



Legal regulations on internal auditing in the public sector in Uganda

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ABSTRACT

Purpose: The purpose of this study is to investigate about legal regulations on internal audit function in Uganda public enterprises.

Findings: we analysed the association between legal regulations and internal audit function in Ugandan public enterprises, in line with corruption, objectivity and use of technology. However, there is still insufficient literature to support this relationship because the study found that objectivity and corruption were insignificant predictors of legal regulations and internal audit function, nevertheless, technology had a positive relationship between legal regulations and internal audit function.

Method: quantitative research method was employed and data was analysed using a Multiple regression model, and it was obtained from a sample of 49 audit managers, audit seniors, audit staff, and CAEs of selected public sectors in Uganda. using the 5-point Likert scale(Ankur J. (2015),

Recommendation: the study recommend that further study should focus on government anti- corruption interventions through ICT improvement in both public and private enterprises.

Significance: This paper is significant to internal audit policy-makers in Uganda such as, the ministry of finance, planning and economic development (MoFPED), that will continue to ensure promotion of ethics and professional conduct among internal auditors. This will help achieve effective internal audit function.

Originality: As far as the authors of this study are concerned, there is no other research that has been undertaken to investigate about " Legal regulations and internal audit function in Uganda public enterprises"

Keywords: Legal regulations, Internal Audit Function and Public enterprises

JEL codes: M41, M48, H83

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1. INTRODUCTION

The purpose of this study is to investigate legal regulations and internal audit function in Uganda.

According to IMF Report, (2002), Internal Audit Function has increased much devotion as being a crucial government element in the area of financial management and performance of public sectors. Internal auditing has gained increasing importance in recent years as a useful monitoring mechanism in corporate governance

Most researchers acknowledge the big role internal auditors play in improving the internal control system within organizations. but less further studies need to be conducted regarding the legal regulations in the field. And Also known as a useful monitoring mechanism in corporate governance of any organization. Khaled Ali Endaya, 2014, Mohammad J. Abdolmohammadi,2010.

1.1. Internal Auditing

According to the Institute of Internal Auditors , "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.' Internal auditors also promote appropriate ethics and values within the organizations and ensuring effective organizational performance management and accountability since organizations cannot do it themselves objectively by themselves.

In Uganda, the internal audit function has its inception back in 1997 and it is legal for local governments. They have a choice to make effective networking with their different vital clients using the existing audit apparatuses such as, Institute of Internal Auditors,(IIA), Association of Chartered Certified Accountants(AICPA), Association of Accounting Technicians (AAT), Association of International Accountants (AIA)

Andrea Osimani, et al (2013), in tr research, emphasise the role played by an internal audit as to systematically & independently examine if different firms' operations comply with the right procedures as per audit regulations in both private and Public sectors. Also, Audrey Gambling & Arnold Schneider (2018) further prove the COSO,(2015) explanation on how internal auditors provide effectiveness of internal controls to the organizational board and their very top managers.

This study focuses on the main regulation factors that lead to effective internal audit function mainly on public sector in Uganda.

1.2. Legal Regulations

According to Glynis D. Morris et al. (2013), The regulation of audit is " concerned with the issue of ensuring that auditors follow best practice standards in conducting the audit, and are competent and independent to have the capability to detect significant errors in financial statements and to report faithfully on them .

Nafuna Sarah. E.(2014), in her Research, asserts about how government institutions in Uganda are not sufficiently funded plus a problem of having few staff members to execute their duties.

The aim of this study is to investigate the legal regulations about internal audit in Uganda, internal audit compliance with these laws, internal audit objectivity in respect to these regulations, their use of technology, laws on internal audit corruption.

The survey data collection method is used in this research, and data were analysed using SPSS, statistical software.

2. LITERATURE REVIEW

2.1. Audit Regulations in Uganda

Corruption is known as the major trial to Uganda's economic development and public quality services. According to the Corruption perceptions index 2017, report, Uganda was ranked 151 corrupt out of the 180 corrupt nations.

Therefore, because most of Government and public entities were not doing good, it was a inevitable for the Uganda Institute of Internal auditors to actively deal with the problem by developing the internal audit profession of the country for better governance and and strong financial management system in both public and private sectors.

The International Organization of Supreme Audit (INTOSA), as a worldwide affiliation of government entities, highlights the role of the Auditor general's office such as, the proper and effective use of public funds, development of sound financial management, communication of information to public authorities and the general public.

In Uganda, the Public Accounts Committee under Rule No.148 of the Rules of procedure is provided, and it is obliged to examine the audited accounts showing the appropriation of the funds granted by parliament in order to meet the public expenditure of government. However, more study has to be conducted as regards to the regulations on audit processes in Uganda, since there has been a lot of public financial scandals in the country that have not been either handled properly or not been taken seriously to satisfy public interest. The Public Finance Management Act(PFMA), 2015, was enacted by the government of the Republic of Uganda to ensure that the internal audit function of each vote and public corporation is appropriate to the needs of the vote, and that it confirms to internationally recognized standards in respect of its status and procedures.

During the annual performance report of the Auditor General, that took place end of year 2016, it was a good indicator in the public accounts in Uganda, and more so, the public sector auditing. Article 163 (4) requires the Auditor General to submit to parliament annually, a report of the accounts audited by His/her for the financial year immediately. This is to avoid any kind of deficiencies for different years.

Under Article 163 (3) of the constitution of the Republic of Uganda and section 13 of the National Audit, 2008, the Auditor is mandated

to audit and report to parliament, on the public accounts of Uganda and of all public offices, including the courts, the central and local Government administrations, Universities and public institutions , and any other public corporation or other bodies or organisations established by an act of parliament, and conduct financial and value for money audits in respect of any project involving public funds.

According to The New Vision, the Uganda's Leading Newspaper, dated 1st/July/2008, the Auditor General exposed Makerere University money scandal, this is one of the public Education institutions the major reason it was of concern to the auditor. It was discovered to have been receiving large sums of money, of which was not known how it was spent. The institution was allocated shs60b, but incurred expenses amounting to shs 71b , the Auditor demanded explanations from the University, as part of His responsibility for public accountability.

The audit legal regulations became a little tight to accounting officers and those in internal control system, for example, According to Protazio Begumisa, president of the Institute of

Certified public Accountants of Uganda (ICPAU)- The local accountancy regulatory body, stated during the new financial guidelines by the treasury, stipulated that accounting officers would lose their contracts for as long as they failed to answer more that 75% queries by the Auditor General.

In 2011, it came to public awareness through the report by 'The New Vision' that several ministers in Uganda were involved in the mismanagement of billions of shillings of public fund which initially was meant to be spent on 2007 CHGM summit,

While Chris MacDonald, (2006) , explains what would be the causes for unethical corporate behaviour, such as pressure to meet unrealistic Business objectives and deadlines as the leading factors in both public and private institutions. The clear and strict regulations, the more effective and quality work from internal control systems. (Swabra Yahya .U. 2020). (Faudziah.H. Fadzil, et.al, 2005), In their study adopted from

(Sawyer and Vinten, 1996), emphasised the need for internal auditors to establish themselves as important elements in their organizations, instead of being just observers who watch and wait for events to impact them. In Uganda, The New Vision print media, in a report dated 15th/sept/2019, brought to the general public attention about how the internal auditor of ministry of public service was charged for causing financial loss of shs33.8m to the education ministry.

Also, in many other countries laws have been enacted upon effectiveness of auditing processes in public accountability. A case in point is the United States of America (Sarbanes Oxley Act) that was enacted in 2002 in reaction to corporate failures such as Enron and world Com. It set standards for boards and management of public companies and accounting firms too.

Internal audit in Uganda ought to improve through the set professional standards basing on many factors and among them are; (corruption, objectivity, use of technology by internal auditors).

Corruption has been defined by many previous studies as a means of dishonest or fraudulent conduct by those in power such as government officials. According to Uganda corruption Report, 2020), the penal code has got to provide instruments that deal with various forms of corruption including embezzlement, causing financial loss, abuse of office and fraud.

According to Uganda Deputy speaker of parliament, the auditors were argued to use their profession to fight acts of corruption.

Since auditors are significant by contributing to the value chain in service delivery, they are argued to use their profession to fight acts of corruption which may seem abusive to this particular profession. (Uganda Deputy speaker of parliament, 2020).

Objectivity of internal auditors has been one of the commonly considered factors for effectiveness of internal control systems. Objectivity allows internal auditors to make unbiased conclusions and judgements when making financial reports and other managerial responsibilities. This really

builds that trust between them and stake holders in an enterprise plus regulatory agencies.

Use of information technology is now an option for the perfect results in internal audit reports in enterprises. Based on the previous studies, technology features such as data base queries were found to be accepted by many internal auditors as playing an effective role in Internal audit function. (Hyo-Jeong Kim et. al, 2009).

The presence of this coronavirus, a global pandemic also strengthens the importance of technology since not only will the internal auditors have unbiased financial reports, but also it's a solution for their health protection since virtual communication is taking place now in both government and private sectors. Uganda being a developing country, still has some time to adapt to these kinds of changes in economic sectors, a factor that will develop it in all aspects of life.

3. RESEARCH METHODOLOGY AND HYPOTHESES

We employed quantitative research method. This survey consists of two sections,. The first part consists of demographic questions about, age and audit staff levels .the online survey was distributed to 65 auditors from selected auditing companies in Uganda, ranging from CAEs, Senior auditors, Audit managers and Audit staff. We retained 49 respondents from our ample size.

In the second section, the researcher asked questions about the study in question, which is " regulations on internal audit function". These questions were developed using the scale of audit regulations (Agumas Alamirew Mebratu, 2015). We analysed these questions using the regression model analysis.

Five-point Likert scale has been employed to measure different views from our research respondents based on the statements developed in the questionnaire. Where 5=strongly agree, 4=agree, 3=neutral, 2=disagree, and 1=strongly disagree.

This study therefore tries to explain how the legal regulations have an impact on internal audit function. Multiple regression model therefore

has been used.

3.1. The Variables and Their Measurements

The dependent variable (IV) is internal audit function and has been identified by 5 statements, this has been measured based on the previous studies.

The Independent Variables (DV) were; corruption, internal audit objectivity, and use of technology, based on the previous studies. (Soh, Dominic S.B et al, 2011, Yu-Tzu Chang et al, 2019 etc)

3.2. Development of Hypotheses

3.2.1. Legal Regulations on Corruption

According to the previous empirical evidence, the internal audit combats efficient way of stopping corruption by following ethics, standards, procedures and policies.(Caratas Maria Alina & Spataru Elena C. 2018), in addition, Kofi Fred Asiedu & Eric, (2017) also in their study, they analysed the link between corruption and effective internal audit function in Ghana, an African country. It also appears that the use of technology would be the best solution to support the process of anti-corruption, however, ICT offers some new corruption opportunities related to dark web, also, lacking proper IT skills in a developing country like Uganda would prompt rampant corruption that wouldn't enable effective internal audit function. therefore, we hypothesize that :

H0: There is no relationship between legal regulations and corruption on internal audit function.

3.2.2. Legal Regulations on Objectivity

K.H .Specncer asserts that, objectivity is an unbiased attitude that allows internal auditors to perform engagements in such a manner that they

believe in their work product and that no quality compromises should be made. The essence here is that, auditors should not subordinate their audit matters to others, such as their bosses for fear of being threatened as a result of being objective.

Other studies indicate that public internal audit provides objective and counselling activities in order to improve the systems and the activities of public entities so as to be in line with the rules and regulations (Mihai-Dorel Jurchescu, et al. 2010). However, other researchers argue that factors like, the relationship between internal auditors and the audit committee may bring about that reluctance to withstand the pressure

H0: There is no relationship between legal regulations and objectivity on internal audit function.

3.2.3. Legal Regulations and use of Technology

Atallah Ahmad Al Hosban, (2014) in their study analysed that internal auditing, IT helps in asset safeguarding, processing and data integrity. They added that many factors are associated with internal auditors' performance of IT evaluations, including nature of the audit objective, and prevalence of computer audit specialist on the internal audit staff. we hypothesize that:

H1: There is a positive relationship between legal regulations and Technology on internal audit function.

3.2.4. Data Analysis

Data were analysed using statistical software, SPSS. Frequency, percentage, mean and standard deviation were applied in descriptive analysis. Multiple regression model was used in the study.

Table 1. Demographic distribution of respondents

		Frequency	Percent	valid %	Cumulative %
	Audit managers	8	16,3	16,3	16,3
	Audit seniors	9	18,4	18,4	34,7
Valid	Audit staff	18	36,7	36,7	71,4
	CAEs	14	28,6	28,6	100,0
	Total	49	100,0	100,0	

4. FINDINGS AND DISCUSSIONS

The demographic distribution of 49 respondents and their frequency on the survey questionnaire were as follows; Table 1 (see appendix) shows responses according to audit staff levels and their age in years as follows. Audit managers had a frequency of 8 with 16,3 percent, Audit seniors had a frequency of 9 with 18,4 percent, Audit staff had a frequency of 18 with 36,7 percent and CAEs had a frequency of 14 with 28,6 percent.

Responses according to age in years of the respondents in the survey questionnaire were as follows; 25 years old had a frequency of 16 with 32,7 percent, 26 years old had a frequency of 20 with 40,8 percent, 35 years old had a frequency of 12 with 24,5 percent and 45 years old had a frequency of 1 with 2,0 percent.

Table one indicates that the above respondents in auditing field were suitable to answer the questionnaire for the study in question. “ regulations on internal audit function in Uganda

Table 2. Frequencies

	Auditors	years in age	corruption	objectivity	Technology	IAF
N valid	49	49	49	49	49	49
Missing	0	0	0	0	0	0
Mean		28,27	2,67	2,78	2,88	2,55
Std. Deviation		4,782	1,491	1,327	1,550	1,487
Minimum		25	1	1	1	1
Maximum		45	5	5	5	5

Table 3. Summary of descriptive statistics

	Mean	Std. Deviation	N
Internal audit function	2,55	1,487	49
Corruption	2,67	1,491	49
Objectivity	2,78	1,327	49
Technology	2,88	1,550	49

N= Number of observations
 Researchers' computation from survey data (2021)

Table 4. Regression results (Model summary, ANOVA & Coefficients table)

Model Summary					
Model	R	R Square	Adjusted R Square	Std.Error of the Estimate	
1	,420 ^a	,176	,121	1,394	

ANOVA					
Model	sum of squares	df	mean sqaure	F	sig. ,032 ^b
1 Regression	18,717	3	6,239	3,212	
Residual	87,405	45	1,942		
Total	106,122	48			

a. Dependent variable: Internal Audit Function

b. Independent variables: (constant), Technology, Corruption, Objectivity.

Model	B	Std. Error	Beta	t	Sig.
1 (constant)	1,303	,626		2,081	,043
Corruption	,032	,136	,032	,235	,043
Objectivity	,008	,155	,008	,054	,957
Technology	,396	,134	,412	2,954	,005

Dependent variable: Internal Audit Function

Observing from Table 2, it is indicated that the use of technology has the highest mean score (2,88), followed by internal audit objectivity mean score(2,78), corruption with mean score(2,67), and internal audit function with mean score (2,55) respectively.

Table4 below , provides results that were obtained by the regression analysis model The regression results for the entire predictable variables ie, (corruption, objectivity and use of technology) indicate that only the use of technology has positive correlation and statistically significant since its p-value is .005 less than the significance level 0.05

The Regression Model results: to examine regulations on internal audit function

From the model summary , Since R squared is explained which is the measure of the amount of variance in the dependent variable, r squared is 17% and taken as a set, the predictors corruption, objectivity and use of technology account for 17% of the variance in regulations of internal audit function by the internal auditors

Therefore, r squared is the measure of the amount of variance in the dependent variable that the independent variables/ predictors account for when taken as a group not at individual basis.in the ANOVA table, we confirm whether r squared was significant. Since the p-value .032 is < 0.05, the model considers r squared to be significant > 0 and this means our predictors are able to account for a significant amount of variance in regulations on internal auditors.

Anova table (testing using alpha=.05) , the overall regression model was significant

F (3, 45) which is reported under F=3.212, p< 0.05 , R squared =.17

The coefficients table looks at each of the predictors individually. We evaluate each of the tests at an (alpha 0.05)

4.1. Discussions on the Main Variables

This study was intended to test three (3) hypotheses that explain the relationship of legal regulations on internal audit function, using the following factors, (corruption, internal audit objectivity, and use of technology).

Therefore, in this section the researchers report the results of research hypotheses using multiple regression analysis as follows;

Corruption: From the regression analysis results in table 4 (see appendix) indicate that corruption as an IV, has t-statistic of .235 and p-value of .815 > 0.05. Therefore, this is not a significant predictor of regulations on internal audit function, we fail to reject the null hypothesis of a relationship between corruption and regulations on internal audit function in Ugandan public enterprises.

This was in line with the study that (Kofi Fred.A. & Eric Worlango. D. , 2017) conducted. They analysed that much as the internal audit Agency Act (IAAA,2003) as a measure to curb administrative corruption in Ghana was put in place, it had less impact on this act. They therefore suggested that implementation of strict laws would help fight corruption in the country.

However, contrary to the existing literature, (Fatina Yusuf & Amna Yousaf, 2019) in their study, analysed that all the participants all agreed that companies in Pakistan comply with mandatory disclosure requirements against corruption.

Internal audit objectivity: The regression results in table 4 (see Appendix) show that there is no relationship between objectivity of internal auditors and regulations on internal audit function. From the table, objectivity has (t) .054 and p-value of .957. this is also not statistically significant since the p-value is > 0.05 , thereby failing to reject the null hypothesis

In contrary to the existing literature, (Rindu Rika Gamayuni, 2018) , they analysed that internal audit competence, objectivity, and support management play a significant role to the effectiveness of internal audit function and financial reporting quality. In addition,

(Faudziah .H. F. et al. 2005) found out that there can be efficient internal audit control system through proper management of professional proficiency and objectivity.

Use of technology: When we look at the predictor technology from the regression table 4 (see appendix), the results show a positive relationship between legal regulations and use of technology on internal audit function. the (t) of 2.954 and p-value of .005 which is statistically significant since it is < 0.05 from the regression results, the use of technology accounts for the amount of a unique variance in regulations of internal audit function.

This was consistent with the study of (He Li, et.al. 2018), their results indicated that internal audit function can be improved by management support and technological competence-level usage drive feature. Ahmad.A. Abu-Musa, 2008, also applying the OLS regression model, showed that the predictors were significant at p-value=0.05. His results indicated that regression model had explanatory power to evaluate IT activities on internal audit function.

5. CONCLUSION AND RECOMMENDATIONS OF THE STUDY

The aim of this study was to examine the relationship between legal regulations on internal audit function in Uganda public enterprises. We surveyed 49 internal auditors from selected public enterprises in Uganda, and we found that corruption and objectivity of internal auditors are insignificant predictors of legal regulations on internal audit function, nevertheless, we found that technology was positively related to legal regulations on internal audit function, hence a significant predictor.

This paper is significant to internal audit policy-makers in Uganda such as, the ministry of finance, planning and economic development (MoFPED), that will continue to ensure promotion of ethics and professional conduct among internal auditors. This will help achieve effective internal audit function.

Recommendations: Further studies should

actively focus on government anti- corruption interventions through ICT improvement.

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