

The effects of internal audit practices on the operational effectiveness of Busia District Local Government

Musungu Stephen. 2005

ABSTRACT:

The research was basically carried out to evaluate the effects of Internal Audit practices on the operational effectiveness of local governments using Busia District as a case study. The study objectives included to identify the effect of Internal audit practices on operational effectiveness of Local governments, to identify the problems faced by Busia District Local Government in the use of Internal Audit function and to suggest ways in which problems in the use of Internal Audit practices can be solved in order to improve the operational effectiveness of Busia Local Government and Local Governments in general.

The population on which the study was carried out included Public Servants within U1 and U8 scales who perform audit work and financial management duties and politicians who make decisions of financial nature at both district headquarters and sub county Headquarters. A sample of 62 people both Civil Servants and Politicians was chosen for the research. Various methods were used in the collection and analysis of the data. The methods of data collection included interviewing, documentary evidence and questionnaires. The data analysis methods employed included descriptive statistics which provided percentages in tables and regression and correlation methods using excel and SPSS Computer Packages. Literature review was made and reconciled with the findings for discussion and conclusions. With the coefficient of determination adjusted R square 0.979 the results show that the effect of Internal Audit practices explain 97.9% of the total variation in the data. The P-value of the coefficients of independence is 0.045, view on objectives of Internal Audit is 0.008, level of skills is 0.001 and involvement routine operations is 0.002, which are below or less than 0.05 significant level. The results therefore show that Internal Audit practices which include independences, view on the main objectives of Internal Audit practices, skills of Internal Auditors and involvement in routine operational tasks have a significant contribution on operational effectiveness of the District.

The P-value of the coefficient of level of financial and other facilitation given to internal audit practices for carrying out operations is 0.075, level of Internal control is 0.140 and status plus benefits is 0.050179 which is above or more than 0.05 significance level. The results also show that although three other factors of Internal Audit contribute to operational effectiveness of the district, they do have significant contribution. They include the level of financial and other facilitation given to Internal Audit practices to carry out their operations, level of internal controls and benefits and status of Internal Audit practices. The majority of the responses 65% indicated that there is a problem of lack of Independence of Internal Audit practices from management in Busia district from Table 4.2.2. The majority of the responses 77% showed that there is a problem of biased view that Internal Audit practices are fault finding in Busia District as can be seen from Table 4.2.3. The Personnel records revealed that there is a problem of biased view that Internal Audit practices are fault findings in Busia District as can be seen from Table 4.2.3. The Personnel records revealed that there is a problem of lack of high skills necessary for Auditors in Busia District to be effective. The circular standing instruction No 2 of 2003 by Permanent Secretary Ministry of Public Service revealed that there is a problem of lower status and benefits for Internal Auditors in Busia district and leads to retention of low quality staff. The majority of the responses 94% revealed that there is involvement of tasks; of Busia district which empower the objectivity of internal audit function in Busia district. The small budget allocations and lack of transport facility allocation in district budgets and asset registers of Busia District shows that there is a problem of deliberate under facilitation of internal audit practices in Busia District. The revelation in the Auditor General's report of the error ridden and unreliable Accounts shows that there is a problem of lack of strong internal controls in Busia district.

Therefore, it was suggested that in order to solve the problems faced in the use of Internal Audit practices and improve operational effectiveness of the District, independence of Internal Audit practices should be ensured and enhanced, view on the main objectives of Internal Audit practices should be changed to positive on the advisory position rather than the negative fault finding. Skills of Auditors should be improved by continuous training and involvement in routine operational tasks eliminated. Suggestions were also made to the effect that although factors including level of financial and other facilitation given to Internal

audit practices. Internal Controls could also be strengthened by the management to ensure completeness and accuracy of records to avoid the unreliability and errors in the financial statements. Suggestion was also made for status and benefits of Internal Audit practices to be improved in order to improve the quality of staff, and avoid compromise and have staff with independent opinion and approach.