
**INTERNAL AUDITING AND FINANCIAL REPORTING QUALITY OF LOCAL
GOVERNMENTS IN UGANDA, A CASE OF PALLISA
DISTRICT LOCAL GOVERNMENT
PALLISA DISTRICT.**

BY

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BUSITEMA UNIVERSITY**

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DECLARATION

DECLARATION

I, the undersigned do hereby declare that the work in this Research Report is my original work and to the best of my knowledge it has never been submitted for award of a Bachelor's Degree in any other University for examination purposes


Signature.....  Date 29th/08/2024

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APPROVAL

APPROVAL

This is to certify that this Research Report has been written by KOOWA ADAM under my supervision and it is now ready for submission to the Department of Economics and Management, Faculty of Management Sciences as a partial fulfillment of the requirement for the award of Bachelor's Degree in Business Administration of Busitema University.

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DEDICATION

I wish to dedicate this piece of work to my beloved father Mr. Wankya Muhammad and my mother Mrs. Naigaga Zaitu who have given me all the support financially morally and spiritually during this demanding time of the study and also the sacrifice and patience they exhibited towards me during my time of study.

I also dedicate this work to my supervisor Ms. Kalembe Doreen thank you so much for the great support that you rendered to me. I wouldn't have managed to make it without your help. May the Almighty ALLAH reward you abundantly.

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LIST OF ACRONYMS

ABFA	Annual Budget Funding Amount
AG	Auditor General
CAG	Controller and Auditor General
CIAR	Chief Internal Auditor Report
FY	Financial Year
IFRS	International Financial Reporting Standard
IAS	International Accounting Standards
LG	Local Governments
LG FAR	Local Governments (Financial and Accounting) Regulations
GAAPs	Generally Accepted Accounting Principles
PFMA	Public Financial Management Act
PDLG	Pallisa District Local Government
PFM	Public Finance Management
PFA Act	Public Finance and Accountability Act
FRQ	Financial Reporting Quality
OAG	Office of the Auditor General
SPSS	Statistical Package for Social Sciences

ABSTRACT

This study examined the effect of internal auditing on financial reporting quality of PDLG. The study was guided by the following objectives notably, to examine the impact of audit committee on the quality of financial reporting of PDLG, to establish the impact of audit independence on the quality of financial reporting of PDLG and to establish the impact of audit competence on the quality of financial reporting of PDLG. The study used a cross sectional research design, and a quantitative approach. Data was collected from a target population of 45 employees of PDLG with accessible unit of 40 employees of PDLG, using simple random and purposive sampling techniques. Data were collected with the aid of closed ended questionnaire and Statistical Packages for Social Sciences was employed for analyzing data from which frequency tables, descriptive statistics (mean and standard deviation), reliability, validity, correlation, and regression results were obtained. The study findings revealed that there is a positive and a significant effect of audit committee on the quality of financial reporting, audit independence on the quality of financial reporting and audit competence on the quality of financial reporting of PDLG. The study concludes that there is a strong predictive power that the dimensions of internal auditing contribute towards enhancing financial reporting quality of PDLG. Finally, the study recommends that efforts to improve on the financial reporting quality of local governments depends on internal auditing (audit committee, audit independence and audit competence).

CHAPTER ONE

INTRODUCTION.

1.0. Introduction

This chapter comprises of the background of the study, statement of the problem, purpose of the study, research questions, research objectives, scope of the study, content scope, geographical scope, time scope, significance of the study, conceptual frame work.

1.1. Back ground of the study.

Numerous studies have investigated on the quality of financial reporting (Pinnuck, 2019, Bansal & Sharma, 2022, Agbaje et al., 2021, Kamil, 2020). This is due to the fact that High quality financial reports are essential to ensure that government's fiscal decisions are based on the most up -to-date and accurate understanding of its financial position and financial reports are also a mechanism through which all stakeholders such lenders ,suppliers, auditors, legislators and the public at large can hold governments accountable (OECD Annual Report, 2020). Despite the research in this field, evidence still reveals that financial misreporting practices (Safkaur & Sagrim, 2019), still persists.

Globally, studies show poor quality of financial reporting, For example, (European union annual report, 2023) as per the Global Economic Crime and Fraud Survey indicates that 49% of financial reports presented by firms do not meet the quality standard, For example, In Western Australia (AG annual report, 2023) asserts that the quality of financial reporting is still poor due to timeliness and cost delays that remain a concern in that, FY 2021/2022, 39% of the local government entities had not finalized their financial reports to an acceptable standard and had not provided all relevant information.

In Africa, South Africa, according to the Auditor General Report (2018), showed material irregularities in the financial statements which lowered the quality of financial reporting. FY 2017/2018 showed that Audit outcomes worsened with 63 municipalities regressing compared to 22 that improved, and clean audits dropped from 33 to 18 municipalities. Financial reporting was poor and untimely with 21 being late, 8 missed the January 31 deadline, and only 19% were error-free. Unqualified opinions fell from 61% to 51%, and 65% of performance reports were unreliable and irrelevant. Relatedly, in Ghana according to the Ministry of Finance reported

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