IMPACT OF AUDITING ON PERFORMANCE OF LOCAL GOVERNMENTS IN UGANDA.
A Case Study Of
Bushenyi Local Government

BY
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A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF STATISTICS AND PLANNING IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF SCIENCE IN BUSINESS STATISTICS OF MAKERERE UNIVERSITY

June, 2015.
DECLARATION AND APPROVAL

I, Ahabwe Brian, declare to the best of my knowledge that the work produced in this report is my original work compiled by me and it has never been presented to any institution of learning for any academic qualification award other than for which it is submitted now.

Signed: [Signature] Date: 15/06/2015

SUPERVISOR:

This research report has been submitted for examination with my approval as a supervisor.

Signed: [Signature] Date: 15/06/2015

Mr. Bainamazima Bosco
DEDICATION.

This research work is dedicated to my Mother Mrs. Irida Katabazi and my Late Father Mr. Frank Katabazi who brought me into this world and the whole family for their endless support they gave me throughout this research. May the heavenly Father reward them abundantly.
I begin by thanking the almighty God for his unconditional love and grace upon me and enabling me to carry out this research.

I extend my sincere appreciation to My Mother Mrs. Irida Katabazi, My entire Family members for their endless support they gave me throughout this research. May the heavenly father reward them abundantly.

My Special thanks and appreciation goes to Mr. Bainamazima Bosco my supervisor for the assistance, guidance and advice he gave me right from the beginning to the end of this research. May God bless his and reward him abundantly.

Finally I humbly extend my sincere gratitude to the administration of Makerere University especially the School of Statistics and Planning for investing academic ideas to me and providing me with the introduction letter for data collection. May the almighty God bless them for their work.
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<tr>
<td>CPA</td>
<td>Certified Public Accountants.</td>
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<td>AR</td>
<td>Audit risk.</td>
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<td>IR</td>
<td>Inherent risk.</td>
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<td>CR</td>
<td>Control risk.</td>
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<td>FS</td>
<td>Financial Statements.</td>
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<td>DR</td>
<td>Detection risk.</td>
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ABSTRACT

The purpose of the study was to determine the impact of auditing in the financial performance and service delivery of Local Government and was based on three specific objectives which were; to establishing the level of auditing in Local Government, to find out the level of financial performance in Local Government, and to find out the relationship between financial performances and audit risk in Local Government.

The study adopted a Cross sectional research design to get both qualitative and quantitative data where questionnaires, interview guides and secondary data for the period under review were used. The target population for the study constituted 50 respondents who were from accounting, auditing, finance and other departments and were obtained by use of purposive sampling. Descriptive statistics such as frequencies, percentages, P-Values and others were used to analyze data. Data presentation was done by the use of tables for ease of understanding and interpretation where data analysis was done by use of STATA.

From the findings, the study concluded that there was a significant relationship between financial performance and Audit risk, where Inherent, control, detection and other Audit risks were faced due to weak test and procedures, inexperience of new staff and others which lead to poor service delivery to the public. Financial Performance was mainly affected by corruption through bribery, inexperienced staff who led errors into Financial Statements which lead to poor Financial Performance in Bushenyi Local Government.

The study revealed loophole and the following recommendations were recommended and these included; designing very strong internal control systems, strong techniques to detect audit risk in Financial Statements, increasing the number of auditor and others to reduce audit risk and improve on financial performance of Local Government.
CHAPTER ONE

1.0 INTRODUCTION.

The chapter covers the background to the study, statement to the problem, research questions, study objectives, purpose of the study, justification of the study, significance of the study and scope of the study.

1.1 BACKGROUND TO THE STUDY

According to Local Government Act (2007), the system of Local Government shall be based on district, as a unit which there shall be the lower Local Government and administrative units. A Local Government shall be based on a council which shall be the highest political authority within its area of based of jurisdictions and which shall have legislative and executive power to be exercised in accordance with the constitution of Uganda.

Local Governments have the right and obligation to formulate, approve their budget and plans provided the budget balances (Article 152 of the constitution). The accounts of every Local Government council and units shall be audited by the Auditor General and may carry out any surprise audits. Auditors should use the right tests and procedures in order to minimize the risk involved in auditing. Local Governments only act with power delegated to it by legislation or a directive of higher level of government and each has some kind of Local Government, which will differ from those other countries.

In primitive societies the Local Government was a village headman or tribal chief. Given the importance of Local Government for an economy survival and performance in service delivery and financial performance is an issue of continuous concern.
Audit risk is the risk the auditor providing an appropriate opinion and the financial statement particularly when those financial statement contain the materially misstatement of less concern is a situation where the auditor states financial statement do not meet the standards of fair presentation when in fact they do.

Auditors should obtain an understanding of the entity as per internal controls, access to the Auditing (ISA 420) and its environment including the internal controls, access to the financial statement so as identify and access the risk of material misstatement within them, which could be as a result of fraud or errors and should come up with an audit design to help in performance of the audit (Foulks, 2006).

In practice, auditors aim at ensuring that there’s not more than 5% risk that their opinion on financial statement is incorrect and make sure that they are 95% certain that the opinion is correct (Millichamp, 2003). According to Foulks (2006), in the engagement letter the auditor states that because of the test nature another inherent limitation of audit together with the inherent control system there’s unavoidable risk that some material misstatement may remain undiscovered.

Auditors should therefore be very careful while making the procedures on how to carry out the audit, as the opinion given will be influential in determining how the Local Government will perform in the future. This is because the decision maker in Local Government will base on the opinion to make decision and may attach some sanctions from the ministry of Local Government, therefore audit risk is every important in determining the financial performance of the Local Government and should be conducted with care. According to Woolf (2014), audit risk
can be as a result of incompetence, corruption and lack of commitment thus leading to poor services.

The threat of poor service delivery system of Local Government is real and can rise at many levels. While attempting to increase the resources available to Local Government through conditional grants, government and development partners have also tried to fix the problem of Local Government financial performance and the quality of public service delivery by focusing on mentoring and administration performance of the Local Government through both internal and external auditing.

1.2 PROBLEM STATEMENT

Audit risk tends to be a threat to service delivery in the Local Governments due to the weak tests and procedures applied by auditors which can’t detect fraud in financial statements. An audit is designed to form an opinion on whether financial statements are true and fair.

Auditors may not attempt to verify items that are small with a view that they are not important to financial users. If various items are small that could not aggregate to the amount that would influence financial statements thus auditors will spend little time verifying the accounting in turn auditors don’t perform the audit 100% to detect fraud in the financial statements.

Others have collaborated with the management to cover the fraud, others are corrupt and incompetent. If these tendencies and practices continue with in the Local Government it may lead to poor service delivery by Local Governments.
1.3 Objectives

1.3.1 Main objective

The main objective of the study was to determine the impact of auditing on the financial performance and service delivery of Local Governments.

1.3.2 Specific objectives

(i) To establish the level of auditing in Local Governments.
(ii) To find out the level of financial performance in Local Governments.
(iii) To find out the relationship between financial performance and audit risk in Local Governments.

1.4 Research Questions

(i) What is the level of audit risk in Local Government?
(ii) What is the level of financial performance in Local Government?
(iii) What is the relationship between financial performance and audit risk in Local Government?

1.5 Scope of the study

1.5.1 Geographical Scope

The study reviewed was conducted at Bushenyi Local Government headquarters situated in Bushenyi municipality.
1.5.2 Time Scope

The study reviewed Bushenyi Local Government operations from 200-2014

1.6 Justification of the study.

Local Governments a public institution should lead the way and show the world, by demonstrating and taking actions which will send the message, that fraud and corruption have no place in Local Governments of Uganda.

1.7 Significance of the study

The study will assist policy makers, auditors and the Local Government in designing and adapting to appropriate risk management systems to ensure minimization of audit risks, the research will also create awareness to the public on financial performance of Local Government especially to the taxpayers and will also help to enlighten management about risk management in the organization

The research will guide auditors so that they can recognize the strength, weakness, threats and opportunities in their area of concern for guarding against audit risk, It will also guide auditors on the intensity of audit risk accuracy and the importance of audit management and the study adds on the existing literature concerning audit risk and financial performance thus guide future researchers with related topics.

1.8 Limitation of the study

Financial constraints. A lot financial support was required for communication, transportation, typing, printing and binding, and this was solved by asking for financial support from home.
Time constraints. The time needed to achieve desired goals of the study was limited and the researcher needed more enough time like during data collection, researching and others. This was solved by following setting personal time table to follow during the research period.

There was Lack of co-operation and wrong information provided. During data collection where same respondents did not respond to same questions and some provided wrong information and this was solved by using probing question to test the consistency of the respondents and get more information from the respondents and being friendly to the respondents for them not to develop bias before they responded.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter therefore looks at existing theories on the subject of impact of auditing on the performance of Local Government.

2.1 LEVEL OF AUDITING IN LOCAL GOVERNMENTS.

In the Local Governments there is no clear relationship between the input and output of resources because they do not work on a profit or loss basis. However, the Local Governments should be committed to fiscal auditing, this auditing shows where the resource come from and also in what way they are invested or used in the Local Government (Dittrnhofer, 2001). Today a large number of resource are invested in the Local Governments, therefore, there is great pressure on Local Governments to monitor the organization when it comes to auditing and responsibility (Shlomo & Idit, 2007). The public officials are the ones that take care of the public resources and also the ones that are accountable to the public and other levels in the government (Dittrnhofer, 2001). Auditing is an important element of the public organizations management like in Local Government, because of the public control that grows bigger and bigger as Local Governments are getting more and more responsibility (Shlomo & Idit, 2007).

An auditor can provide much information to measure and oversee important factors and indicators that can play an important role in the organization in the future (Burrowes & Persson, 2000). The risks to be covered in audits will exist in all parts of the organization and audits will therefore involve managers in departments never visited before (Millichamp, 2002). Many risks will be very significant to the organization and the discussion of their controls will involve more
senior managers and directors than might be involved in traditional finance orientated audits (Al-Tamimi, 2002).

The auditors are the ones that make judgments and give feedback according to the performance of the organization (Burrowes & Persson, 2000). When the government finds performance indicators that may be measured, this can be used to check on the level of action the councils of the municipalities have taken to try and reach the financial goals.

2.1.1 Auditing Concepts.

Audit risk (also referred to as residual risk) refers to the risk that an auditor may issue unqualified report due to the auditor's failure to detect material misstatement either due to error or fraud. Audit risk has different components which include; inherent risk (IR), control risk (CR) and detection risk (DR), and can be calculated thus:

\[
AR = IR \times CR \times DR
\]

Where; IR is inherent risk, CR is control risk and DR is detection risk.

Audit risk is the risk that an auditor will not discover errors or intentional miscalculations (fraud) while reviewing a company's or individuals financial statements.

Audit risk is the risk that the auditor will conclude that the financial statements are fairly stated and unqualified audit opinion can therefore be issued when in fact financial statements are materially misstated (Arens, Randal & Mark, 2005).
There are three components of audit risk which are:

1. **Inherent risk**, which is the possibility that a material misstatement will occur within the reporting company's accounting information system.

2. **Control risk**, which is the possibility that a material misstatement that has occurred will not be detected on a timely basis by the company's control system.

3. **Detection risk**, which is the possibility that a material misstatement that has occurred will not be caught by the independent auditor's testing.

**An auditor** is an official whose job is to carefully check the accuracy of the business records. An auditor can either be independent auditor or unaffiliated with the business being competitive auditor and some are elected by the public officials. Auditors make sure that Local Governments are maintaining accurate and honest records and statements (Woolfs, 2014).

**Auditing** is the process by which competent, independent person accumulate evidence about quantifiable information and related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and establishing and reporting on the degree of correspondence between the quantifiable information and established criteria (Arens, Randal & Mark, 2005).

**Risk** is the possibility that something unpleasant or dangerous might happen and sometimes may have on impact on the achievement of objective (Foulks, 2006).

**Risk management**

It is the process of evaluating and controlling risk to ensure that the organization is managed as effective as possible (Foulks, 2006). This doesn’t mean that the organization avoid risk because taking risk can result in financial profits or other significant benefits to the organization.
However, it means that the level of risk exposure is factored into decisions made against a clear understanding of the appetites of risk and potential impact of any risk. Risk management function can exist within organization to identify, monitor and measure risk and publish risk management policies.

**Fraud.** Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence.

**2.2 LEVEL OF FINANCIAL PERFORMANCE IN LOCAL GOVERNMENTS.**

In the financial performance auditing distinguishes itself from other forms of auditing because it focuses on the performance of Local Government’s projects and the systems and procedures they use to control the performance. Improving Local Government’s efficiency and effectiveness is one of the purposes of performance auditing (Tilleman & Bogt, 2006).

According to Tilleman & Bogt (2006) the use of performance auditing is widespread across the public organization in many countries. Similarly to other forms of auditing, performance budgeting implies that an independent body may conduct an investigation in order to make an assessment of the organization. The findings are then used to draw up an audit report, which can be used by parties within or outside the organization (Tilleman & Bogt, 2006).

This is something that is very difficult to measure, since good management is basically a matter of preference regarding the style and values of the auditors themselves (Pollitt, Christopher & Waerness, 2000).
Accountability in Local Government has a broader dimension than the private sector. In the private sector, accountability relates to the management of the business entity for shareholder’s interests, as prescribed by the Corporations Act (2001). In Local Government, accountability can be multifaceted, as councils seek to achieve diverse social, political and financial goals for the community benefit. The accountability principles of Local Government are based on strong financial probity, financial propriety and others.

2.2.1 Factors considered when assessing audit risk.

According to Millichamp (2003), there are two broad classifications of factors considered when assessing internet risk that is; at the entity level and at the accounting balance and transaction level.

At entity level

(i) The auditor should consider the integrity attitude to risk of directors of management.

(ii) Consider management experience, knowledge and changes during the accounting period.

(iii) The nature of the business.

(iv) The population size.

At account, balance and transaction level

(i) Accounts are likely to be misstated like accounts which require adjustments in the previous period or which require high estimation such as stock.

(ii) Degree of judgment involved in determining the account balance.

(iii) The quality of accounting systems.

(iv) Results from previous audit. Errors found in the previous years have a high likelihood of occurring in current year’s audit.
Control Risk

(i) Consider the quality of effectiveness of the management like the degree of supervision.

(ii) The quality of internal control like poor segregation of duties as this is common in the small firms.

(iii) The competence of the account staff their experience, turn over and remuneration.

(iv) Existence and effectiveness of the internal audit, which provide a supervisory role as a service to the organization.

(v) Corporatization which implies more or less errors like during the changes over the seasons.

(vi) Degree of subjectivity involved in measuring an item ego stock valuation depreciation of fixed assets.

Detection risk

According to Meigs, Whittington & Pray (2014) detection risk can risk due to the following;

(i) The use of inappropriate audit procedures in a particular situation.

(ii) Failure to perform necessary audit work due to limited or high codes.

According to Woolfs (2014), measures used to reduce detection risk may include the following.

(i) Planning audit work so as to handle audit risk and time progress.

(ii) Encourage positive communication between audit manager, audit staff and client personal.

(iii) Use appropriate audit manuals and documentation.

(iv) Ensure access to technical specialist (experts) in technical areas.
2.2.2 Causes of audit risk

i. Changes in the technology.

ii. New personnel recruited in the organization who are not experienced and expertise.

iii. Corruption of auditors.

iv. Poor methods used by the auditor when assessing risk.

v. Changes in operating environment.

vi. New information systems, which are not familiar to the workers.

vii. Simplicity off the audited transactions and assertion of existing the internal control frame work.

2.2.3 Techniques Used To Measure Audit Risk

- Analytical procedures.

These are comparisons of financial statement balance and ratios for the year under audit with comparable information for source as the client’s prior year’s financial statement published the industry statistics and budgets (Foulks, 2006).

According to Meigs, Whittington & Pray (2003) analytical reviews procedures help the auditor to obtain an understanding of client’s business and financial statement amounts that appear to be affected by errors irregulaties and potential problems.

Significant fluctuations revealed by the comparison also identify account that might contain material error or other problems that might affect the fairness of the financial statement.

The auditor will then plan more thorough investigation of these potential problems areas. In this way the results of analytical procedures assist the auditor in planning a more effective audit.
Compliance Test.

Compliance test provide auditors with evidence as to whether prescribed internal control procedures are in use operating effectively (Woolfs, 2014).

Foulks (2006) further explains that auditors should obtain a sufficient understanding of three element of the entity’s internal control structure that’s to say that the control environment, accounting system and control procedure to help flow the substantive test of the entity financial statements.

According to Millichamp (2003), it put across that the performance of test of the system’s operating effective often focus upon specific control procedures rather financial statement mount or complete transactions.

Substantive Tests.

These are designed to detect material errors if they excite in the financial statement (Millichamp, 2003). The amount of substantive testing done by the auditor is greatly influenced by their assessment of the likelihood the material error exists.

Test of control.

According to Meigs, Whittington & Pray (2003), tests of the control help to assess the quality of the accounting records. A review of these records will inform the auditors as to the client’s accounting procedures in effect.

Foulks (2006) shows that the quality of accounting records may vary widely from the engagement to the next. Many clients maintain records that are carefully designed to
comprehend. When the auditor’s ascertain that client’s accounting records are highly reliable, the audit work necessary to substantive account balance may justifiably be minimized.

He further says that accounting records of some clients may be typified by the unrecorded transactions, unsupported entries and numerous mechanical errors. In these cases, the auditor may have to perform extensive audit work to substantial account balance on occasions. The accounting records may be so inadequate that the auditor must disclaim an opinion on the financial statement. Meigs, Whittington & Pray (2003) shows that the testing of accounting records may be use of statistical sampling techniques

2.2.4 Business Risk Approach/ Assessment.

According to Alvin & James (2014), business risk assessment involves a thorough understanding of all aspect of the entity, not just those associated with bookkeeping. The auditor obtains an understanding of the commercial environment in order to understand the threats and pressures that might affect the financial statements like the management is concerned about cash flows and could then be tempted to distort the cash flow figures in the annual report because of this, the auditor might encourage management to deal with such issues, partly in order to strengthen the business but also to reduce the associated threats of the financial statement. The control environment enables the auditors to decide whether the system in place will adequately offset the risk misstatement. Finally evidence is gathered from detailed testing in order to reduce the overall risk to an acceptable level. The mount of testing will be influenced by the evaluation of risk and control.
o Risk Based Approach.

This is the approach used by external auditors to identify the high risk areas of a client’s business and hence focus the audit efforts.

Consequently this is used for the term planning on a particular audit after the decision has been made to accept the assignment (Foulks, 2006).

According to Millichamp (2003), it is a process, an approach, a methodology an attitude of mind rolled into one. The simplest way to think about risk-based audit conceptually is to audit the things that really matter to your organization. Risk-base audit is a process, traditionally audit begin and end by looking at controls, often regarded as the main expertise that the function has;

o Financial Performance.

It can also be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as general measure of the firm’s overall financial fitness over a given period of time and can be used to compare similar firms across the same industry or compare the industry or sector in aggregation (Pandy, 2009)

2.2.5 Methods used to measure financial performance

o Use of financial ratios or financial analysis.

Financial analysis is the process of identifying strength and weakness of the firm by properly establishing the relationship between item of the balance sheet and the profit and loss account. It can be undertaken by parties outside the firm, owners, creditors, and investors. These are normally related to net income and total assets that were used to generate that income.
The major type of financial ratios in Local Government include the following,

i. The liquidity ratios

These indicate the ability of the firm to meet its short-term obligations thus funds to enable it to pay its short term financial obligations as they fall due. They include current ratios and acid test ratio

ii. Activity ratios/ efficiency ratios

These include efficiency with which the management is using the firms resources on its disposal that is how efficiently are the assets being utilized in generating revenue. These include; inventory turnover ratios, debtor’s turnover ratio, creditor’s turnover ratio others include fixed assets turn over ration, turn over period, credit turnover ratio.

Others include fixed assets turnover ratio, debtor’s turnover ratio, creditor’s turn over ration.

iii. Gearing / Leverage ratios.

These include the ability of the firm to meet its long term obligations. They look at the long term structure of the organization to provide some indication of the long-term policy of the organization.

o Use of Financial Statements.

According to Paddy (2009), firms communicate financial information to user through financial statement and report. They contain summarized information of the firm’s financial affairs, organized systematically. They are the means to present firm’s situation to users. It’s the responsibility of management to prepare the statements. Since investors and financial analysts have to examine the firm’s performance in order to make carefully and contain as much
information as possible use them. Financial statements show the performance of the business in the profit by looking at the net profit figures in the profit and loss account, checking the amount of the assets and local equity that the business has and looking at the cash flow you are looking at the cash flow statement.

**2.3 RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND AUDIT RISK IN LOCAL GOVERNMENTS.**

According to Millichamp (2003), inexperience of new staff may result to error and staff manipulating, their ignorance within Local Government premise may lead to commission of errors within the financial statement hence leading to Audit risk. These will in the long term affect the financial performance in Local Government.

Analytical review procedures help the auditor in identifying the errors or irregularities with the financial statements of the clients (Meigs, Whittington & Pray, 2003). This enables the production of financial statement that is true and fair. This shows the real practice of Local Government, its performance in several ways, the profitability and in growth factors as compared to other years of operation. This is because auditors compare financial statement of different years to help get comparable returns. Therefore the auditor’s techniques of audit risk, financial performance can improve.

According to Foulks (2006) financial performance of Local Government can be said to be good only if the internal control are functioning properly. This will be proved right or wrong by auditor’s compliance tests, which provide evidence. This therefore means that the presence of auditing enable Local Government to improve performance, as Local Government financial statement can’t go understated with errors hence improvement in the financial performance.
Efficiency is an indicator that has become more relevant for the Local Government during the last decades because it is a way to increase the result and customer orientation in the Local Governments. During the last decades efficiency has also become more important and in focus of the Local Government. This is in order to see the productivity of the staff in the Local Government. Efficiency and performance has improved the decision making and also improved the cost-value orientation in the Local Governments.

To improve financial statement in Local Government, auditors should detect shortages in inventories through physical observation and making observation and making courts of low investigating within the slops. This strategy should be done to reduce the effect of material errors going undetected like medicine since such inventory of resources is very susceptible to errors (Woolfs, 2014). By using the substantive tests the auditor can be sure that the levels of risk likely to occur are minimized and hence this will improve financial performance of Local Government.

According to Power (2003) the financial reporting gives an abiding image that it is a neutral representation of the financial affairs of an entity. The financial auditing was the beginning of auditing in public organization. This evaluation is measurement orientated, which means measuring individual outcome factors without putting the factors in context with a casual model so public action could be an explanation.

Brujin (2002) claims that performance measurements are about formulating envisaged performance and this performance can be measured by defining indicators. He also writes that a government’s performance is hard to measure, and it is hard to know whether the outcome is true. The outcome is the final effect that is wanted, and it depends on many different variables, making it hard to measure.
2.3.1 Audit Risk Model

An audit risk model is a process for determining risks and deciding on the correct auditing procedures for a particular business. The emphasis on this various components of the model and their relationship to evidence requirement. The source of audit risk model in the professional is statement on auditing standards 39 (SAS39) on auditing sampling and SAS47 on materiality and audit risk (Alvin & James, 2014). The primary form of the model from these statements is as follows;

Desired audit risk.

Desired audit risk is the subjective determined risk that the auditor is willing to take that financial statements are not fairly stated, audit is completed and unqualified opinion has been reached. When the auditor decides on the lower audit risk it means that he auditor wants to be more certain that the financial statements are not materially misstated. Zero risk would be certainty and 100% would complete uncertainty. Risk can range anywhere from 0-100 but not more or less. Complete assurance (zero risk) of the accuracy of the financial statement is not economical practical (Foulks, 2005).

Inherent Risk

According to Meigs, Whittington & Pray (2003), inherent risk (IR) is the susceptibility of the financial statement to material error assuming no internal controls. If the auditor concludes that there is a high likelihood of an error, ignoring internal controls the auditors will conclude that inherent risk is high. Internal controls are ignored in setting inherent risk because they are considered separately in audit risk model as control risk. The conclusion of inherent risk in the audit risk model is one of the important concepts in auditing. It implies that auditors should attempt to predict where errors are most and least likely in the financial statement segments
(Foulks, 2006). The information affects the total amount of evidence the auditor is required to accumulate and influence how the auditor’s efforts to the evidence are allocated among the segments of the audit.

Control risk.

According to Alvin & James (2014) control risk represents an assessment of whether the clients internal control structures is effective for preventing or detecting errors and the auditor’s intention to make that assessment at a level below the maximum as part of the audit plan. Controls risk is the risk that material misstatement could occur in an account balance or class of transaction, which would not be prevented or detected by the accounting or internal control system. According to Woolfs (2000), control risk are affected by factors like control environment, the integrity of the staff operation the system, the extent of supervisory control an strength of control in particular account areas. The more effective the internal control structure the lower the risk factor that could be assigned to control risk.

Detection Risk.

According to Meigs, Whittington & Pray (2003), its risk the auditor is willing to take of failing to find material errors in the financial statement by applying the audit procedures assuming the system of internal control has failed to detect and correct them. It’s calculated from the other three risks in the audit model.

Detection risk determines the evidences the auditor plans to accumulate. When the detection risk is low the auditor is unwilling to take much of evidence failing to uncover errors, therefore considerably evidenced must be obtained. When the auditor is willing to take more risk less evidence is needed.
Detection risk is as a variable which is determined by re-arranging the audit risk equations as follows;

\[ DR = \frac{AR}{(IR \times CR)} \]

Where; DR= Detected risk   CR= Control risk   AR= Audit risk   IR= Inherent risk

If control risk and inherent risk are high then detection risk will be low. The lower the level of detection that’s acceptable, the greater the level of testing required.

Total Audit risk

According to Woolfs (2014), total audit risk is the risk of giving an appropriate opinion when financial statements are misstated. It comprises of inherent risk (IR), control risk (CR), and detection risk (DR). When the three are multiplied together, they give total audit risk.

\[ AR = DR \times IR \times CR \]

Where; DR= Detected risk   CR= Control risk   AR= Total Audit risk   IR= Inherent risk

According to Foulks (2005), it’s the auditor’s judgment that is always used to determine the value to be placed on these items. There’s no rule that the auditor can follow, broadly the lower the risk the level required the greater the audit work required. In most cases the internal auditors will operate the risk-based approach to auditing making decisions based on impact probability of risks of occurring and therefore attention towards the highest impact and highest risks.
Normal audit risk

This possibility that the error will go undetected despite how strong the audit evidence and how careful the auditor is. In general, if there are indications that the audit risk is normal, no indication of higher than normal risk the auditor is un-likely to be found negligent and to pay damages as consequence of fraud or error not discovered by him. (Millichanp, 2003).

Indications of normal audit risk are experienced indicates the risk is normal, the management and staff of the client are competent and have integrity. When audit risk is normal the audit may approach his audit by relying on his key control substantive and analytical revenues (Millichanp, 2003).

Higher than normal risk.

This is where the level of risk is more than the required levels, which are allowed to go undetected. Majority of risk contain at least one area of high risk. Indications of high than normal risk include previous experience, liquidity problem and poor management. (Alvin & James, 2014)

2.3.2 Service Delivery

Due to audit risk, there has been a problem of poor service delivered to the public by Local Government however there are other causes as below;

Causes of poor service delivery.

According to Uganda workshop journal of 2008/2009 the following were the causes of poor service delivery.
i. Corruption, incompetence, uncaring leadership (an indictment of the appointment and accountability)

ii. Lack of savant leadership and commitment to excellence

iii. Lack of skills in (or even commitment) to assessment, visionary thinking, effective planning and implementation (showing the need for effective training).

iv. Bureaucracy ineffective structure and lines or relationship, ineffective systems, poor accountability, buck passing and the general unresponsiveness in Local Government.

v. An unwillingness to admit the need for outside help.

vi. Poor service delivery infrastructures.

vii. Persistent level of rural poverty

viii. Diminishing revenues base of Local Government and now heavily dependent structure central government.

ix. Conflicts between political and civil service leadership.

x. Absence of clear power relation structure and accountability.

xi. Absence of effective accountability between citizens and their leaders both at local and national level.

xii. A distorted budget architecture that creates substantial imbalance between Local Government and rural development policy that has alienated citizens from Local Government are the fundament issues that account for failure to become a front line institute for effective public service delivery.

xiii. Cultural factors also contribute to the situation in addition; managers or leaders often don’t want to lose face by admitting a lack of knowledge or skill in an area and asking for help. Once knowledge is gained or skills acquired, there’s a hesitancy to share it though
few want to share it, the practice of nepotism and politically motive appointment have greatly contributed to crisis.

xiv. The changing of decentralization from devolution that was envisage under the constitution to delegation which is often the weakest form of decentralizations.

**Solutions to the above.**

i. Providing critical information on performance of Local Government to the public. Citizens will be able to demand for accountability from political leaders hence trigging a vertical chain reaction the demand for accountability from the local to the nation level.

ii. Establishing for each Local Government unit a sound financial base with reliable source of revenue.

iii. Appropriate measure shall be taken to enable Local Government units to plan initiate and execute policies in respect of all matters affecting the people within their jurisdiction.

iv. Local Government shall employ persons in the service of Local Government.

v. The Local Government shall oversee the performance of persons employed by government and provide service in their areas and monitor the provisions of the government service or the implementation of projects in their area.

**CONCLUSION**

Auditors provide a service to the Local Government as a whole which can be done effectively if they are independent, perform their duties with due professional care, have a wider scope and work under proper management. The performance of Local Government is attributed to a number of factors yet to be established is how audit relates to this performance, which can be measured using many other things to measure the effectiveness performance.
CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter focuses on the study population, study area, target population, sampling techniques, research design, sampling design, sample selection, research instruments, data collection techniques, source of data research design, data collection tools and data instruments, measurement of variables, data processing and analysis with anticipated research problems.

3.1 Research design

The researcher used a cross sectional research design to get both qualitative and quantitative data from different Bushenyi Local Government staff members. Further more descriptive research design was used to describe and examine the obtained data while analytical research design was used to establish the impact of auditing on the financial performance.

3.2 Study area

The study was carried out at the Bushenyi District Local Government located at the district head quarters, Mbarara-Kasese high way.

3.3 Study population

The study was focused on the staff from different departments of Bushenyi Local Government that is; accounting section, auditing section, finance and other departments.

3.4 Sample Size and Frame.

The sample size was the total of 50 respondents from Bushenyi Local Government and consists of staff in the accounting, auditing, finance and other departments.
3.5 Sampling technique

The researcher used purposive sampling where staffs familiar with the study were provided with questionnaires to obtain the 50 respondents as show in the table below.

<table>
<thead>
<tr>
<th>Department</th>
<th>Number of staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing</td>
<td>4</td>
</tr>
<tr>
<td>Finance</td>
<td>18</td>
</tr>
<tr>
<td>Accounting</td>
<td>14</td>
</tr>
<tr>
<td>Others</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

3.6 Data collection techniques

The research used interview guides and Questionnaires for data collection.

3.7 Sources of data

The researcher used both primary and secondary data.

3.7.1 Primary data

Primary data was collected directly from members of staff by use of interviews and questionnaires. Interviews helped to collect in deep data from the respondents and questionnaires helped in collection of a lot of data in a limited time. It also helped in giving detailed information to the respondents.
3.7.2 Secondary data

Secondary data used was already existing finance regulations which include; Local Government Finance Regulations (2007), textbooks, journals, news bulletins, and published research findings of earlier researchers related to their problems. This helped in the comparability of data collected from primary data and secondary data.

3.8 Data processing and analysis

3.8.1 Data processing

The raw data obtained from the field was processed into meaningful information. It was summarized, coded, tabulated and edited to eliminate inconsistencies and irrelevant data.

Data processing was done with the help of Microsoft word, Microsoft excel and STATA to give different frequency distributions and helped in drawing relevant conclusions between the variables.

3.9 Data analysis

Data collected was captured into the computer using excel and then processed through coding, labeling variables and values which allowed the researcher to analyze the data and draw meaningful conclusions. In STATA, descriptive statistics gave frequencies and percentages in tabular forms were obtained. Microsoft word was used in writing the report and the conclusion from the analyzed data.
CHAPTER FOUR
PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents, interprets and discusses the results in an attempt to determine or establish logical relationships between variables in relation to the survey questions and the specific objectives as stated in chapter one.

4.1 Background characteristics of respondents.

The target population of the study was 50 respondents who worked in Auditing, Finance, Accounting and other departments who were selected by using purposive sampling.

Table 4.1.1: Sex of respondents

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td>Female</td>
<td>27</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 46% of the respondents who participated in the study were male employees and 54% of the respondents were female employees who made the largest number of response in Bushenyi Local Government. This implied that there was no bias during data collection since the deviation between male and female was insignificant.
Table 4.1. 2: Education levels of respondents

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Degree</td>
<td>32</td>
<td>64</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 4% of the respondents who participated in the study had diplomas, 64% had degrees and 32% had other qualifications like Masters, Certified Public Accountants (CPA) and others. This implied that the majority of the employees had degrees thus showing that Bushenyi Local Government used well trained and skilled workers which helped the Local Government to experience few mistakes.

Table 4.1. 3: Department in which the respondents work in.

<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Finance</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Accounting</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Others</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data.

The results from the above table show that 8% of the respondents worked in the auditing department, 36% worked in the finance department who were the majority, 28% worked in the accounting department and 28% worked in other departments at Bushenyi Local Government.
This implied that there are different departments at BLG with different employees who had variability of skills in different fields which helped to develop team work and thus improving on the level of financial performance and reducing on the levels of Audit risk.

4.2 Level of Audit Risk at BLG

Table 4.2.1: Major audit risk faced

<table>
<thead>
<tr>
<th>Major Audit risk</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inherent Risk</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Control Risk</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>Detection Risk</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 26% of audit risk faced was Inherent risk, 60% which was the largest showed that it was control risk and 14% showed it was Detection risk. This implied that control risk was the most faced audit risk and this was in line with Alvin & James (2014) who had found out that control risk represents an assessment of whether the clients internal control structures are effective for preventing or detecting errors and the auditor’s intention to make that assessment at a level below the maximum as part of the audit plan. Controls risk is the risk that material misstatement could occur in an account balance or class of transaction, which would not be prevented or detected by the accounting or internal control system.
Table 4.2.2: Level of audit risk

<table>
<thead>
<tr>
<th>Level of audit risk</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>High</td>
<td>27</td>
<td>54</td>
</tr>
<tr>
<td>Low</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Very low</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 34% of the respondents said that Audit risk was very high, 54% who were the majority said it was high, 10% said it was low and 2% said it was very low at Bushenyi Local Government and this was in line with Al-Tamimi (2002) who found out that many risks will be very significant to the organization and the discussion of their controls will involve more senior managers and directors than might be involved in traditional finance oriented audits.

Table 4.2.3: Major causes of Audit risk

<table>
<thead>
<tr>
<th>causes of Audit risk</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Technology</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Corruption of auditors</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>Poor methods used by auditor when assessing risk</td>
<td>31</td>
<td>62</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 4% of the Audit risk was caused by change in technology, 34% was caused by Corruption of auditors and 62% which was the largest was caused by poor methods used by auditors when assessing risk at Bushenyi Local Government. This implied that poor methods used by auditors when assessing risk was the major cause of audit risk and this
was in line with Woolf (2014) who found that audit risk can be as a result of incompetence, corruption lack of commitment and poor methods used by auditors thus leading to poor services

4.3 Level of Financial performance at BLG

Table 4.3. 1: Level of financial performance

<table>
<thead>
<tr>
<th>Level of financial performance</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Low</td>
<td>31</td>
<td>62</td>
</tr>
<tr>
<td>High</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 14% of the respondents said that the level of financial performance was very Low, 62% who were the majority said it was low and 24% said it was high at Bushenyi Local Government. This was line with Brujin (2002) who claimed that performance measurements are about formulating envisaged performance and this performance can be measured by defining indicators. He also writes that a government’s performance is hard to measure, and it is hard to know whether the outcomes are true. The outcomes are the final effects that are wanted, and they depend on many different variables, making them hard to measure.
Table 4.3.2: Methods used to measure finance performance.

<table>
<thead>
<tr>
<th>Measures of Finance Performance</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Budget Performance</td>
<td>43</td>
<td>86</td>
</tr>
<tr>
<td>Financial ratios</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Results from the above table indicate 12% of the respondents said that it was financial Statements, 86% who were the majority said it was Budget Performance and 2% said it was financial ratios which were used at Bushenyi Local Government to measure financial performance. This concurred with Pandy (2009) how found out that finance performance methods used to measure finance performance are used as general measure of the firm’s overall financial fitness over a given period of time and can be used to compare similar firms across the same industry or compare the industry or sector in aggregation.
4.4 Relationship between financial performance and audit risk at Bushenyi Local Government.

Table 4.4.1: Relationship between the level financial performance and the level audit risk

<table>
<thead>
<tr>
<th>Level of Financial Performance in LG’s.</th>
<th>Level of audit risk in LG’s</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td>Low</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>53.33</td>
<td>36.67</td>
</tr>
<tr>
<td>Very low</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>58.3</td>
<td>33.33</td>
</tr>
<tr>
<td>High</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>54</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Primary Data. Pearson chi2 (6) = 0.642 Pr = 0.023

Results from the above table indicate the relationship between the level of financial performance and the level Audit risk at Bushenyi Local Government which had P-Value (0.023) which was less than the significant level (0.05) thus showing that there was a statically significant relationship between financial performance and Audit risk. These means that there was a positive relationship between the level of financial performance and the level of Audit risk since P-Value of 0.023 at 95% confidence level (0.05). This implied that Audit risk influence financial performance in Bushenyi Local Government such that where there will be high levels of Audit risk there will be poor financial Performance which will lead to poor service delivery to the public by the Local Government.
CHAPTER FIVE:
CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction
This chapter covers the conclusion, and recommendation of the finding which are based on the obtained information through the use of question to prove the validity of the literature in chapter two.

5.1 Conclusion
Audit risk has got several components which must be examined by the auditor to ensure that the financial statements gives a true and fair view and also enable the auditor to give an opinion. The major cause of audit risk in Local Government was the poor methods used by auditors while assessing the risk. It was also observed that inexperienced new staff in Local Government also increases the level of audit risk since they tend to make mistakes in financial statements.

High levels of audit risk in Local Government leads to poor services delivered to the public. However it was discovered that apart from audit risk there are other factors that can lead to poor service delivery in Local Government thus corruption in relation to misuse of office, bribery, nepotism and others.

The major forms of audit risk faced by Local Governments are control risk, inherent risk and detection risk. However, this implies that audit should not only consider the risk but also the percentage of the risk that have been accepted by internal control system.

While assessing audit risk in Local Government the following factors are considered. Quality of the internal control systems thus segregation of duties is normally considered, Integrity, attitude, knowledge and change in the management during a financial period should also be considered.
Management experience, knowledge and changes in the management during a financial period should be considered, unusual pressure on management (tight reporting deadline), Regulatory requirement and changes in technology thus accounting practices are being changed from manual accounting to computerized accounting, Unusual and complex transactions at or near the end of the year and Quality and effectiveness of management (degree of supervision) should also be considered.

The major technique used to measure audit risk in Local Government was analytical procedures, others include risk based approach, compliance test and substantive test. It was observed that audit risk in Local Government cannot be ascertained using one method but several techniques. This implies that each technique is used to find different evidence from different documentation like tests of control work with source of document whereas analytical procedures go in hand with financial statements.

Financial performance was mainly affected by the corruption through bribery however, inexperienced staff also led to poor financial performance in Local Government and financial performance in Local Government was usually measured using the budget performance. Other methods like financial ratios and financial statements are rarely used and this was because Local Governments were guided by the year budget and had to work with in the budget frame.

Audit risk was related to financial performance of Local Government in that the reliability of an audit depends on financial statements. In most cases an audit was done on financial statement which includes statement of financial position, cash flow statements, income statement and others. If the auditor uses the right techniques to measure audit risk coupled with good internal control system in Local Government the level of audit risk will be reduced as material errors
would be detected easily and hence improve on the financial performance. However, audit risk affects the financial performance of Local Government negativity depending on how the auditor designs his work.

If poor procedures and test coupled with weak internal control, the level of detecting audit risk will be very low and hence leaving material errors undetected which leads to poor financial performance of Local Government.

In respect to impact of auditing on performance of Local Government, it was found out that if audit risk is not properly assessed within the Local Government, the financial performance will be very poor and in the long run can lead to poor service delivered to the public. It should be noted that it’s the auditor’s responsibility to design strong measure like analytical procedure, substantive test, compliance test and other to help detect the loopholes embodied with in the financial statements. However management also has a role on reduction of risk. It has to design strong internal control system which is in position to detect all errors and fraud committed by management.

It’s also evidenced that audit risk assessment has a positive impact on financial performance of Local Government and should take audit risk assessment very seriously if they are to perform better.

5.2 RECOMMENDATIONS

The study revealed loopholes, the researcher therefore presume that the following recommendation will greatly contribute to the reduction of audit risk and improvement of the financial performance of Local Governments.
Local Government needs to design a very strong internal control system so as to reduce on the level of errors and fraud committed by management from going undetected. This will help on the reduction of audit risk in Local Government and therefore making the auditors work easy.

The auditor should design strong techniques to detect audit risk in financial statement and other areas of concern. During the research, it was noted that there were only four auditors in the Local Government; therefore more auditors have to be recruited in order to reduce on the work load. This will also help in promoting team work on the audit committee thus reducing audit risk.

5.3 Areas of further Research

(i) Improving the level of financial performance of Local Government.

(ii) Various causes of audit risk in Local Government

(iii) Audit risk in Local Government

REFERENCES


Brujin, c. c. (2002). Audit commitees Focus on Risk Based Adit.


APPENDICES

Appendix I: interview guide

Dear Respondent,

I am AHABWE BRIAN, student at Makerere University Pursuing a Degree in Business Statistics. I am carrying out a research on “Impact of Auditing on Performance of Local Government in Uganda.”

Your response to the interview guide as regards to the investigation is kindly needed and it will be kept confidential.

1) What position do you hold in the Local Government?

…………………………………………………………………………………………………………………………………………………………

2) Does an unqualified opinion given by auditors have an impact on financial performance?

…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………

3) How do relate audit risk to financial performance?

…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
4) How do you relate audit risk to service delivery?

5) What is internal auditing doing to prevent and detect audit risk in financial statement?

6) What programs and control have been implemented to mitigate risk?

7) What is the relationship between audit risk and legal liability of auditors?

8) What is the relevance of audit risk and evidence accumulation?

9) Apart from audit risk, what can lead to poor financial performance in Local Government?
Appendix 2: Questionnaire

MAKERERE UNIVERSITY

Dear Respondent,

I am AHABWE BRIAN, student at Makerere University Pursuing a Degree in Business Statistics. I am carrying out a research on “Impact of Auditing on Performance of Local Government in Uganda.”

Your response to the Questionnaire as regard to the investigation is kindly needed and it will be kept confidential and no reference will be made to other companies or individuals without your prior permission

SECTION: A

NOTE: (Please tick the best alternative)

1. Sex.
   □ Male.       □ Female.

2. Age
   □ 0-25       □ 25-35
   □ 35-45      □ Above 45

3. Level of Education.
   □ Diploma     □ Degree      □ Others

☐ Married.  ☐ Single
☐ Divorced  ☐ Others

5. In which Department do you work in/ belong?

☐ Auditing.  ☐ Finance
☐ Accounting  ☐ Others

SECTION B

**NOTE:** (Circle the best alternative.)

6. What is the level of Audit risk in Bushenyi Local Government?

1. High
2. Very high
3. Low
4. Very low

7. Audit in Local Governments is as a result of corruption, in competence and lack of commitment by auditors.

1. Agree
2. Strongly agree
3. Disagree
4. Strongly disagree.
8. What is the level of financial performance at Bushenyi Local Government?
   1. Low
   2. Very low
   3. High
   4. Very high.

9. Inexperience of new staff may result to errors and staff manipulating their ignorance within the premise of Local Government may lead to commission of errors hence leading to audit risk.
   1. Agree
   2. Strongly agree
   3. Disagree
   4. Strongly disagree.

10. Audit risk in Local Government can lead to poor service delivered to the public.
    1. Agree
    2. Strongly agree
    3. Disagree
    4. Strongly disagree.
11. Audit risk has a relationship with financial statement.
   1. Agree
   2. Strongly agree
   3. Disagree
   4. Strongly disagree.

12. What is the major audit risk faced in Local Government?
   1. Inherent Risk
   2. Control Risk
   3. Detection Risk
   4. Other (Specify). .................................................................

13. What is the major tactics considered by government when assessing the audit risk?
   2. Internal control system.
   3. Competence of the staff
   4. Other (Specify). .................................................................

14. What is the major cause of Audit risk in Local Government?
   1. Change in Technology.
   2. Corruption of Auditors
   3. Poor methods used by Auditors when assessing risk
   4. Other (Specify). .................................................................
15. What is the major technique used by Local Government to measure audit risk?

1. Analytical Procedures
2. Compliance test
3. Risk based approach.
4. Others (Specify). .................................................................

16. What is the major method used to measure finance performance in Local Government?

1. Financial statements.
2. Budget Performance
4. Not sure