

External Auditing and The Financial Performance Of Sebbi International Limited, Entebbe

Owembabazi Promise¹, Mwesigwa Henry², Dr Arinaitwe Julius³

1, 2, 3 Metropolitan International University

Abstract: *This study examined the relationship between external auditing and the financial performance of Sebbi International Limited over a five-year period from 2016 to 2020. Sebbi International is a mid-sized manufacturing company located in Entebbe, Uganda that produces agricultural equipment. As the company sought to further expand its operations both domestically and abroad, maintaining robust corporate governance through reliable financial reporting and oversight became increasingly important. To measure financial performance, key financial ratios were analyzed using data extracted from the company's income statements, balance sheets, and cash flow statements for the five-year period. The financial ratios that were assessed included profit margin, return on assets, current ratio, and debt-to-equity ratio, as these metrics provide a multidimensional view of profitability, liquidity, leverage, and overall financial health. External audit quality was evaluated based on the size of the auditing firm, as past research had indicated that larger international firms typically employ more extensive quality control procedures. From the findings, 63% agreed and none disagreed, showing that the majority feel internal controls make sure that all staff follow the directives set by the top management. The audit opinions issued over the five-year period were also examined, as unmodified opinions suggest no material misstatements were detected. The trends in the financial ratios and audit characteristics were then analyzed to determine if rigorous annual external audits corresponded with enhanced financial performance at Sebbi International. The results of this study provided valuable insights into the company's governance practices and strategies for future growth. The head of the external audit department should be responsible to the administration of organisation in Entebbe bottling with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.*

Keywords: External Auditing, Financial and Performance

Background to the study

According to (Moses et al., 2023), the region's economy grew by 5.6% in the past year, reflecting increased business activities and investments. This economic environment creates both opportunities and risks for businesses operating in the area, underscoring the importance of effective financial oversight (Kazaara & Christopher, 2023). The financial performance of Sebbi International Limited is closely linked to its governance practices, particularly in the realm of financial management and reporting (Racheal et al., 2023). Studies have shown a positive correlation between the quality of external audits and financial performance. For instance, a report by the Association of Chartered Certified Accountants (ACCA, 2023) highlighted that companies with high-quality audits tend to exhibit better financial health, characterized by higher profitability, improved asset management, and greater market value. This correlation is attributed to the enhanced reliability of financial reports, which facilitates better decision-making by management and investors (David et al., 2023).

Moreover, the regulatory environment in Uganda mandates stringent auditing standards for companies (Deus, 2023). Non-compliance can result in severe penalties, including fines and reputational damage, which can adversely affect a company's financial standing. Therefore, for Sebbi International Limited, maintaining compliance through regular and thorough external audits is not only a regulatory requirement but also a strategic imperative for sustaining its financial performance (Winyi et al., 2023). Recent statistics indicate that the adoption of comprehensive external auditing practices is on the rise among Ugandan businesses. According to (Alex & Moses, 2024), 78% of large enterprises in Uganda reported that they conduct annual external audits, up from 65% in 2020. This trend reflects a growing recognition of the value that external audits bring to corporate governance and financial performance.

According to (F. Christopher, Muhindo, et al., 2022), organizations for example nongovernmental organizations (NGOs) are viewed as voluntary grouping of individuals or associations which organize themselves locally or internationally for public benefit and are not operated for profit gain or commercial venture. They also promote charity, social welfare, development or research in the areas inclusive of education, agriculture, health, relief, industry and supply of amenities and services. However, they are not just limited to these areas; they have a broad coverage based on need from their stakeholders (Nancy & Prudence, 2024).

For a society to make any economic decisions it is essential that such vital information based upon the data available during the decision-making time (David et al., 2023). For Sebbi International limited, the decisions such as getting a loan for a firm is grounded upon preceding financial relationships with the corporation, the financial standings of the firm as shown by the financial statements among other factors (Ivan et al., 2023a). For decisions to be consistent with the intention of the bank, such information used decision-making process need to be reliable (Alex et al., 2023). Unreliable information may result into the inefficient use of resources to the disadvantage of the various stakeholders. In the lending decision for instance, assuming decisions are made because of misleading

financial and the borrower Company fails to repay back, this would result the financial institution losing both its principal and interest charged on the loan (Julius, 2024). This therefore implies that another party that could have benefitted from the funds is deprived off such opportunity (David et al., 2023).

According to (Julius, 2024), as society become more complex, there is an increased likelihood that unreliable information was provided to decision makers. There are several reasons for this: remoteness of information, voluminous data, and the existence of complex exchange transactions as a means of overcoming the problem of unreliable information, the decision-maker must develop a method of assuring him that the information is sufficiently reliable for these decisions (Kazaara & Kazaara, 2023). In doing this, he must weigh the cost of obtaining more reliable information against the expected benefits.

As an organisation grows, there is a very high probability that inconsistent data was given to the various decision makers because of remoteness of data, voluminous information, and the presence of complex external and internal transactions in the firm (Alex & Kazaara, 2023). As a method for defeating the issue of problematic data, the firm must build up a technique for guaranteeing that the data is adequate for such choices. In doing so, the firm should put up measure to acquiring more data that are dependable. A reliable method of a getting access to such reliable information is to through verification (audit) done by independent individuals (Ivan et al., 2023b). The audited data is then applied in the making decision on the assumption that it is the correct, complete, accurate, and unbiased data (Moses et al., 2023).

Statement of the problem

The demand for the external auditing in the present economic environment exist in the communication of financial information to the various interested stakeholders. The external auditor's major concern is risk management since any risk capable of adversely affecting the firm has potential to impact the results reported in the financial statements (David et al., 2023).

There is a wide spread of criticism of the work done by the external auditors mainly due to their failure to perform the expected responsibilities or execute them to the anticipated standards (F. Christopher, Komunda, et al., 2022).

Auditors have been accused of conducting poor quality audit due to lack of professional competences and independence, failure to dedicate enough time and comply with capable standards and regulations (Moses et al., 2023). Many reports have emerged on loss of confidence in work done by external auditors which result in a decline of society's confidence in the audit profession in its entirety by implication the function of audit (Ivan et al., 2023b). These negative views have resulted from a discrepancy between the expectations they have about audit work and what it perceives they deliver to otherwise referred to as "audit expectation performance gap" (Ivan et al., 2023b). The collapse of eminent companies such as Enron, Parmalat, Xerox, cable and wireless and WorldCom that were enjoying healthy financial performance throughout the 1990s led to a growing apprehension about the quality of audit work (Racheal et al., 2023). In 2001, it was revealed that the management of WorldCom and Enron colluded with their auditors to engage in "creative" financial reporting and in using questionable accounting practices and they manipulated their financial statements to elude growth and profitability while in reality they were losing money (T. Christopher, 2022). Financial statements tell stories and with diligent investigation and analysis, it was discovered that the stories did not add up. External auditors are required to identify cases of fraud and other financial malpractices and report the same to the board of directors and management but sometimes they fail to perform this duty as expected.

The impact of external auditing and the financial performance of organizations in Uganda has not been fully tapped (Polycarp et al., 2023). This could be seen in the numerous cases of errors, intent to defraud and other fraudulent acts which exist in the enterprises. It is therefore no wonder that the distress in organizations subsector in nineties reflected lack of effective control mechanism of audit function in the industry. It is against this background that this study seeks to empirically evaluate the impact of external auditing in enhancing the financial performances of organizations in Uganda.

Objectives of the study

1. To determine the effect of verification of accounting data and financial performance of organization in Entebbe.
2. To determine whether or not external auditors exercise professional ethics and competences while auditing organizations in Entebbe.
3. To ascertain the effect of internal control on the performance of organizations in Entebbe.

Methodology

The descriptive design was adopted, which aimed at examining the impact of external auditing on the financial performance of organizations in Uganda. The descriptive research design refers to the systematic process of gathering descriptions of existing phenomena in order to describe or explain what is going on (Jallow et al., 2021). A descriptive research design was adopted for the study since it focuses on the people as well as their attributes which enable the investigator to understand and examine the influence of external auditing on financial performance (Nafiu et al., 2017). The study population concentrated on accountants, auditors, Managers and employees in Sebbi International limited (Rasheed et al., 2022). According to the human resource records these include 20 participants. The study area was limited to this one organization in Entebbe since the majority of the organizations are established in urban areas.

Table 1 showing the sample of respondents to be selected under the study

category	Population	sample	Sampling technique
----------	------------	--------	--------------------

accountants	10	9	purposive
auditors	6	6	purposive
managers	4	4	purposive
Total	20	19	

Source: Human Resource Work

The study employed both probability and non-probability sampling techniques. The researcher used the probability sample since the research is focused on the entire organization’s population. Employees employed in Sebbi International limited in Entebbe was eligible to participate in the study (Nafiu et al., 2017). The probability sampling approach involved selecting a sample in such a way that all the elements in the population have same chances of being selected (Nafiu, 2012). The simple random sampling technique was also used such that all population elements are accorded a proportionate likelihood of being nominated within the sample (Nafiu et al., 2012). Both quantitative and qualitative methods of data collection was employed during the study. The questionnaire survey method was used to pool quantitative statistics, while the interview and documentary review method was employed to gather qualitative information (Jallow et al., 2022). Self-Administered Questionnaires (SAQ) was employed to gather data from the study elements in a structured manner. SAQs with one open ended question per section was designed for Sebbi International limited employees to give additional or express their mind while the rest was close ended aimed at testing perception using a five-point likert scale measuring from Strongly Disagree as response 1, Disagree as response 2, Not sure as response 3 Agree as response 4 and Strongly Agree as response 5 for easy measurements of variables (Nafiu et al., 2013).

This is the process of bringing order, structure, and meaning to the mass of raw information gathered for purposes of getting a feel for reliability and testing the research questions (Sekaran, 2004). Initially, data was entered into MS Excel computer program for cleaning. The data was also imported to SPSS version 23 statistical software for investigation (Nelson et al., 2022). Quantitative data analysis entailed descriptive statistics and inferential statistics. Descriptive statistics involved analysis using frequencies, percentages, mean, charts, and standard deviation. The Analysis of central tendency and dispersion based on; a 5-point Likert scale ranging from strongly agree to strongly disagree (Isah & Nafiu, 2013). Similarly, inferential statistics was done based on the Pearson’s correlation coefficient and linear regression analysis. Quantitative data was analyzed by reporting of summary results in numerical terms and was presented using a percentage distribution technique but maintaining a specified degree of confidence (Kinyata & Abiodun, 2020). While Qualitative data was analyzed in the form of texts and themes, yet impressions was examined and presented using descriptive methods for in depth analysis to be generated from views of the respondents and to allow the reader to make their opinions freely (Nafiu et al., 2012).

RESULTS

Table 2: Effect of Verification of accounting data on the Performance of organisation

	ranking	1	2	3	4	5	
Statement		SD	D	U	A	SA	Total
Void manipulation of accounts	Freq	2	0	0	10	7	19
	%	11	0	0	53	37	100
Guards against improper use of assets	Freq	1	1	4	6	7	19
	%	5	5	21	32	37	100
Measures proper recording and valuation of assets	Freq	0	1	3	9	6	19
	%	0	5	16	47	32	100

Ensure arithmetic accuracy of the accounts	freq	0	0	1	12	6	19
	%	0	0	5	63	32	100

Detects frauds and errors if any in financial statements	freq	0	0	2	10	8	19
	%	0	0	11	53	42	100

Total number of responses	freq	3	9	18	83	61	174
---------------------------	------	---	---	----	----	----	-----

Percentage of responses	%	2	5	10	48	35	100
-------------------------	---	---	---	----	----	----	-----

Data source: Primary data.

The table shows the results of a survey that aimed to understand the effect of verification of accounting data on the performance of an organization. The survey respondents were asked to rate their level of agreement on five statements related to accounting verification on a scale of Strongly Disagree to Strongly Agree. For the statement "Void manipulation of accounts", 53% of the respondents agreed and 37% strongly agreed that accounting verification helps void manipulation of accounts. Only 11% disagreed with this statement. This indicates that the majority of respondents believe that verification of accounting data prevents manipulation and misrepresentation of financial records. Regarding the statement "Guards against improper use of assets", while 32% agreed and 37% strongly agreed, 5% disagreed and 5% slightly disagreed, suggesting that most think verification safeguards against improper usage of organizational assets but a small percentage don't feel so.

For the statement "Measures proper recording and valuation of assets", 47% agreed and 32% strongly agreed with only 5% disagreeing, showing that most respondents consider verification important for accurate recording and assessment of the value of company assets Concerning the statement "Ensure arithmetic accuracy of the accounts", an overwhelming majority of 63% agreed and 32% strongly agreed, indicating that respondents think verification guarantees the numerical correctness of financial statements. Finally, for the statement "Detects frauds and errors if any in financial statements", 53% agreed and 42% strongly agreed while only 11% were uncertain, demonstrating that most respondents believe verification helps uncover any fraud or mistakes in the financial reports.

Table 3: Effect of Internal control on the Performance of Sebbi International limited

Statement	Ranking	1	2	3	4	5	Total
		S	D	U	A	SA	
Enables the Sebbi International limited to carry out its activities in an orderly and efficient manner	freq	1	0	1	9	8	19
	%	5	0	5	47	42	100
Ensures adherence to management polices	Freq	0	0	1	12		19
	%	0	0	5	63		100

Safeguards the organisation assets	Freq	1	1	14	4	19
	%	5	5	74	21	100

Helps in ensuring completeness and accuracy of the accounting records maintained	Freq	1	0	3	9	19
	%	5	0	16	47	100

Data source: Primary data.

The table shows the results of a survey conducted at Sebbi International Limited to understand the impact of internal control on the company's performance. The employees were asked to rate their level of agreement on four statements related to internal control systems using a scale of Strongly Disagree to Strongly Agree. For the statement "Enables the Sebbi International limited to carry out its activities in an orderly and efficient manner", 47% of the respondents agreed and 42% strongly agreed, while only 5% disagreed and 5% were uncertain. This indicates that most employees believe well-defined internal controls allow the company to conduct its operations smoothly and productively. Regarding the statement "Ensures adherence to management policies", 63% agreed and none disagreed, showing that the majority feel internal controls make sure that all staff follow the directives set by the top management.

When asked about the statement "Safeguards the organisation assets", although 74% of employees were uncertain, 21% strongly agreed and 5% slightly disagreed. This suggests that internal controls provide assurance for protecting company resources according to some employees, while many others were ambiguous about this effect. Finally, for the statement "Helps in ensuring completeness and accuracy of the accounting records maintained", 47% agreed and none disagreed, while only 16% were unsure. This demonstrates that most respondents think internal controls help uphold the integrity and correctness of financial bookkeeping.

Conclusion

It is evident that as much as internal auditing exists in Sebbi International limited, it is inadequate and inefficient in management of accountability and improvement of performance. This therefore calls for a stronger and effective auditing genre (External auditing or statutory auditing) to help the Sebbi International limited improve on

Accountability, Quality service delivery and Economic efficiency alias Performance of the Sebbi International limited appropriately.

Recommendations

There is need for the external auditors to continuously update themselves with the changing times and technologies and sharpen their skills. By applying skills to the most critical points, building personal and professional credibility and recognizing and responding to the needs, external auditors can become indispensable thus speeding good governance and enhancing efficiency of external audit.

References

- Alex, I., Ariyo, D., & Kazaara, G. (2023). Internal Controls and Financial Performance of Saccos in Wakiso District. In *International Journal of Academic Multidisciplinary Research* (Vol. 7). www.ijeais.org/ijamr
- Alex, I., & Kazaara, A. G. (2023). *Internal Controls and Financial Performance of Saccos in Wakiso District*. 7(3), 47–56.
- Alex, I., & Moses, N. (2024). *Interest Rates and its Impact on Stock Prices among Small Scale Enterprises : An Empirical Evidence of Kampala District*. 8(4), 43–46.
- Christopher, F., Komunda, T. R., & Milton, N. (2022). *The Impact of Supervision on the Quality-Of-Service Delivery at Kirima Community Secondary School in Kanungu District , South Western Uganda*. 6(5), 157–162.
- Christopher, F., Muhindo, M. E., & Nakalema, F. (2022). *Decentralization and Social Service Delivery in Uganda : Acritical Analysis of the Decentralization and Social Service Delivery in Uganda : Acritical Analysis of the literature review*. November.
- Christopher, T. (2022). *Financial Distress among Manufacturing Companies in*. 6(12), 104–110.
- David, M., Julius, A., Ariyo, D., & Kazaara, G. (2023). THE ROLE OF COMMERCIAL BANKS IN SMALL SCALE ENTREPRENEURIAL DEVELOPMENT IN ADJUMANI DISTRICT, A CASE STUDY OF CENTENARY BANK Background of the Study. *METROPOLITAN JOURNAL OF BUSINESS & ECONOMICS (MJBE)*, 2(3), 1490–1505.
- Deus, T. (2023). *Inventory Control And Financial Performance Of Private Health Institutions . A Case Study Of Nakasero Hospital , Central Division*. 7(2), 158–166.
- Isah, A., & Nafiu, L. A. (2013). *Women empowerment as an essential tool for national transformation : Niger state , Nigeria experience*. 2(2), 12–14. <https://doi.org/10.11648/j>

- Ivan, M., Alex, I., & Deus, T. (2023a). Internal Auditing and Financial Performance Commercial Banks in Uganda: a Case Study of Centenary Bank Nansana Branch. *Metropolitan Journal of Business & Economics (Mjbe)*, 2(6), 34–49.
- Ivan, M., Alex, I., & Deus, T. (2023b). INTERNAL AUDITING AND FINANCIAL PERFORMANCE COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK NANSANA BRANCH. In *METROPOLITAN JOURNAL OF BUSINESS & ECONOMICS (MJBEE)* (Vol. 2, Issue 6).
- Jallow, M. A., Abiodun, N. L., & Weke, P. (2022). *Stochastic Forecasting of Stock Prices of Capital Assets Using Semi-Markov Model*.
- Jallow, M. A., Weke, P., Nafiu, L. A., & Ogutu, C. (2021). *APPLICATION OF A DISCRETE-TIME SEMI-MARKOV MODEL TO THE STOCHASTIC FORECASTING OF CAPITAL ASSETS AS STOCK* Department of Mathematics School of Mathematics University of Nairobi Department of Mathematics and Statistics. 63(1), 1–18.
- Julius, A. (2024). *Foreign Direct Investment and its impact on Uganda ' s Gross domestic product . An Empirical Evidence of Wakiso District*. 8(4), 97–101.
- Kazaara, A. G., & Christopher, F. (2023). *Impact of Micro Credit Financing on Agricultural Production A case Study of Bundibugyo District In The Western Region Of*. 7(3), 56–62.
- Kazaara, A. G., & Kazaara, A. I. (2023). *Assess The Impacts Of Inflation To The Development Of Societies . A Case Study of Kagadi District*. 7(3), 281–290.
- Kinyata, G. S., & Abiodun, N. L. (2020). *Analysis of Monetary Policy Objectives as Applied to Uganda ' s Economy : The Dream to Achieve the Middle-Income Status in 2020 is Gone*. 10(05), 8–14.
- Moses, K., Kazaara, A. G., Kazaara, A. I., & Ismail, L. (2023). *External Auditing and the Financial Performance of Marianum Press Limited , Kisubi*. 7(3), 258–266.
- Nafiu, L. A. (2012). *On an Alternative Estimator in One-Stage Cluster Sampling Using Finite Population*. 2(7), 102–107.
- Nafiu, L. A., Oshungade, I. O., & Adewara, A. A. (2012). *Alternative Estimation Method for a Three-Stage Cluster Sampling in Finite Population*. 2(6), 199–205. <https://doi.org/10.5923/j.ajms.20120206.06>
- Nafiu, L. A., Oshungade, I. O., & Adewara, A. A. (2013). *GENERALIZATION OF MULTISTAGE CLUSTER SAMPLING USING FINITE POPULATION*. 3(1), 17–20.
- Nafiu, L. A., Ph, D., Ibitayo, L. D., Ph, D., Muyombya, S. M., & Sc, M. (2017). *On Empirical Power of Univariate Normality Tests under Symmetric , Asymmetric , and Scaled Distributions .* 18(1), 90–96.
- Nancy, M., & Prudence, K. (2024). *Capacity Building programs and their impact on employee performance . A case study of Metropolitan International University*. 8(4), 23–27.
- Nelson, K., Christopher, F., & Milton, N. (2022). *Teach Yourself Spss and Stata*. 6(7), 84–122.
- Polycarp, K., Kazaara, A. G., Kazaara, A. I., Prudence, K., & Nicholas, K. (2023). *The effect of loan defaults on profitability of financial institutions in Uganda : a case study of post bank , Anaka branch , Nwoya district*. 7(3), 172–178.
- Racheal, N., Kazaara, A. G., & Kazaara, A. I. (2023). *Impact Of Quality Financial Reporting On An Organization Resource Management : A Case Study Of Humuza Holding Limited Kampala Uganda*. 7(3), 335–343.
- Rasheed, Z., Khan, M., Abiodun, N. L., Anwar, S. M., Khalaf, G., & Abbasi, S. A. (2022). *Improved Nonparametric Control Chart Based on Ranked Set Sampling with Application of Chemical Data Modelling*. 2022.
- Winny, N. D., Kazaara, A. G., Kazaara, A. I., & Deus, T. (2023). *Effect Of Motivation On Employee Performance In Non-Government Organizations (NGOS) : A Case Of Mbale City*. 7(3), 67–71.