

Impact of Internal Auditing on Financial performance of Micro Financial institutions in Kigezi Region empirical studies of Rukiga Savings and Credit Cooperative Organisation.

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Abstract: *This study was about internal Auditing on Financial performance of Micro Financial institutions in Kigezi Region. Empirical studies of Rukiga Savings and Credit Cooperative Organisation. The objectives of the study were; To find out whether regular internal auditing ushers in success at Rukiga Savings and Credit Cooperative Organisation, to find out if internal auditing minimizes on wasteful spending and misappropriation of funds at Rukiga Savings and Credit Cooperative Organisation, to find out whether there is a relationship that falls in between internal auditing and success at Rukiga Savings and Credit Cooperative Organisation. The methodology used in the research study was descriptive and cross sectional design. There was also use of qualitative and quantitative approaches during the exercise of data collection and analysis. The study population was 189 respondents including management, employees and customers of Rukiga Savings and Credit Cooperative Organisation. The instruments of data collection used in the research study were focused group discussion, Questionnaire and interview. The findings from the research study portray a strong relationship between internal auditing and the financial performance of Micro Financial institutions in Rukiga Savings and Credit Cooperative Organisation. Internal Auditing has a big impact on financial performance of micro financial institution as to helps in minimizing misuse of funds, embezzlement of funds, improving efficient resource utilization of losses. The study recommended that; management of Rukiga Savings and Credit Cooperative Organisation should adopt a strong internal control system, ensure independence and objectivity of the auditors because these help the organization to effectively and efficiently utilize their resources hence leading to high levels of performance.*

Keywords; Internal Auditing, financial performance, financing decision

1.0 Back ground of the Study

According to the Institute of Internal Auditors (1991), the internal auditing is responsible for reviewing the means of safeguarding assets and where appropriate, verify the existence of such assets. Financial control puts emphasis and concentration on the cash out flow, purchasing procedures and accountability of budget holders for current expenditure on resources inputs.

Okoya, (2002) asserts that internal auditing furnishes authorities with analysis, appraisals, recommendations and information concerning all activities reviewed. The survival of every organization depends on its effective and efficient utilization of resources (both financial and non-financial). The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organization.

According to Sumner (2002), internal auditors are always involved in the overall planning and strategic decision making. According to Ellis (2000), the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions and so having no much impact on organization's success. Mainoma, (2007) and Buhari, (2001) asserts that an audit is a planned and documented activity performed by qualified personnel to investigate, examine, evaluate the objective evidence, the adequacy and compliance with established procedures or applicable documents and effectiveness of implementation.

The study adopted the capture theory put forward by George Stigler (1996), which states that all production and business enterprise need to be regulated in order to enhance effective and efficient resource utilization. The theory helps in illustrating how internal auditing helps management through providing regulation, advice and internal controls with the aim of enhancing monitoring and control.

The study considered two variable such as internal auditing and financial performance of micro financial institutions.

Rukiga SACCO is located in Muhanga Town Council, Rukiga District. It has over eight (8) branches spread in all districts of Kabale, Rukungiri and Rukiga with over 60,000 customers. Its core mission is to promote a savings culture and also offer affordable credit facilities among the members or shareholders.

2.0 Related Literature Review

2.1 Functions of Internal Auditing

According to Keen and Murphy, (1996), Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public

accounting professions with the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law.

Mort Dittenhofer, (2001) asserted that in 1978, the Board issued professional standards of internal auditing. Since 1990, Internal Audit has become a dynamic branch of science. Much of this change is the result of an approach that has been adopted by professional leaders. Also, it is the result of the deployment of technological and behavioral innovations as Intl. J. Manag. Human. Sci. Vol., 3 (3), 1555-1558, 20141556 well as the introduction of the operational attitudes instead of the last conservative and passive approaches. Still, Keen and Murphy, (1996) asserted that to perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of management activities and personnel. Although internal auditors are part of company management and paid by the company, the primary customer of internal Audit activity is the entity charged with oversight of management's activities. This is typically the Audit committee, a sub-committee of the Board of Directors to provide independence, most Chief executives report to the Chairperson of the Audit Committee and can only be replaced with the concurrence of that individual.

2.2 Objectivity of the internal audit reports.

Gramling, Maletta, Schneider and Church (2004) analyzed the role of the internal audit reporting function on success of firms and also on their corporate governance. The study revealed that the objectivity of reports is important to ensure that positive change is performed in the different organizational processes to improve corporate governance and organizational repute. Objective reports are not biased which even make many organizational members to unanimously accept the report and take positive steps towards acting on the report and making the recommended changes. This positive effect of internal audit objective reporting creates strong controls and processes that are a catalyst for organizational success.

Stewart and Subramanian (2010) studied the effect of internal audit objectivity and independence and the effects these can have on the organization. They observed that objectivity in the audit function is critical in all the functions including in reporting. Having reports with verifiable and supporting documents is important in ensuring that the credibility of internal audit is not compromised. This ensures that the internal audit function provides reports that are not questioned by any organizational unit and thus effectively playing its role of advisory. On the other hand, reports that are filled with innuendo, allegations and bias may brew discontent and chaos in the organization which may adversely affect the overall organizational success (Aid, 2010).

Goodwin (2004) did a comparative analysis of the internal audit in the public and the private sectors. The analysis revealed that though internal auditing is an assurance activity that is expected to be unbiased and independent, many internal auditors participate in activities that cloud their independence and objectivity and hence the reports they compile are seen as biased and of little use. Rather than being seen as advisors, they are seen as consultants whose reports may or may not be used. This state of affairs does not help in enabling the internal audit to play its rightful role in ensuring that the company's operations are done competently and transparently.

2.3 Role of internal auditing on financial performance of micro financial institutions

The American Institute of Certified Public Accountants issued SAS No. 82. to appropriately respond to the public's demand for improved auditor performance, The new auditing standard details the auditor's responsibility to detect and report material misstatement in financial statements due to fraud. This is the first time the AICPA used the word "fraud" rather than the more discreet word "irregularity." The two types of misstatement relevant to the auditor's consideration of fraud in a financial statement audit are those arising from fraudulent financial reporting and misappropriation of assets. Under SAS No. 82, the auditor has the responsibility to plan and perform an audit to obtain reasonable assurance about whether financial statements are free of material misstatement.

Diamond (2002) asserts that internal auditing plays a vital role in prevention and detection of fraud in local Government. This fraud may include unnecessary spending and fund embezzlement. Internal auditing involves identifying situations in which theft or loss could occur and determining if the existing internal control system can effectively manage the risks to a reasonable level thereby preventing financial and administrative irregularities hence organization's success in the long run.

Brink and Witt (2002) says that it is imperative that the internal audit function assists the organization by ensuring that there is adherence to organizational procedures and policies and accurate maintenance of financial records. More so, Organizations expect the internal audit function to conduct fraud detection exercises. Most notably, an internal auditor within the organization is viewed as a financial checker with an independent mind.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The research design employed in this study was descriptive design. This explored two variables in the research study to establish the relationship between them.

3.2 Study Population

The study population for the study was 106 respondents including all stake holders of Rukiga Savings and Credit Cooperative organization.

3.3 Sample size.

Table 1: Showing the study population

Department	Study population	Sample size	Sampling technique
Managers	6	06	Purposive sampling
Loans officers	20	24	Simple random
Banking officers	23	16	Purposive sampling
Other employees	40	24	Simple random
Customers	100	50	Simple random
Total	189	90	

Source: Primary Data, 2022

3.4 Sampling techniques.

The sampling techniques used in the study include Purposive sampling and Simple Random Sampling.

3.5 Source of Data

Both primary and secondary data were used in the research study.

3.6 Methods of data collection.

The methods of data collection included interviews, self-administered questionnaires and Focus group discussion

3.7 Data processing and Analysis.

Data from the field was processed and analyzed in order to be fit for use. This was done through coding editing, and presentation using statistical tools such as graphs, charts and also SPSS V.20.

4. 0 ANALYSIS AND INTERPRETATION OF FINDINGS**4.1 Gender composition of the respondents**

Table 2: Showing gender composition of the respondents

Gender	Frequency	Percentage
Male	44	49
Female	46	51
Total	90	100

Source: Primary Data, 2022

From the table above it is noted that 46% of the respondents were females and 44% were males.

4.2 Age composition of respondents**Table2: Showing age composition of the respondents**

Age range	Frequency	Percentage
22 – 30	20	22
31 – 40	35	39
41 – 50	20	22

Source:	51 & Above	15	17
	Total	90	100

Primary Data 2022

As illustrated in the table above, 22% of the respondents were in the age bracket of 22 – 30, 39% in the age bracket of 31 – 40, 22% in the age bracket of 41 – 50 and 17% in the age bracket of 51 – Above.

4.3 Level of Education of respondents

Table 3: Showing level of education of the respondents

Level of education	Frequency	Percentage
Certificate	16	17
Diplomas	33	37
University degree	35	39
Master	7	8
PhD	2	2
Total	90	100

Source: Primary Data 2022

From the table above it is observed that 17% of the respondents were certificate holders, 37% diploma holders, 39% university degree holders, 8% masters’ holders and 2% PhD holders

4.4 Functions of Internal Auditing

Table 4: Showing the Functions of Internal Auditing

Response	Frequency	Percentage (%)
Quality Assurance and compliance	28	31
Maintain professional standards	32	36
Maintain independence	30	33
Total	90	100

Source: Field Data 2022

The illustration above shows that 31% of the respondents asserted that quality assurance and compliance is one of the functions of internal auditing, 36 % stated that Internal auditing helps in maintaining professional standards and 33% stipulate that as a result of internal auditing independence can easily be maintained.

4.5 Objectivity of the internal audit reports.

Table 5: Objectivity of the internal audit reports.

Importance	Frequency	Percentage
Ensures good corporate governance	34	38
Attain objectivity and independence	27	30
Promote Assurance activity	29	32
Total	90	100

Source: Primary Data 2022

As seen in the table above, it is noted that internal audit reports ensures good corporate governance as expressed by 38% of the respondents, Attaining objectivity and independence as exemplified by 30% and promoting Assurance activity as put forward by 32%.

4.6 Role of internal auditing on financial performance of micro financial institutions

Table 6: Role of internal auditing on financial performance of micro financial institutions

Response	Frequency	Percentage
Prevention and detection of fraud	33	37
Improve performance	25	28
Adherence to organizational procedures	32	36
Total	90	100

Source: Primary Data, 2022

From the table above it is noted that that internal auditing plays many role is as far as performance of micro finance is concerned. This was revealed by 37% of the respondents who put forward that internal auditing helps in prevention and detection of fraud, improving performance as stated by 28% and promoting adherence to organizational procedures as stipulated by 36%.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The study established there is a strong and known relationship between internal auditing and financial performance of micro financial institutions at Rukiga Savings and Credit Cooperative Organisation. Internal Auditing is very vital in enhancing financial performance since it helps in minimizing wastage of the organization's financial resources to enhance high levels of financial performance.

Management of Rukiga Savings and Credit Cooperative Organisation do not have strong internal auditing systems and this hence makes it hard to boost and enhance high levels of financial performance which are fundamental for the sustainability and survival of micro finance institutions. Rukiga Savings and Credit Cooperative Organisation has been trying as much as possible to come up with the internal audit department with the aim of improving the financial performance but however some issues relating to internal controls, misuse of resources and decline in the rate of profits are always registered. This research study farther established there are instances where segregation of duties is not adhered to and hence making it the not secure for the financial deposits of the members or shareholders.

5.2 Recommendations

The management of Rukiga Savings and Credit Cooperative Organisation needs to put emphasis on book keeping and auditing of their accounting statements, recruitment of qualified and competent auditors, training of employees in the audit department, adoption of strong internal control systems and also encouraging all their employees to be independent and objective while executing their day today activities. All these should be done in line with the mission, vision and goals of the organization.

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