency, local government or other entity (PFAA, 2003, Pg.15).

Uganda has recognized the importance of the internal audit function, which is why that function has been established in Ministries, Department and Agencies (MDA). However, despite the provisions of enabling laws and a public financial management frameworks and instruments, the utilization of public funds is still bogged with cases of public funds misuse.

The National Service Delivery Survey (NSDS), 2008 for example found misuse of funds in education and health facilities, sub-county institutions, and local councils with 2.9% of respondents reporting misuse of funds at primary education institutions, 3.0% at health facilities, 8.4% at sub-county institutions, and 5.4% at local councils II. The highest level of reporting for misuse appears to be at sub-county institutions.

Similarly, Regulation 42 and 43 (2) of the Local Government Financial and Accounting Regulations 2007, require funds to be properly vouched and accounted for within a period of a month. However, the Office of the Auditor General of government (OAG, 2011) noted that during the financial year ended 30th June 2010 for local authorities, Shs.11, 618,191,273 in respect of Higher LGs comprising of administrative advances, incompletely vouched expenditure, unvouched expenditure and doubtful expenditure remained outstanding contrary to these regulations. In addition Shs.2, 316,953,728 remained outstanding in 385 Lower Local Governments sampled.

Furthermore, Regulation 11(d) of the Local Government Financial and Accounting Regulations, 2007 requires the head of finance to ensure that commitments are not approved unless there is sufficient and committed balance available. However, the OAG (2011) audit report on local authorities noted that a number of Higher Local Governments for the year under review failed to adhere to the commitment control system which has resulted in committing Councils beyond the available financial resources. Consequently the entities accumulated outstanding commitments amounting to Shs. 19,585,399,783. The previous year's outstanding commitments amounted to Shs.18,398,926,354 implying an increment of 6%. It was further noted that outstanding commitments in the sampled Lower Local Governments increased from Shs 157,322,769 in the previous financial year to Shs 331,014,767 in the year ended 30th June 2010.

The Public Procurement and Disposal of Public Assets (PPDA) Act 2003, and the Local Government PPDA Regulations 2006 require that all public procurement of goods, services and works comply with the procurement law. However, the OAG report (2011) noted that a number of Local Authorities procured items and services worth Shs. 34,226,178,869 without following Public Procurement Regulations and guidelines. The OAG was of the view that there was a risk that value for money may not have been obtained.

It is a requirement under regulation 44(1) of the Local Government Financial and Accounting Regulations 2007 that expenditure should not be incurred in excess of provisions authorized in the approved estimates or as may be amended by properly authorized virement, re-allocation and supplementary estimates. During the year however, a number of Local Councils incurred expenditure amounting to Shs.6, 944,000,005 in excess of provisions authorized in the approved estimates. In addition, the sampled Lower

Local Governments incurred excess expenditure of Shs.822, 158,167. This may be attributed to inability by council leaders to provide oversight scrutiny over budget management (OAG Report on Local Authorities, 2011). These and many incidences puts to question, the role of the internal audit function on unearthing and advising on financial mismanagement in local governments of Uganda prompting this study to examine the management of the IAF and its influence on accountability in local governments.

1.3 Statement of the Problem

Internal auditing is expected to provide an independent objective assurance and consulting activity/unit designed to add value and improve organizations operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2001). Despite the efforts to institute IAF in all local governments of Uganda guided by The 1997 Local Government Act and the PFAA, 2003, local governments are still faced with cases of abused financial accountability and failure to achieve value for money. The Office of the Auditor General of government (OAG, 2011) highlighted some unreliable financial reports and noted that, Shs.11,618,191,273 in respect of Higher LGs was unaccounted foradministrative advances, incompletely vouched expenditure, un-vouched expenditure and doubtful expenditure remained outstanding yet an addition Shs.2,316,953,728 remained outstanding in 385 sampled Lower Local Governments. The same report also highlighted cases of over expenditure against budgets and noted that Higher Local Governments for the year under review failed to adhere to the commitment control system which has resulted in committing Councils beyond the available financial resources amounting to Shs. 19,585,399,783 in higher local government yet Lower Local Governments increased from Shs 157,322,769 in the previous financial year to Shs 331,014,767 in the year ended 30th June 2010. Furthermore, evidence shows that Local Authorities procured items and services worth Shs. 34,226,178,869 in contravention of PPDA Act and Regulation, 2003 and Local government PPDA Regulation, 2006. The OAG was of the view that there was a risk that value for money may not have been obtained (OAG Report on Local Authorities, 2011). If the trend was to continue unabated, public resources locally generated and central government grants remitted to districts will be continuously misused even with the presence of an IAF which has a consequence of the central government taking over the management of local governments. This study therefore investigated the extent to which management of the internal audit function influences financial accountability in Local Governments of Uganda.

1.4 Purpose of the study

To establish the extent to which the management of the internal audit function influences financial accountability in the Local Governments of Uganda.

1.5 Objectives of the Study

i. To examine the extent to which internal audit Governance influences financial accountability in Local Governments of Uganda.

ii. To examine the extent to which internal audit resources influences financial accountability in the Local Government of Uganda.

iii. To examine the extent to which internal audit automation influences financial accountability in Local Governments of Uganda.

1.6 Research Questions

i. To what extent does internal audit Governance influence financial accountability in Local Governments of Uganda?

ii. To what extent do internal audit resources influence financial accountability in the Local Government of Uganda?

iii. To what extent does internal audit automation influence financial accountability in Local Governments of Uganda?

1.7. Hypotheses of the Study

i. Internal audit Governance significantly influences financial accountability in Local Governments

ii. Internal audit resources significantly influences financial accountability in the Local Government

iii. Internal audit automation significantly influences financial accountability in Local Governments

1.8 Conceptual Framework

Independent variable
Management of the Internal Aaudit Function

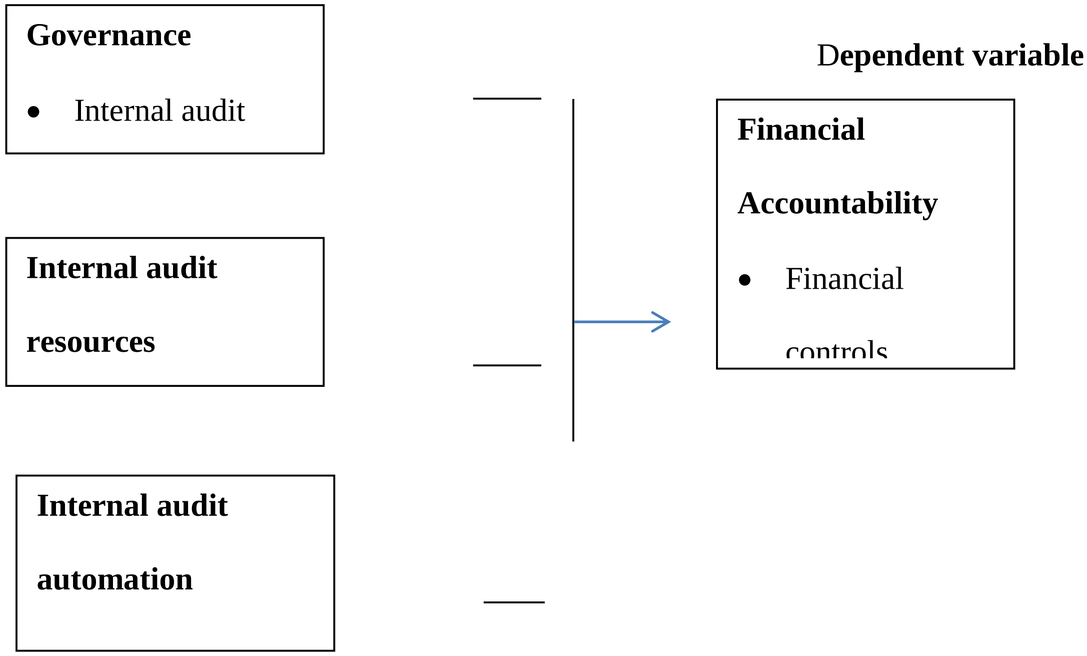

Figure 1: Conceptual model on the relationship between the management of IAF and Financial Accountability
Source: Adopted with modifications from the Principal-Agent Theory by Jensen and Meckling (1976) and Institutional Theory by Di Maggio and Powell (1983)

The model shows that financial accountability depends on how the IAF is managed in considerations of audit governance, internal audit resources and automation. Financial accountability has three indicators of financial controls, validity & reliability of financial reports and attainment of value for money. Audit governance as a dimension of management of internal audit function has two indictors of internal audit independence and having an independent audit committee. Internal audit resources as a dimension in management of the internal audit function has indicators of human and financial resources necessary for the effective execution of the internal audit function. Audit automation as a dimension of managing the internal audit function has indicators of automated audit tools and communication networks.

1.9. Scope of the study

1.9.1 Conceptual scope

The study concentrated on the management of the IAF under the dimensions of governance, resources, automation and their influence on financial accountability indicators of financial controls, validity & reliability of financial reports and attainment of value for money.

1.9.2. Geographical scope

The study was carried out in all Local Government in Uganda taking the district council as the unit of analysis since the failure to account for public funds by the district has adverse effects on the delivery of social services by the districts which have been delegated to deliversocial services on behalf of government of Uganda.

1.9.3. Time Scope

The study covered the period rangingfromfinancialyear 2009/2010-2012/2013 the time Local governments were implementing their three year strategic plans but equally manifested challenges in financial accountability as indicated in the OAG Report (2011).

1.10 Significance of the Study

The study will be useful in the following ways:

To the Ministry responsible for local governments, the study helps identify gaps in the management of the IAF of Local Government in Uganda and development of internal audit managerial policy interventions for enhanced financial accountability which contribute to the achievement of the objectives of decentralization.

To the local governments internal audit departments, the study offers an opportunity to identify operational challenges which if addressed will significantly contribute to their responsiveness in providing reasonable assurance for financial accountability under decentralized governance.

To the academia, the study helps cover literature gaps on the extent to which internal audit governance, resource and automation influence financial accountability in decentralized local governments.

1.11. Justification of the Study

Amidst high mismanagement and misuse of public finance as well as fraud, there was need to investigate whether public funds were being accounted for adequately. The Internal Audit Function being one of the major role players in ensuring accountability of public finance, was investigated to find out if it was being effective in performing its roles and also discover some loopholes if there are any and suggest remedial means to the situation

1.12 Operational definition of terms

Auditing: Auditing is the process of performing an audit. An audit is performed in reaction to an assignment given by a person or a group which has delegated certain responsibilities to others.

Internal Audit: A process to measure, evaluate, and report to the management of a Ministry, Department or other agency of the Government on the efficacy of the system of internal control used to ensure the Validity of Financial and other information.

Accountability: The essence of accountability is answerability, being accountable means having the obligation to answer questions regarding decisionsor actions.

Financial Accountability: Financial accountability deals with the control and monitoring of the resources that fuel the administrative machinery of government.

Public Monies/funds: The public revenues of government; and any trust or other moneys held whether temporary or otherwise by a public officer in his or her official capacity, either alone or jointly with any other person whether public officer or not.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature about the variables understudy. The purpose of this chapter is to find out what other researchers/scholars have found out in order to identify the information gap. The main sources are published journals and publications, published articles, reports, audit reports and Governmental manuals, text books, government regulations and publications among others. The chapter is sectioned into the theoretical review, conceptual review and review of literature objective by objective.

2.2 Theoretical Review

The study was guided by the Principal Agency Theory (PAT) proposed by Jensen and Meckling (1976) and the institutional theory (Di Maggio & Powell, 1983). The PAT by Jensen and Meckling (1976) asserts that the essential concern of corporate governance arises from the separation of ownership and control in modern public corporations. The PAT asserts that the responsibility for control is vested in the board and management, the shareholders' agents. The board, which only meets a few times each year, in turn, appoints management (as their agents), headed by the chief executive officer, to manage the organization. While the independent external auditors provide assurance to the shareholders on the quality of the financial statements, it is the independent internal audit function that provides assurance to the board, via the audit committee. Agency theory, in this context, provides the basis for explaining the independent role and responsibilities assigned to the internal audit function (Adams, 1994).

In using the PAT, this study identified the concepts of internal audit governance which necessitates independence of the internal audit function and audit committees(Local government PAC) to act as agents of the district and the government of Uganda in checking and reporting on behaviors of the local government administrators to achieve national and local objectives. The PAT equally underpin this study as it proposes the need to offer the Agent incentives in form of financial and non-financial resources for effective performance of their functions on behalf of the principal and to achieve the objectives of the principal.

The institutional theory by Di Maggio and Powell (1983) on the other hand asserts that those organizations areposited to passively succumb to institutional coercive, normative and mimetic pressures in order to obtain the legitimate social support of stakeholders internal and external to the entity through efficient and ethical utilization of resources. Scott (2001) argues there are two types of regulatory/coercive pressure. The first arises from internal authority, while the other comes from coercive power and these are diffused by a combination of formal and informal coercive institutional mechanisms.

Normative pressures are related to the shared values or norms of a particular group that are internalized by group members and then imposed on others (Scott, 2001). Normative practices and ideas are shaped by common formal training and education and/or shared networks (Abernethy and Chua, 1996; Carpenter and Feroz, 2001). The taken-for-granted assumptions and symbolic aspects of social life are reflected in the cultural-cognitive/mimetic pillar. Institutional diffusion under this pillar is mimetic in nature and is the result of a consensus decision to copy practices that are recognized as being the most legitimate (Scott, 2001). In contexts where institutional, technical and legitimate pressures are acting, organizations seek to obtain not only efficiency but also legitimacy, and must identify and satisfy the requirements of their stakeholders (Neilsen&Rao, 1987; Pfeffer&Salancik, 1978).

Based on this reasoning, this study takes the stand that internal audit governance, resources, and automation are put in place to respond to a range of control and compliance requirements to ensure there is reliable accountability and value for money. Thus the effective management of the internal audit function fulfills the social expectations of public funds accountability by local governments of Uganda.

The study was also guided by the business process reengineering (BPR) model which refers to the radical redesign of business processes to achieve dramatic improvements in performance (Hammer, 1990). That is, the reengineering process has to account for quantum leap improvement in performance and involves core competencies of the business. Davenport and Short (1990) maintain that BPR is cross-functional in nature; and it is predominately an IT-enabled approaches of automation. The BPR, as with all advocated improvement models, is believed to achieve such things as higher customer satisfaction, and organizational efficiency and effectiveness, to name a few (Hammer &Champy, 1993). The early BPR literature identified several so called disruptive technologies that were supposed to challenge traditional wisdom about how work should be performed. These included shared databases, making information available at many places; expert systems, allowing generalists to perform specialist tasks; telecommunication networks, allowing organizations to be centralized and decentralized at the same time; decision-support tools, allowing decision-making to be a part of everybody's job. These are complemented with wireless data communication and portable computers, allowing field personnel to work office independent; interactive videodisk, to get in immediate contact with potential users; automatic identification and tracking, allowing things to tell where they are, instead of requiring to be found and high performance computing, allowing on-the-fly planning and re-visioning (Hung, 2006; Lai &Mahapatra, 2004; Paper and Chang, 2005).

While borrowing from the BPR theory, this study identified key concepts of audit automation aimed at enhancing the performance of the internal audit function and financial accountability on local governments. By using automated audit tools and communication networks, it is anticipated that the internal auditor in the local government should be in position to access all audit required transactional data needed to perform audit operations and enhance the financial accountability in local governments.

2.3 The management of the IAF and financial accountability

According to Mayo (1993, Pg. 211), the scope and objective of the internal audit function depends upon the responsibilities assigned to the internal auditor by the management, the size and structure of the enterprise and the skills and experience of the internal auditor. Momoh (2005), internal audit is an additional safeguard for proper financial control in the public sector. Each Ministry, Parastatals and Local Government (LG) is expected to establish an internal audit department. The internal audit is responsible for the audit of all financial transactions by carrying out a continuous examination of all accounting books and records maintained in the organisation with a view to checking or detecting fraud and correcting errors. It is the job of internal auditors to ensure that all financial transactions are in accordance with the approved regulations and that adequate system of security exists in the establishment (Momoh, 2005). Internal audit function is expected to be independent and directly responsible to the chief executive. According to Kumal et al, (2004, Pg. 25), audit independence refers to a state of mind where auditor's judgment is not subordinate to that of others like the client or anyone else. The auditor should be free of any interest which might be regarded as being incompatibles with integrity and objectivity. Audit independence therefore implies that auditor's judgment must be detached, fair, impersonal and unbiased. The proceeding literature review specifically reviews literature under the themes of Internal Audit governance, resources, automation and financial accountability.

2.3.1 Audit governance and financial accountability on the public sector

2.3.1.1 Internal audit Committees and accountability on the public sector

Public sector IAAs usually do not have an audit committee structure in their organizations. Leung et al. (2004) explored the role of internal audit committees in corporate governance and management in Australia using both an on-line survey and in-depth interviews of CAEs. They report that, while a majority of CAEs had reporting responsibilities to the AC or board level, more than 22 percent of participants reported only to management (either to the CEO or the chief financial officer (CFO)). Globally, the CBOK study (Burnaby et al., 2007) found that only 47 percent of CAE respondents reported to the AC level. However, where an audit/oversight committee was present (in 73 percent of organizations), 91 percent of respondents believed that they had appropriate access to the committee.

Burnaby and Hass (2009) posits that to maintain independence, the IAA should have a charter approved by the audit committee of its governing board. The survey confirms that CAEs confirm that an audit/oversight committee exists in 72.6 percent of their organizations. Christopher et al. (2009) examined the independence of the internal audit function in a sample of 34 Australian companies and found threats related to CAEs not reporting functionally to the committee, the AC not having sole responsibility for appointing, dismissing, and evaluating the CAE and AC members lacking expertise in accounting. The above literature highlights the issues of charters and competence of audit committee members that this study will strive to explore the skills gaps for member of the Local Government PAC members.

Christopher et al. (2009) found that independence threats associated with internal audit's relation with management stem from the involvement of the CEO or CFO in the internal audit function's plan and budget, management regarding the internal auditor as a partner and using the internal audit function as a stepping stone to other positions. vanPeursem (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. This calls for a need to balance the conflicting interests between management and the audit function for enhanced accountability by management (ibid). The relationship between management, internal audit and audit committees specifically as highlighted by the above previous authors is based on experiences in the private sector with no empirical evidence on how the internal audit committees relate with the management in the public sector. This study therefore strived to cover this literature gap by providing empirical evidence on the relationship between the internal audit committees and management of local governments in Uganda.

Some studies have specifically explored the importance of audit committees and reported on the need to have audit committee as a precursor for the internal audit function's independence (Drent, 2002; Krishnan, 2005). Gwilliam and Kilcommins (1998) for example found that the presence of audit committees creates a perception of enhanced independence of the internal audit function, and more reliable financial reporting among financial statement users. Krishnan (2005) supports this view by asserting that, in essence, the audit committee's status is enhanced because it can rely on the work of the internal audit function.

Similarly the IIA (2005) states that the aim of an audit committee is to improve organisational governance, regardless of whether the organization is in the private or the public sector. As a subcommittee of the governing body, an audit committee aims to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve as an advisory function aimed at performance improvement within the organization. Other studies have found an association between weaknesses in governance and poor financial reporting quality. Better governance is linked to higher quality financial reporting (Peasnell et al., 2005; Callao et al., 2007; Monterrey Mayoral and Sa´nchez-Segura, 2008).

The literature on the contributions of the internal audit committees to accountability is based on experiences of private sector profit oriented institutions with no evidence of the public sector. It was in this study's best interest to establish the extent to which local government had instituted internal audit committees and the contribution of the internal audit committees to financial accountability in local government of Uganda.

2.3.1.2 Internal audit independence and accountability on the public sector

Internal audit function is expected to be independent and directly responsible to the chief executive. According to Kumal et al, (2004, Pg. 25), audit independence refers to a state of mind where auditor's judgment is not subordinate to that of others like the client or anyone else. The auditor should be free of any interest which might be regarded as being incompatibles with integrity and objectivity. Audit independence therefore implies that auditor's judgment must be detached, fair, impersonal and unbiased.

Mutchler et al, (2001) cited in Joe, (2012, Pg. 201) touched on the importance of independence by suggesting that as the responsibility of internal auditors grows, so does the demand for greater accountability, independence and objectivity. They define independence as …

> *"freedom from material conflict of interest that threaten objectivity. In other words, it is a state where threats to objectivity are managed to the extent that the risks of ineffective internal audit services are acceptably controlled".*

In the study by Joe, et al, (2012, Pg. 208), it was noted that potential negative influence on the independence of the internal audit function is the possibility for management to influence the budget of the internal audit function. Another potential threat to the independence of the internal audit function emerges when the senior management becomes too heavily involved in influencing the internal audit planning (Joe et al, 2012, Pg. 208). They suggest that audit committee and head of internal audit function should have sufficient autonomy to determine final priorities.

Independence, based on the criterion of objectivity, is pivotal to the internal auditing profession and internal auditors (Mutchler, 2003). Independence is unavoidable for internal auditors (Vanasco, 1994). Ideally, internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences (Sawyer and

Dittenhofer, 1996). The ISPPIA (ISPPIA; IIA, 2006) has identified internal auditor's independence as a most important criterion for effectiveness of the internal audit function. In general, shareholder and stakeholders perceive internal auditors as being entrusted in making independent assessments, judgments and decisions (Mutchler, 2003). In each case, internal auditors are expected to have integrity and a commitment to forming unbiased opinions. Thus, to act independently, internal auditors must have a thorough understanding of the influences they face some of which may be so subtle as to be scarcely recognizable color or influence independence (Mutchler, 2003).

A study by Peursem (2005) also hint that the internal auditors' professional status, the presence of a formal and informal communication network, and the internal auditors' place in determining their own role as important factors in determining the independence of the internal audit function. Sarens and De Beelde (2006b) equally found out that senior management's expectations significantly influence internal audit objectivity. Christopher et al. (2009) reports of threats to internal audit independence to include using the internal audit function as a stepping stone to other positions, having the CEO or CFO approve the internal audit function's budget and provide input for the internal audit plan, internal audit manager not reporting functionally to the audit committee, the audit committee not having sole responsibility for appointing, dismissing, and evaluating the internal audit manager.
In a Canadian study, Goh (2009) found the effectiveness of a firm's independent audit committee to be associated with that firm's timeliness in remediating material weaknesses in internal control, thereby helping to improve financial reporting quality and, ultimately, enhancing corporate governance. In a 2004 KPMG Audit Committee Institute survey of

about 500 audit committee members from various industries (Harrast& Olsen, 2007), 71 percent of the respondents expressed the belief that the losses incurred in some of the high-profile financial reporting scandals that had occurred in the past could have been avoided if the financial reporting and audit processes of the companies concerned had been overseen by effective audit committees. This survey also suggested that most audit committees' members would concur with the ideas expressed by the US Securities and Exchange Commission (SEC) concerning the importance of an effective audit committee in helping to detect and prevent fraud.

A US study (Kaplan et al., 2009) found that the audit committees of public companies with effective operating procedures help to minimize the likelihood of fraud to a certain extent. In addition, Persons (2009) reported that large and independent audit committees help to prevent fraudulent financial reporting incidents in organizations.

The literature in the independence of the auditor and audit committees although insightful was based on experiences of the private sector profit making companies creating a literature gap on the independence of the IAF and its contribution to financial accountability in the public sector. This study therefore strived to cover this literature gap.

2.3.2. Internal audit resources and accountability in the public sector

2.3.2.1. Human resources

One of the human resource issues is the possession of competencies necessary for effective performance of the IAF. Indeed Burnaby and Hass (2009) survey on the global common body of knowledge on the internal auditing function found that understanding the business and risk analysis are on average the most critical technical skills to possess.

Technical skills that are considered much more important for the audit staff but less critical for CAEs are identifying types of controls, use of information technology, statistical sampling, and data collection and analysis. Other skills, such as forensic skill/fraud awareness, risk analysis and negotiating, are considered more important for CAEs and not as vital for the audit staff or senior/supervisors.

Similarly, The IIA's standard 1210 on proficiency of the auditor require that the internal auditors possess the knowledge, skills and other competencies needed to perform their responsibilities (IIA, 1999b). Since, internal audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development. Continuous skill upgrading is another dimension that deserves attention so as to achieve a high level of technical proficiency. With respect to internal audit competence, Zain et al. (2006) identify the level of experience among internal auditors as being indicative of the quality of internal audit.

Also, Gramling and Hermanson (2009) argue that skilled and qualified internal auditors are indicative of internal audit quality. Harrington (2004) suggests key attributes of education, experience, professional certification, in addition to computer and communication skills. Smith (2005) identified excellent communication skills in order to succeed and advance in the changing and complex international global marketplace for internal auditors while Seol and Sarkis (2005) advocates for deployment of internal auditors with skills, cognitive skills (i.e. technical skills, analytic skills, and appreciative skills), and behavioral skills such as personal skills, interpersonal skills, and organizational skills. Soh and Bennie (2011) conclude by highlighting that the internal audit function needs to be staffed with a wide range of skills including finance, audit, operational, technological and occasionally legal competencies.

On the relationship between the internal audit competencies, Yang et al. (2009) reported that auditors' accumulated knowledge significantly related to their ability to detect organizations' fraudulent financial reporting activities. The Treadway Commission's Report (1987) states that since internal auditors have in-depth knowledge of many aspects of a company's operations, they can be highly effective in detecting fraudulent financial reporting (National Commission on Fraudulent Financial Reporting, 1987). A US study conducted by Perols (2008) indicated that the presence of a Big4 auditor was one of the significant variables in determining whether organizational fraud was detected. Francis and Yu (2009) reported that Big4 auditors provide higher quality audits for SEC registrants due to their greater in-house experience and expertise in administering such audits. They argued that the larger branches of these auditors would have an even greater degree of in-house expertise in the detection of material problems in their clients' financial statements.

Studies such as those by James (2003), Swanger and Chewning (2001) and Lowe et al. (1999), provide evidence that internal audit information affects stakeholder perceptions of financial reporting reliability. A study by Fadzil et al. (2005) shows that the better the audit work, the greater the firm's control environment on the quality of the internal control system.Asare et al. (2008) experimental studies suggest that internal auditing can help to mitigate aggressive accounting behaviour by management. It is reasonable to expect that the effectiveness of this deterrent will depend on the IAF involvement in the financial reporting process based on the possession of a well staffed and competent IAF.

2.3.2.2 Internal audit budget

Budgets play an important role in facilitating the implementation of the planned functional activities. Mihret and Yismaw (2007) noted that autonomy on budgets is another sub factor relating to the organizational setting, as it entails resource implications. The internal audit function needs to be financed to an appropriate level if it is to achieve its functional objectives (Hass et al., 2006). Similarly, Dale and Zanzig (2000) advocates for the use of flexibility to address unexpected audit findings is more important than attempting to control audit costs through a strict adherence to time budgets.

The common challenge in managing internal audit function noted by McNamara andLiyanarachchi (2008) is that firms might use more audit juniors or change the mix of junior and senior staff to reduce costs. An alternative is to squeeze time budgets and expect audit staff to work week-ends and evenings to complete the tasks. Firms may also undertake less stringent audits in the face of low funding for the audit function has consistently suggested that tight time budgets have dysfunctional effects on audits. Faced with inadequate time budgets, many audit staff admit to adopting irregular practices, ignoring awkward and time-consuming items, falsification of audit work and what is described as premature sign-off and other forms of audit quality reduction behavior (ibid). A survey of audit managers undertaken in 2005 indicated that SOX (2002) first year compliance efforts utilized 50 percent or more of internal audit work (PwC, 2006). This emphasis means that limited internal audit resources are being diverted from operational audits, consulting and governance activities to increase SOX assurance demands.

Hass et al. (2006) further advise that nevertheless, internal audit must position itself to be actively involved with risk assessment, control and governance. Given the regulatory requirements in the US that has absorbed approximately 50 percent of internal audit limited resources as noted above, resource allocation has become a key activity of the internal audit heads, who need to take full advantage of new technologies such as continuous auditing and software innovations in internal audit department management. Their findings are supported by their analysis that Chief Executive Officers (CEO) who do not want the internal audit function to focus on specific areas in their company have the power to impose significant budget constraints on the internal audit function, thus forcing it to reduce on the audit scope.

However, the failure to provide for the necessary resources had adverse effects as Otley and Pierce (1996) noted that behaviour such as failure to research an accounting principle, superficial reviews of documents, acceptance of weak client explanations and reduction of work on an audit step below acceptable levels. These behaviours also pose a direct threat to the reliability of audit records which form the basis of the audit opinion and, together with premature sign-off, are included under the heading of audit quality reduction behaviour. A second form of dysfunctional behaviour is under-reporting of time, which occurs when auditors complete chargeable work on their own time, and is usually motivated by a desire to avoid or minimize budget over-runs by compromising the good expectations of internal audits.

2.3.3. Audit automation and accountability on the public sector
2.3.3.1. Automated auditing tools

Curbera et al. (2008) defined an automated auditing tool as a software system that captures information relevant to the internal control points of a business process, puts them into context and computes the compliance status for each control point. Auditing tools rely on correlating the data extracted from the underlying IT system to the relevant aspects of business control points effectively. Hence, relating the business goals to IT level data constitutes the core of this technology. The automation of the audit portion of that information process is necessary but not sufficient for the provision of continuous assurance, since the latter encompasses not just doing auditing faster, but also more comprehensively and over a broader set of dimensions (Alles et al, 2008b).

The importance of audit automation and the utilization of IT in modern audits have grown significantly in recent years due to both technological developments and changing regulatory environment (Janvrin et al, 2008). The passage of the Sarbanes-Oxley Act of 2002 (SOX), in particular, the requirements of its Section 404 greatly expanding the internal control work performed by the auditors, has resulted in a strong increase in demand for qualified audit personnel, leading to personnel shortages and audit cost increases. This creates an opportunity for automating audit processes to further increase their efficiency (Alles et al, 2006).

Furthermore, the progressive sophistication of information technology underlying modern business processes made the traditional approach of audit around the computer ineffective. For example, corporate enterprise resource planning (ERP) systems, designed for high

volume online transaction processing, incorporate thousands of automated controls that can be configured in numerous ways. Manual verification of the status of these controls is becoming increasingly costly (Alles et al, 2006).
Several studies have shown that the deployment of IT and decision support systems to automate certain parts of the audit process usually results in a better controlled, higher quality audit (Manson et al, 1998; Dowling & Leech, 2007). Freeing human auditors from doing automatable audit work makes it possible for them to focus and spend more time on highly judgmental high risk areas (Vasarhelyi et al, 2004). It can also allow the auditors to increase the scope of the audit and utilize some additional audit procedures for higher coverage of various risk areas.

Automated audit procedures enable a dramatic increase in the scale of the audit since they are no longer limited by the constrained processing power of human beings. Thus, they do not have to rely on sampling and can process entire populations of transactions instead, which is another argument for the increased effectiveness of automated audit (Alles et al., 2008a). Additionally, the results of automated audit procedures are available in real time, thus increasing the timeliness of audit results.

Similarly, various computer assisted auditing tools and techniques (CAATTs) have been developed to assist auditors in performing audits on computerized accountancy data. Generalized audit software (GAS) is one of the most commonly used types of CAATTs (Debreceny et al., 2005; Singleton, 2006). GAS is used by auditors to analyze and audit either live or extracted data from a wide range of applications (Debreceny et al., 2005).

GAS is data extraction and data analysis software, which is designed to perform specific audit routines and statistical analysis. For example, it can browse, analyze, sort, summarize, stratify, sample and apply calculations, conversions and other operations to audit a full set of accounting data, as opposed to relying on sampling.

GAS can help auditors to detect any misstatements in the financial statements, particularly in achieving the general audit objectives of validity, completeness, ownership, valuation, accuracy, classification and disclosure of the data produced by accounting software (Debreceny et al., 2005). Examples of GAS include the audit command language (ACL), IDEA and Pro Audit. These software packages allow auditors to interrogate a variety of accounting systems (Debreceny et al., 2005) and conduct a 100 percent analysis of a client's financial data.

Mahzan and Lymer (2008) proposed a model of successful CAAT adoption by internal auditors, comprised of four dimensions covering the issues of factors influencing motivation, best practices of implementation, performance measurement criteria and challenges that can become barriers to successful implementation. They found that GAS Auditing standard is widely used by internal auditors in the UK and the factors that influence the usage of GAS include the ability to train employees on the usage of GAS, compatibility of the software within the department and the ability of software to meet the data manipulation needs. Janvrin et al. (2009b) also suggest that to increase CAATT usage, audit firm management may want to develop training programs and enhance their computer technical support to increase auditor's degree of ease associated with using CAATs.

Ahmi and Kent (2013) study found that the utilization of GAS is unusually low among audit firms in the UK. About 73 per cent of external auditors make no use of GAS, due to the perceived limited benefit of using GAS for auditing small clients. While some respondents recognized the advantages of GAS, they were put off by what they believed to be high implementation costs; significant learning curve and adoption process; and lack of ease of use – they showed a preference for using traditional manual auditing methods instead.

Computer aided auditing is beneficial, but it also has some disadvantages. Besides changing the operation and process of auditing, computer aided auditing involves the distribution of various files in different locations, making auditing even more difficult and complicated especially for those who do not have sufficient knowledge of the technology. In addition, many ERP systems involve journal recording (Munter, 2002). This means that those not involved in the operation department may not be able to identify the personnel responsible for some data they may need. Another drawback may be that personnel from IT department can also modify the data and information since they have access to the database. This could lead a company to economic losses, which may not be identified right away (Chang et al., 2008).

2.3.3.2. Internal audit communication networks

Tele-working (also known as telecommuting or flexi-working) enables employees to split their working time between the office and another working location. It is fast becoming a norm for Australia’s increasingly mobile workforces. Improved employee flexibility, the ability to access information on the go and productivity gains are just some key benefits, with global studies showing both employees and employers as beneficiaries of off-site connectivity through ICT. Utilising tele-working enabled workforces, organisations are beginning to realise savings on typically burgeoning property related costs, including reduced office space requirements and associated electricity costs (Hislop, Newell, Scarbrough, and Swan, 2000).

McClea and Yen (2005) observed that the web contact centre a secure, virtual contact centre hosted by a telecommunications provider is an alternative to the traditional centralised model. This low overhead business model relies on a personal computer, phone line and suitable internet access to enable employees to work remotely and flexibly. Web contact centres enable organisations to develop flexible contact centres suited to the underlying demand, without the cost and lag of developing new physical facilities or ongoing service management, resulting in reduced initial capital outlay and lower ongoing operating costs.

According to Hislop, et.al (2000), network hosting offers built-in business continuity capabilities; secure, carrier-grade infrastructure; and customer interaction via voice, email, web chat and fax – a set-up that minimises the need for systems integration. And by enabling access to previously untapped workforce segments, such as the semiretired, the mobility-restricted and parents with young families, web contact centres may also assist employers to efficiently manage peaks and troughs.

Computerized systems that can produce highly reliable information quickly must comply with the following criteria (1) Availability thus the system is available for operation and use at times set forth in service agreements. (2) Security implying that the system is protected against unauthorized physical and logical access. (Logical access is the ability to read or manipulate data through remote access (3) Integrity this system processing is complete, accurate, timely and in accordance with the entity's transaction approval and output distribution policy (4) Maintainability calling for the system can be updated in a manner that provides continuous availability, security and integrity of information(McClea&Yen, 2005).

2.4. Summary of the literature review

The literature suggested the need for instituting internal audit committees and independence. This should be complemented with the adequate deployment of human and financial resources and automation of the internal audits. The literature was however based on experiences of profit making companies with less empirical evidence on the public sector. The literature did not equally provide empirical evidence on the extent to which internal audit governance, resources and automation influenced the financial accountability in decentralised entities. This study therefore strived to cover this literature gap by providing empirical evidence on the extent to which governance, resources and automation influenced financial accountability in local governments of Uganda.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter focuses on the methods that were used to gather data on the study objectives. It greatly concerns the research design, study population, determination of the sample size, procedures and sampling techniques and procedure to be used, data collection methods, data collection instruments, verifying reliability and validity of data, procedure of data collection, data analysis, and measurement of variables.

3.2 Research design

The study used a cross-sectional study design using quantitative and qualitative approach. The cross-section approach was used because the issues on the management of the IAF and financial accountability in local governments werestudied at that point in time (Amin, 2005). In this study, the correlation and regression analyses were used to establish the relationship between variables and the extent to which the audit governance, resources and automation influences the financial accountability. Descriptive statistics of mean and standard deviation were used to interpret the study variables. On the other hand, qualitative data was used to give qualitative explanations on the extent to which the management of the internal audit function has influenced financial accountability in local governments.

3.3 Study Population

The study was carried out among 220 internal auditors in local governments of Uganda at the level of district principal auditor, senior auditors and auditors (Ministry of Local Government Financial Year 2012/2013 – June 2012***)***. The unit of analysis was the Higher Local Council of the district (District Local Government). This study population was selected because they are fully responsible for the internal audit function in the local government and have experiences on how it is managed and the level of financial accountability in local governments.

3.4 Sample Size and Selection techniques

The study selected up to 136 respondents based on Krejcie and Morgan (1970) Sampling Guidelines (see appendix III) as shown in table 1 below.

Table 1: Study Population and Sample Size

Department/Division	**Study population (N)**	**Sample size (n)**	**Sample selection method**
Principal Auditor	90	56	Simple random
Senior Auditor	70	43	Simple random
Auditor	60	37	Simple random
Total	**220**	**136**	

Source: Ministry of Local Government Financial Year 2012/2013 – June 2012

The study used a probability sampling method of simple random sampling were all respondents weregiven equal opportunity to be sampled. In using simple random sampling, the study usedthe lottery approach where names in each category were written on tag and one picked at a time until the required number is reached. To arrive at the sample size the study used proportionate sampling (136/220*the No in the population category).

3.5 Data Collection Methods

The study used a survey approach where both qualitative and quantitative data was collected. There are several survey approaches however for the purpose of this study the questionnaire and interviewing approaches were used as discussed below.

3.5.1. Questionnaire Survey Method

A questionnaire is a carefully designed instrument for collecting data in accordance with the specifications of the research objectives. It consists of a set of questions in writing from which the respondents respond in writing (Amin, 2005). The study used a questionnaire basing on the fact that the variables cannot be observed such as views, opinions, perceptions and feelings of the respondents on the management of the IAF and financial accountability. The questionnaire was also used because it was less expensive for data collection. The questionnaire was used to collect primary data from the selected respondents by personally delivering them to the respondents. A total of 136 questionnaires wereissued where the respondents recorded their answers within closely defined alternatives.

3.5.2. Interview method

Interviewing is a method of data collection where the researcher collects information from the targeted respondent through forms of face to face conversations and probing of the respondent's responses to gain detailed explanations to the study phenomenon (Amin, 2005). In this method the researcher interviewed the respondents face to face to obtain in depth qualitative information on the management of the IAF and financial accountability in local governments of Uganda. The study specifically targeted five (5) principal Auditors on the basis of one Principal Auditor in the each region for interviews.

3.6 Data Collection Instruments

3.6.1. Self-administered Questionnaire

The study used a close ended questionnaire divided into sections of internal audit governance, resources, automation and financial accountability. A standard Questionnaire on a five point Likert scale was used to get quantifiable primary data from individual respondents on a scale of 5- Strongly Agree; 4- Agree; 3- Not Sure; 2- Disagree; 1- Strongly Disagree.

3.6.2. Interview guide

Interview schedule was structured on key areas of audit governance, resources and automation from which the study extracted qualitative data to explain the statuesque on how the IAF is managed in local governments and its influence on financial accountability in local governments.

3.7 Validity and Reliability

3.7.1. Validity

The validity of the instrument was tested using the Content Validity Index. This involved judges scoring the relevance of the questions in the instruments in relation to the study variables and a consensus judgment given on each variable taking only variables scoring above 0.70. The Content Validity Index (CVI) was arrived at using the following formula.

CVI = Total number of items declare valid

Total number of items

The validity results are presented in table 2 below.

Table 2: Content Validity Results

Variable	**Total No of items**	**Number of valid items**	**CVI**
Internal audit governance	11	08	0.727
Internal audit resources	10	08	0.800
Internal audit automation	11	09	0.818
Financial accountability	9	07	0.777

Source: Expert Judgment

Table 2 shows that internal audit governance yielded CVI of 0.727, resources yielded a CVI of 0.800, audit automation yielded a CVI of 0.818, whilefinancial accountabilityyielded a CVI of 0.777. Since all variables yielded a CVI above 0.70 accepted for social sciences, it was inferred that the instrument were relevant in measuring the management of the IAF and financial accountability and therefore declared valid.

3.7.2. Reliability

The study instrument was pretested for its reliability on a sample of 10 respondents to examine individual questions as well as the whole questionnaire very carefully (Amin, 2005). Reliability measures the consistence of the instrument in measuring what it is supposed to measure (Amin, 2005). In this study a Cronbach's alpha coefficient was computed to show how reliable the data was using Software Package for Social Sciences (SPSS) taking only variables scoring above 0.70 as suggested by Nunally (1978) and the results are shown in table 3 below.

Table 3: Reliability Results

Variable	Total No of items	Cronbach's alpha
Internal audit governance	11	0.756
Internal audit resources	10	0.852
Internal audit automation	11	0.822
Financial accountability	9	0.719

Table 3 above shows that internal audit governance yield Cronbach's alpha value of 0.756, internal audit resources yielded alpha value of 0.852; automation yielded alpha value of 0.822 while financial accountability yielded alpha value of 0.719. Since all variables yielded an alpha value higher than 0.70 accepted for social sciences, it was concluded that the instrument was consistent in measuring the management of the IAF and financial accountability in local governments of Uganda and therefore reliable.

3.8 Data collection procedure

After successful defense of the proposal, an introductory letter from the department of higher degrees –Uganda Management Institute was obtained and used to seek permission to conduct the study from theMoLG to all selected local governments. The researcher then emailed to all the selected local government auditors using their email addresses. The filled questionnaires were returned two weeks after receipt. Anonymity and confidentiality of the respondents observed by not asking the respondents to put their names on the questionnaires.

3.9 Data Management and Analysis

3.9.1. Quantitative Analysis

Quantitative data was presented in form of descriptive statistics using mean and standard deviations for each of the variables used in the study. Pearson's correlation statistics were used to test the relationships at 99 and 95 confidence limits. A positive correlation indicates a direct positive relationship between the variables while a negative correlation indicates an inverse, negative relationship between the two variables. A regression analysis using ANOVA statistics of adjusted R^2 values, beta, t values and significance values was used to determine the magnitude of the influence of the independent variables on the dependent variable (Amin, 2005).

3.9.2. Qualitative Analysis

Qualitative analysis involved organizing statements, and responses to generate useful conclusions and interpretations on the research objectives. Qualitative analysis therefore involved coding of data, identifying categories and patterns that emerge on the management of the IAF and financial accountability.

3. 10 Measurement of variables

The study measured audit governance based on IIA (2005) guidelines, internal audit resources was measured using Mihret and Yismaw (2007) guidelines, while audit automation was measured using Curbera et al. (2008) guidelines. Each of these operationally defined the variables from which an index was developed on a five-point Likert scale ranging from strongly agree (5), Agree (4), Not sure (3), Disagree (2) to strongly disagree (1).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents analyses and interprets the study findings on the management of the internal audit function and financial accountability in Local Governments of Uganda. The first section presents response rate, this is followed by background information about the respondents, presentation and analysis of the study findings in relation to the specific objectives.

4.2 Response rate

A total of 136 questionnaires were distributed but 97 useable questionnaires were returned as shown in table 4 below.

Table 4: Response rate

Sample category	**Questionnaires issued**	**Questionnaires returned**	**Response rate**
Principal Auditor	56	39	75%
Senior Auditor	43	34	80%
Auditor	37	24	65%
Total	136	97	
Overall response rate			**71%**

Source: Primary data

Table 4 above shows an overall response rate of 71% which was high suggesting the results obtained were representative of the sample used in the study (Amin, 2005). The rest of the questionnaires were not returned in time for consideration in the final report even after constant request to fill and send them.

4.3 Background information

The first section of the questionnaire asked respondents to indicate their background information in relation to education levels, professional qualification attained; job title and time worked with the local government and the findings are present in table 5 below.

Table 5: Background information about the respondents

Item	**Description**	**Frequency**	**Percent**
Highest education level	Masters	15	15.5
	Postgraduate Diploma	63	64.9
	Degree	14	14.4
	Diploma	5	5.2
	Total	**97**	**100.0**
Professional qualifications attained	CIA	34	35.1
	CPA	20	20.6
	None	43	44.3
	Total	**97**	**100.0**
Job title	Principal Auditor	34	35.1
	Senior Auditor	34	40.2
	Auditor	24	24.7
	Total	**97**	**100.0**
Time worked with the local government	1-3 Years	38	39.2
	4-6 Years	15	15.5
	7-9 Years	25	25.8
	10+ Years	19	19.6
	Total	**97**	**100.0**

Source: Primary data

Table 5 above shows that 63(64.9%) of the respondents had attained a postgraduate diploma as their highest level of education, 15(15.5%) had attained a degree as their highest level of education, while the least, 5(5.2%) had attained a diploma as their highest level of education. This finding reveals that the respondents had attained a high level of education to understand issues in effective management of the internal audit function and financial accountability.

On top of their highest level of education, a total of 43(44.3%) had not added any professional qualification, 34(35.1%) had were CIA holder while 20(20.6%) were CPA holders a finding which suggested that about 6 in every 10 local government audit staff had attained a professional qualification and was presumed to possess adequate knowledge on effective management of the audit function and financial accountability in the local government.

Table 5 further shows that 39(40.2%) of the respondents were Senior Auditors, 34(35.1%) were Principle auditors while 24.7% were auditors by job title. Thus data was collected from staff that were employed in the local governments as auditors with diverse seniority and therefore experienced in how the internal audit function is managed in the local governments and the status of financial accountability.

A total of 38(39.8%) had worked with the local government for 1-3 years, 15(15.5%) had worked for 4-6 years while 19(19.6%) had worked for 10 years and more. This finding suggested that about 60% of the internal auditors in the local government had over three years experience with local government and therefore had attained reliable experiences in the management of the internal audit function and financial accountability in the local governments.

4.4. The extent to which internal audit Governance influences financial accountability in Local Governments of Uganda.

The first objective of the study was to establish the extent to which internal audit Governance influences financial accountability in Local Governments of Uganda. internal audit governance was one of the dimensions of the management of the internal audit function and had two indicators of internal audit independence and independence of the internal audit committee measured using 11 items scored on five(5) point Likert scale ranging from 5= strongly agree (SA), 4 = agree (A), 3 = not sure (NS), 2= Disagree (DA), 1= Strongly Disagree (SDA) and the findings are shown in Table 6 below.

Table 6: Descriptive results for internal audit governance

Responses	**Mean**	**Std. Dev**
Internal audit independence		
1. Internal audit judgments are not subordinated by the district administration	3.78	1.227
2. The internal audit reports are free from the bias of the districts administration	1.94	.988
3. The internal audit opinions are free from the influence of the districts administration	2.06	.944
4. The internal audit department does not experiences undue influence from the district administration	1.91	.765
Internal audit committee		
5. Your local government boosts of a competent PAC members to adjudicate internal audit reports in the district	2.03	.940
6. Local government public accounts committee undertakes to examine the internal audit reports	3.73	1.279
7. The Local government public accounts committee promptly submit its report to the district council and to the Minister responsible for local governments	1.93	.938
8. All recommendations of the local government PAC are promptly implemented by the chairperson of the council and the CAO	1.98	.968
9. The local government PAC makes effort to assess the overall scope and effectiveness of the local government internal audit	3.84	1.213
10. The local government PAC constantly monitors and reviews the effectiveness of the internal audit function in the local government	3.90	1.113
11. The local government PAC participates in the appointment of the district internal auditors	1.99	1.015

Source: Primary data

Table 6 above shows that although the respondents agreed (mean = 3.94) that the internal audit judgments were not subordinated by the district administration, they disagreed that the internal audit reports were free from the bias of the districts administration (mean = 1.98) while they also disagreed that the internal audit opinions were free from the influence of the districts administration (mean = 2.06). These findings suggested that the local governments internal audit function did not enjoy fully independence which compromises the attainment of the goal of financial accountability due to the influence of management of the local governments responsible for accountability. It was necessary that the management of local governments give the internal audit function its independence.

Table 6 above shows that the respondents agreed that;- the local government public accounts committee undertook to examine the internal audit reports (mean = 3.74), PAC undertook to assess the overall scope and effectiveness of the local government internal audit (mean = 3.90), while they also agreed that PAC constantly monitored and reviewed the effectiveness of the internal audit function in the local government (mean = 3.90). The efforts by local government PAC to examine internal audit reports, assessment of the overall effectiveness of the local government internal audit function should be commended as it helps identify weaknesses in the internal audit function and enhances the effectiveness of the local government internal audit function following adoption of PAC recommendations.

However, the respondents disagreed that;- local government boasted of competent PAC members to adjudicate internal audit reports in the district (mean = 2.03), disagreed that PAC promptly submitted its report to the district council and to the Minister responsible for local governments (mean = 1.93), all recommendations of the local government PAC were promptly implemented by the chairperson of the council and the CAO (mean = 1.98). The failure to constitute PAC based on desired competencies in auditing, late submission of PAC reports to the responsible offices for action and implementation of PAC recommendations frustrates the effectiveness of the internal audit function. It was necessary that the local governments ensure that the PAC members are appointed based on possession of audit competencies while the district management need to adequately consider the PAC report by taking recommended actions.

4.4.1. Correlation results

To test the relationship between on internal audit governance and financial accountability, Pearson's correlation analysis was conducted at the 2-tailed level and the findings are presented below.

Table 7: Correlation Matrix between internal audit governance and financial accountability

		Governance	Financial Accountability
Governance	Pearson Correlation	1	.509**
	Sig. (2-tailed)		.000
	N	97	97
Financial Accountability	Pearson Correlation	.509**	1
	Sig. (2-tailed)	.000	
	N	97	97
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

Table 7 above shows Pearson's correlation coefficient r = 0.509** and p = 0.000 between on the audit governance and financial accountability suggesting that there was a moderate positive significant relationship between internal audit governance and financial accountability in local governments of Uganda. The implication was that financial controls, validity and reliability of financial reports, and value for money depends on the extent to which the local government internal audit team and PAC enjoy their independence in exercise of their roles and powers.

4.4.1. Regression Results

To establish the extent to which internal audit governance influenced financial sustainability, a regression analysis was conducted using the ANOVA techniques of adjusted R^2, standardized beta values, t-values and the significance measured at 0.05 levels. The results are tabulated in the Table 7 below.

Table 8: Regression results between on the internal audit governance and financial sustainability

Model	R	R Square	Adjusted R Square	t-value	F-constant	Sig	Std. Error of the Estimate
1	.509[a]	.259	.251	5.764	33.221	0.000	0.442
a. Predictors: (Constant), internal audit governance							

$P \leq 0.05$

Source: Primary data

The regression model in Table 8 above shows adjusted R^2 value of 0.251 between internal audit governance and financial accountability suggesting audit governance predicted 25.1% of the variance in financial accountability in local governments. The adjusted R^2 = 0.251, t = 5.764, F= 33.221 and significance 0.000 suggested that internal audit governance was a significant predictor of the variance in the financial accountability in Local governments. The study therefore confirmed that internal audit Governance significantly influences financial accountability in Local Governments.

4.5. The extent to which internal audit resources influences financial accountability in Local Governments of Uganda.

The second objective of the study was to establish the extent to which internal audit resources influences financial accountability in Local Governments of Uganda. Audit resources was one of the dimensions of the management of the internal audit function and had two indicators of human and budgetary allocation measured using 10 items scored on five (5) point Likert scale ranging from 5= strongly agree (SA), 4 = agree (A), 3 = not sure (NS), 2= Disagree (DA), 1= Strongly Disagree (SDA) and the findings are shown in Table 9 below.

Table 9: Descriptive results for internal audit resources on local governments

	Mean	**Std. Dev**
Human resources		
1. The internal audit function is adequately staffed to effectively perform all its duties in the local government	3.90	1.327
2. Your audit team posses the desired internal audit technical competencies necessary for effective auditing	3.95	1.045
3. The internal audit staff boast of reasonable experience in internal auditing	3.95	1.228
4. The internal audit staff possess appropriate competencies in information technology necessary for computerized auditing	1.94	.966
5. The internal audit staff in your local government regularly undergo skills up grading through training	2.03	.940
Budgetary allocations		
6. The internal audit function has an autonomous budget/vote in the local government budget	4.31	.727
7. The internal audit function is funded an appropriate level to effectively perform its roles	2.29	.979
8. The internal audit functional budget is adequate to meet field activities	1.94	.966
9. The internal audit functional budget is adequate to meet its equipment needs	2.19	.894
10. The internal audit function is in position to meet its fuel costs	2.14	.901

Source: Primary data

Table 9 above shows that the respondents agreed that;- the internal audit function was adequately staffed (mean = 3.90), the audit team possessed the desired internal audit technical competencies (mean = 3.95), internal audit staff boasted of reasonable experience in internal auditing (mean = 3.95). These findings revealed that the local government internal function was adequately staffed with the desired number of staff who had gained reasonable experiences which should ideally foster the attainment of the internal audit function's objectives since they have the desired workforce.

However the respondents disagreed that internal audit staff possessed appropriate competencies in information technology necessary for computerized auditing (mean = 1.94) while they also disagreed that the internal audit staff in the local government regularly received skills up grading through training (mean = 2.03). These findings revealed that some internal audit staff were constrained to effectively perform their internal audit functions due to inadequate ICT skills necessary to effectively perform computerized auditing. It was found necessary that IT training needs are identified and the necessary training programs are conducted to enable the local government internal audit staff not only to perform computerized/automated audits but improve on their desirable audit competencies.

On budgeting, the respondents disagreed that the internal audit function;- was funded at an appropriate level (mean = 2.29), budget was adequate to meet field activities (mean = 1.94), budget was adequate to meet its equipments needs (mean = 2.19). These findings revealed inadequate allocation of financial resources in the local governments internal audit function in the annual budgets. The inadequate allocation of funds for the internal audit function cripples its efforts to conduct mandatory audits in the local governments which may lead to poor accountability by the local governments.

4.5.1. Correlation results

To test the relationship between on internal audit resources and financial accountability, Pearson's correlation analysis was conducted at the 2-tailed level and the findings are presented below.

Table 10: Correlation Matrix between internal audit resources and financial accountability

		Resources	Financial Accountability
Resources	Pearson Correlation	1	.358**
	Sig. (2-tailed)		.000
	N	97	97
Financial Accountability	Pearson Correlation	.358**	1
	Sig. (2-tailed)	.000	
	N	97	97
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

Table 10 above shows Pearson's correlation coefficient r = 0.358** and p = 0.000 between on the audit resources and financial accountability suggesting that there was a low but significant positive significant relationship between internal audit resources and financial accountability in local governments of Uganda. The implication was that financial controls, value for money, validity and reliability of financial reports depend on the extent to which the local government internal audit function is provided with the necessary human and budgetary allocations.

4.5.2. Regression Results

To establish the extent to which internal audit resources influenced financial sustainability, a regression analysis was conducted using the ANOVA techniques of adjusted R^2, standardized beta values, t-values and the significance measured at 0.05 levels. The results are tabulated in the Table 11 below.

Table 11: Regression results between on the internal audit resources and financial sustainability

Model	R	R Square	Adjusted R Square	t-value	F-constant	Sig	Std. Error of the Estimate
1	.358[a]	.128	.119	3.732	13.924	0.000	0.47930
a. Predictors: (Constant), internal audit resources							

$P \leq 0.05$

The regression model in Table 11 above shows adjusted R^2 value of 0.119 between internal audit resources and financial accountability suggesting audit resources predicted 11.9% of the variance in financial accountability in local governments. The adjusted $R^2 = 0.119$ t = 3.732, F= 13.924 and significance 0.000 suggested that internal audit resources although a low in influence, it was a significant predictor of the variance in the financial accountability in Local governments. The study therefore confirmed that internal audit resources significantly influence financial accountability in Local Governments.

4.6. The extent to which internal audit automation influences financial accountability in Local Governments of Uganda.

The third objective of the study was to establish the extent to which internal audit automation influences financial accountability in Local Governments of Uganda. Audit automation was one of the dimensions of the management of the internal audit function and had two indicators of automated audit tools and communication networks measured using 11 items scored on five (5) point Likert scale ranging from 5= strongly agree (SA), 4 = agree (A), 3 = not sure (NS), 2= Disagree (DA), 1= Strongly Disagree (SDA) and the findings are shown in Table 12 below.

Table 12: Descriptive results for internal audit automation in local governments

Response	Mean	Std. Dev
Automated audit tools		
1. Your internal audit function as appropriate computers to perform the internal audit function	3.92	.886
2. You use a modern software system (IDEA) that captures information relevant to the internal control activities to perform your audit activities	3.56	1.127
3. You have access to an integrated database that can be used to performance audit activities	2.13	.874
4. IDEA software is adequate for data extraction to perform specific internal audit routines	2.04	.967
5. IDEA software has an adequate analytical capacity to perform specific internal audit analyses	2.24	.851
6. IDEA software is adequate for data extraction and data analysis to perform specific audit routines and statistical analysis	2.24	.998
Communication networks		
7. You have access to Telecommunication networks necessary to perform your internal audit function	2.29	1.080
8. The local government has Local Area Network (LAN) linking you to the different users for information sharing	1.94	1.116
9. The local government has Wide Area Network (WAN) linking you to the different users for information sharing	2.24	1.248
10. The local government has access to internet necessary to perform your internal audit functions	1.98	1.099
11. You have access to a website where you can access information necessary to perform your internal audit function in the local government	1.84	1.007

Source: Primary data

Table 12 above shows that whereas the respondents agreed that they used a modern software system (IDEA) that captures information relevant to the internal control activities to perform their audit activities (mean = 3.59), they disagreed that had access to an integrated database that could be used to performance audit activities (mean = 2.13). The respondents also disagreed that;- the IDEA software was adequate for data extraction to perform specific internal audit routines (mean = 2.04), IDEA had a good analytical capacity (mean = 2.24). These findings revealed that the present IDEA audit tool used for local government internal audits was inadequate since it could enable the different users to access required data, yet it had a low analytical capacity.

Similarly, the respondents disagreed that;- they had access to required telecommunication networks (mean = 2.29), local government has Local Area Network (LAN) linking them to the different users for information sharing (mean = 1.94), had access to internet (mean = 1.98) and website (mean = 1.84). These findings revealed inadequate ICT infrastructure of telecommunication, internet and website necessary which was indicative of a low level of automation.

4.6.1. Correlation results

To test the relationship between on internal audit automation and financial accountability, Pearson's correlation analysis was conducted at the 2-tailed level and the findings are presented below.

Table 13: Correlation Matrix between internal audit automation and financial accountability

		Automation	Financial Accountability
Automation	Pearson Correlation	1	.542**
	Sig. (2-tailed)		.000
	N	97	97
Financial Accountability	Pearson Correlation	.542**	1
	Sig. (2-tailed)	.000	
	N	97	97
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

Table 13 above shows Pearson's correlation coefficient r = 0.542** and p = 0.000 between on the audit automation and financial accountability suggesting that there was a low but significant positive significant relationship between internal audit automation and financial accountability in local governments of Uganda. The implication was that financial controls, value for money, validity and reliability of financial reports depend on the extent to which the local government internal audit function is provided with automated audit tools and communication networks.

4.5.2. Regression Results

To establish the extent to which on the internal audit automation influenced financial sustainability, a regression analysis was conducted using the ANOVA techniques of adjusted R^2, standardized beta values, t-values and the significance measured at 0.05 levels. The results are tabulated in the Table 14 below.

Table 14: Regression results between on the internal audit automation and financial sustainability

Model	R	R Square	Adjusted R Square	t-value	F-constant	Sig	Std. Error of the Estimate
1	.542[a]	.294	.287	6.290	39.570	0.000	0.43122
a. Predictors: (Constant), internal audit automation							

$P \leq 0.05$

Source: Primary data

The regression model in Table 14 above shows adjusted R^2 value of 0.287 between internal audit automation and financial accountability suggesting audit automation predicted 28.7% of the variance in financial accountability in local governments. The adjusted R^2 = 0.287, t = 6.290, F= 39.570 and significance 0.000 suggested that internal audit automation was a significant predictor of the variance in the financial accountability in Local governments and it was the highest predictor of the variance in financial accountability. The study therefore confirmed that internal audit automation significantly influence financial accountability in Local Governments.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, discussion, conclusions and recommendations of the study on the management of the internal audit function and financial accountability in local governments. The first section presents a summary of the study findings in relation to the specific objectives. This is followed by a discussion, conclusion, and recommendations of the study in relation to the objectives of the study. Limitations of the study, contributions of the study and recommendations for further studies are also presented in this chapter.

5.2 Summary of the study findings

5.2.1. Internal audit Governance and financial accountability in Local Governments of Uganda.

The study found a moderate but positive significant relationship between internal audit governance and financial accountability in local governments of Uganda (r = 0.509** and p = 0.000). The simple regression results revealed that internal audit governance was a significant predictor of the variance in financial accountability (adjusted R^2 = 0.251, t = 5.764, F= 33.221 and sig=0.000). The implication was that financial controls, validity and reliability of financial reports, and value for money depends on the extent to which the local government internal audits team and PAC enjoy their independence in exercise of their roles and powers.

5.2.2. Internal audit resources and financial accountability in Local Governments of Uganda.

The study found a moderate but positive significant relationship between internal audit resources and financial accountability in local governments of Uganda (r = 0.358** and p = 0.000). The simple regression results revealed that internal audit resource was a significant predictor of the variance in financial accountability (adjusted R^2 = 0.119 t = 3.732, F= 13.924 and sig=0.000). The implication was that financial controls, validity and reliability of financial reports, and value for money depends on the extent to which the local government internal audit function is provided with the necessary human and financial resources.

5.2.3. Internal audit automation and financial accountability in Local Governments of Uganda.

The study found a moderate but positive significant relationship between internal audit resources and financial accountability in local governments of Uganda (r = 0.542** and p = 0.000). The simple regression results revealed that internal audit automation was a significant predictor of the variance in financial accountability (adjusted R^2 = 0.287, t = 6.290, F= 39.570 and sig=0.000). The implication was that financial controls, validity and reliability of financial reports, and value for money depends on the extent to which the local government internal audit function is provided with automated audit tools and communication networks.

5.3 Discussions of the study findings

5.3.1. Internal audit Governance and financial accountability in Local Governments of Uganda.

The study found a significant relationship between internal audit governance and financial accountability in local governments of Uganda implying that financial accountability depends on the efforts to which the local government internal audits team and PAC enjoy their independence in exercise of their roles and powers.

This study finding and observation attest to the Jensen and Meckling (1976) Principal-Agent theory which asserts that in Principal-Agent arrangement, control the behaviors of the agent to achieve his objectives since the Agent may acts in a way which maximizes his own interest other than those of the principal. More specifically to internal auditing, the PAT informs managers that the responsibility for control is vested in the board and management, the shareholders' agents. To this effect it has been noted that while the independent external auditors provide assurance to the shareholders on the quality of the financial statements, it is the independent internal audit function that provides assurance to the board, via the audit committee.

This study found out that the internal audit department experiences undue influence from the district administration which compromises their ability to make independent informed opinion on the financial accountability in the local government. This study finding relate to the Christopher et al. (2009) study finding that independence threats associated with internal audit's relation with management stem from the involvement of the CEO or CFO in the internal audit function's plan and budget, management regarding the internal auditor as a partner and using the internal audit function as a stepping stone to other positions. VanPeursem (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. Other studies have found an association between weaknesses in governance and poor financial reporting quality. Better governance is linked to higher quality financial reporting (Peasnell et al., 2005; Callao et al., 2007; Monterrey Mayoral &Sa´nchez-Segura, 2008).

In a Canadian study, Goh (2009) found the effectiveness of a firm's independent audit committee to be associated with that firm's timeliness in remediating material weaknesses in internal control, thereby helping to improve financial reporting quality and, ultimately, enhancing corporate governance. In addition, Persons (2009) reported that large and independent audit committees help to prevent fraudulent financial reporting incidents in organizations. This study therefore inferred that governance of the internal function if well observed enhances financial accountability in local governments.

5.3.2. Internal audit resources and financial accountability in Local Governments of Uganda

The study found that a significant relationship between internal audit resources and financial accountability in local governments implying that financial accountability depends on the extent to which the local government internal audit function is provided with the necessary human and financial resources.

These study findings relate to a great extent to the institutional theory by Di Maggio and Powell (1983) which posits that organizations are set to passively succumb to institutional coercive, normative and mimetic pressures in order to obtain the legitimate social support of stakeholders internal and external to the entity through efficient and ethical utilization of resources. In contexts where institutional, technical and legitimate pressures are acting, organizations seek to obtain not only efficiency but also legitimacy, and must identify and satisfy the requirements of their stakeholders (Neilsen&Rao, 1987).

Also, Gramling and Hermanson (2009) argue that skilled and qualified internal auditors are indicative of internal audit quality. Harrington (2004) suggests key attributes of education, experience, professional certification, in addition to computer and communication skills. Smith (2005) identified excellent communication skills in order to succeed and advance in the changing and complex international global marketplace for internal auditors while Seol and Sarkis (2005) advocates for deployment of internal auditors with skills, cognitive skills (i.e. technical skills, analytic skills, and appreciative skills), and behavioral skills such as personal skills, interpersonal skills, and organizational skills.

On the relationship between the internal audit competencies, Yang et al. (2009) reported that auditors' accumulated knowledge significantly related to their ability to detect organizations' fraudulent financial reporting activities. Studies such as those by James (2003), Swanger and Chewning (2001) and Lowe et al. (1999), provide evidence that internal audit information affects stakeholder perceptions of financial reporting and reliability. A study by Fadzil et al. (2005) shows that the better the audit work, the greater the firm's control environment on the quality of the internal control system.Asare et al. (2008) experimental studies suggest that internal auditing can help to mitigate aggressive accounting behavior by management.

5.3.3. Internal audit automation and financial accountability in Local Governments of Uganda.

The study found a significant relationship between internal audit resources and financial accountability in local governments of Uganda implying that financial accountability depends on the extent to which the local government internal audit function is provided with automated audit tools and communication networks.

The study was also guided by the business process reengineering (BPR) model which refers to the radical redesign of business processes to achieve dramatic improvements in performance (Hammer, 1990). Davenport and Short (1990) maintain that BPR is cross-functional in nature; and it is predominately an IT-enabled approaches of automation. The BPR, as with all advocated improvement models, is believed to achieve such things as higher customer satisfaction, and organizational efficiency and effectiveness, to name a few (Hammer &Champy, 1993). The early BPR literature identified several so called disruptive technologies that were supposed to challenge traditional wisdom about how work should be performed. These included shared databases, making information available at many places; expert systems, allowing generalists to perform specialist tasks; telecommunication networks, allowing organizations to be centralized and decentralized at the same time; decision-support tools, allowing decision-making to be a part of everybody's job. These are complemented with wireless data communication and portable computers, allowing field personnel to work office independent; interactive videodisk, to get in immediate contact with potential users; automatic identification and tracking, allowing things to tell where they are, instead of requiring to be found and high performance computing, allowing on-the-fly planning and re-visioning (Hung, 2006; Lai &Mahapatra, 2004; Paper and Chang, 2005).

Mihret and Yismaw (2007) noted that autonomy on budgets is another sub factor relating to the organizational setting, as it entails resource implications. The internal audit function needs to be financed to an appropriate level if it is to achieve its functional objectives (Hass et al., 2006). Similarly, Dale and Zanzig (2000) advocates for the use of flexibility to address unexpected audit findings which is more important than attempting to control audit costs through a strict adherence to time budgets.

A survey of audit managers undertaken in 2005 indicated that SOX (2002) first year compliance efforts utilized 50 percent or more of internal audit work (PwC, 2006). This emphasis means that limited internal audit resources are being diverted from operational audits, consulting and governance activities to increase SOX assurance demands. Hass et al. (2006) further advise that nevertheless, internal audit must position itself to be actively involved with risk assessment, control and governance. Given the regulatory requirements in the US that has absorbed approximately 50 percent of internal audit limited resources as noted above, resource allocation has become a key activity of the internal audit heads, which need to take full advantage of new technologies such as continuous auditing and software innovations in internal audit department management.

5.4 Conclusions of the study findings

5.4.1. Internal audit Governance and financial accountability in Local Governments of Uganda.

The study concluded that the interference with the internal audit independence adversely affects financial accountability in local government of Uganda. Similarly the study concluded that the in-competencies of some PAC and the inadequate performance of PAC roles as provided for in the PAC guidelines and Regulations adversely affected financial accountability in local governments of Uganda. There was need for enhanced governance of the internal auditing function for enhanced financial performance in local governments.

5.4.2. Internal audit resources and financial accountability in Local Governments of Uganda.

The study concluded that although the internal audit function was staffed with the adequate and competent staff, some staff did not possess appropriate competencies in information technology necessary for computerized auditing and did not receive all required training to improve on their competencies. The study also concluded that although the internal audit function was allocated in the local government budgets, the budgetary allocations were inadequate to enable the department to fully perform their roles in all local government entities. It was therefore inferred that the human and resource constraints in the management of the internal audit function adversely affect financial accountability in local governments.

5.4.3. Internal audit automation and financial accountability in Local Governments of Uganda.

The study concluded that although most local governments were using IDEA software for audit, the information system/package was not well integrated to enable comprehensive and effective internal auditing which adversely affects financial accountability in local governments. It was also concluded that the inadequate information and communication networks adversely affected the performance of internal audits roles and financial accountability in local governments.

5.5 Recommendations of the study findings

5.5.1. Internal audit Governance and financial accountability in Local Governments of Uganda.

To enhance financial accountability on local governments of Uganda, the study recommends that the local government administration should be sensitized on the need to respect the independence of the internal audit function to eliminate undue influence to enable it produce internal audit reports which are free from the bias of the districts administration, and respect of internal audit opinions. The above should be complemented with appointment of district PAC based on possession of audit related experiences and continuous training of PAC members in internal auditing to enable them promptly submit reports to relevant authorities and monitor the effectiveness of the local government internal audit function.

5.5.2. Internal audit resources and financial accountability in Local Governments of Uganda.

To enhance financial accountability on local governments of Uganda, the study recommends that the local government administration in liaison with the relevant central government ministries should train internal auditor in audit related IT skills and continuous professional development to enhance their audit competencies. Training of the audit team should be complemented with allocation of optimum financial resources in the district budget to enable the auditor conduct audits in the local government.

5.5.3. Internal audit automation and financial accountability in Local Governments of Uganda.

To enhance financial accountability on local governments of Uganda, the study recommends that the local government administration in liaison with MoFPED should link to integrated audit tools with adequate analytical capacity to enable them extract audit related data, analyze and generate internal audit reports such as the IFMIS. This should be complemented with enhanced connectivity of local governments audit units through use of information and communication networks such as mobile internet and access to a worldwide web to enable internal auditor's access data and communicate in real time.

5.6 Limitations of the study

The study relied on primary data collected using a standardized questionnaire and interview guide without use of secondary data to effectively triangulate and enhance the data quality on the management of the internal audit function and financial accountability. Similarly the study relied on information provided by the internal auditors in local governments alone. The use of MoLG and MoFPED official related to audit in local governments if sought would have yielded diverse experiences in the management of the internal audit function since they oversee the internal audit operations in the local government as audit policy formulation and monitors.

5.7 Contributions of the study

The study has helped develop internal audits governance, resource requirements and automation managerial recommendations such as sensitization on the need for internal audit independence, training of PAC members and internal auditors and deployment of integrated audit tools and communication networks for enhanced performance of the internal audit function and financial accountability under decentralized governance. The study has also helped cover literature gaps on the extent to which internal audit governance, resources and automation influence financial accountability under decentralized governance of a developing country {Uganda}.

5.8 Recommendations for further studies

Other studies need to examine the moderating role of the influence of national culture on the relationship between internal audit and financial accountability in local governments of Uganda.

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APPENDICES

APPENDIX I: MANAGEMENT OF THE INTERNAL AUDIT FUNCTION AND FINANCIAL ACCOUNTABILITY QUESTIONNAIRE

Introduction

Dear respondent,

I am a Masters student at Uganda Management Institute, Kampala carrying out a study entitles, the management of the internal audit function and financial accountability in local governments. You have been selected as a respondent to provide us with your views which will be kept and treated with utmost confidentiality and will only be used for purposes of this study, so feel free and answer diligently to enable us achieve the objectives of this study.

Thank you in advance

SECTION I: BACKGROUND INFORMATION

1. Your highest level of education: Masters [ ] Postgraduate Diploma [ ] Degree [ ] Diploma [ ]
2. Professional qualifications attained (specify)………………….
3. Your job title: Principal Internal Auditor [ ] Senior Internal Auditor [ ] Internal Auditor [ ]
4. How long you have worked with the local governments: 1-3 Years [ ] 4-6 Years [ ] 7-9 Years [ ] 10+ Years [ ]

SECTION II: MANAGEMENT OF THE INTERNAL AUDIT FUNCTION

Instructions

Indicate the extent to which you agree with the following observation on the management of the internal audit function in your local government ***on a scale of (5) for strongly agree (4) for agree, (3) for not sure (2) for disagree (1) for strongly disagree***

Scale	**5**	**4**	**3**	**2**	**1**
A. Governance					
Internal audit independence					
Internal audit judgments are not subordinated by the district administration	5	4	3	2	1
The internal audit reports are free from the bias of the districts administration	5	4	3	2	1
The internal audit opinions are free from the influence of the districts administration	5	4	3	2	1

The internal audit department does not experiences undue influence from the district administration	5	4	3	2	1
Internal audit committee					
12. Your local government boosts of a competent PAC members to adjudicate internal audit reports in the district	5	4	3	2	1
13. Local government public accounts committee undertakes to examine the internal audit reports	5	4	3	2	1
14. The Local government public accounts committee promptly submit its report to the district council and to the Minister responsible for local governments	5	4	3	2	1
15. All recommendations of the local government PAC are promptly implemented by the chairperson of the council and the CAO	5	4	3	2	1
16. The local government PAC makes effort to assess the overall scope and effectiveness of the local government internal audit	5	4	3	2	1
17. The local government PAC constantly monitors and reviews the effectiveness of the internal audit function in the local government	5	4	3	2	1
18. The local government PAC participates in the appointment of the district internal auditors	5	4	3	2	1
B. Internal Audit Resources					
Human resources					
11. The internal audit function is adequately staffed to effectively perform all its duties in the local government	5	4	3	2	1
12. Your audit team posses the desired internal audit technical competencies necessary for effective auditing	5	4	3	2	1
13. The internal audit staff boost of reasonable experience in internal auditing	5	4	3	2	1
14. The internal audit staff possess appropriate competencies in information technology necessary for computerized auditing	5	4	3	2	1
15. The internal audit staff in your local government regularly undergo skills up grading through training	5	4	3	2	1
Budgetary allocations					
16. The internal audit function has an autonomous budget/vote in the local government budget	5	4	3	2	1
17. The internal audit function is funded an appropriate level to effectively perform its roles	5	4	3	2	1
18. The internal audit functional budget is adequate to meet field activities	5	4	3	2	1
19. The internal audit functional budget is adequate to meet its equipments needs	5	4	3	2	1
20. The internal audit function is in position to meet its fuel costs					

C. Internal Audit Automation					
Automated audit tools					
12. Your internal audit function as appropriate computers to perform the internal audit function	5	4	3	2	1
13. You use a modern software system (IDEA) that captures information relevant to the internal control activities to perform your audit activities	5	4	3	2	1
14. You have access to an integrated database that can be used to performance audit activities	5	4	3	2	1
15. IDEA software is adequate for data extraction to perform specific internal audit routines	5	4	3	2	1
16. IDEA software has an adequate analytical capacity to perform specific internal audit analyses	5	4	3	2	1
17. IDEA software is adequate for data extraction and data analysis to perform specific audit routines and statistical analysis	5	4	3	2	1
Communication Networks					
18. You have access to Telecommunication networks necessary to perform your internal audit function	5	4	3	2	1
19. The local government has Local Area Network (LAN) linking you to the different users for information sharing					
20. The local government has Wide Area Network (WAN) linking you to the different users for information sharing	5	4	3	2	1
21. The local government has access to internet necessary to perform your internal audit functions	5	4	3	2	1
22. You have access to a website where you can access information necessary to perform your internal audit function in the local government	5	4	3	1	1

SECTION III: FINANCIAL ACCOUNTABILITY

Instructions

Indicate the extent to which you agree with the following observations on financial accountability on a scale of (5) for strongly agree (4) for agree, (3) for not sure (2) for disagree (1) for strongly disagree

Scale	**5**	**4**	**3**	**2**	**1**
Financial controls					
1. The local government you work for always keeps costs to an agreed level	5	4	3	2	1
2. The local government costs and expenses are always as budgeted	5	4	3	2	1
Validity and reliability of financial reports					
3. The local government's financial reports always portray a true/accurate position of the local government liabilities	5	4	3	2	1

4. The local government's financial reports always portray a true/accurate position of the local government assets	5	4	3	2	1
5. The local government's financial reports always portray a true/accurate position of the local government income	5	4	3	2	1
6. The local government's financial reports always portray a true/accurate position of the local government expenses	5	4	3	2	1
Value for money					
7. Your local government has achieved a reasonable level of economy through minimized cost of acquiring services	5	4	3	2	1
8. Your local government has achieved a reasonable level of efficiency through use of low inputs to gain more outputs in the delivery of decentralized social services	5	4	3	2	1
9. Your local government has achieved a reasonable level of effectiveness in the delivery of decentralized social services	5	4	3	2	1

APPENDIX II: INTERVIEW GUIDE

1. Describe the effectiveness of the Local Government PAC in strengthening the internal controls in the local government?

2. What are the challenges experienced by the Local Government PAC in strengthening the internal controls in the local government?

3. What are your experiences of the Internal Audit independence in your local government?

4. What are the challenges in exercising Internal Audit independence in your local government?

5. What are the human resource challenges in the internal audit function in your local government?

6. What are the budget allocation challenges in the internal audit function in your local government?

7. How does internal audit automation contribute to the effectiveness on the internal audit function in your local government?

APPENDIX III: TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size
"S" is sample size.