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Perceived Internal Audit Roles and Challenges in a developing economy

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Abstract

Purpose - The purpose of this study was twofold: 1) to explore the perceived Internal Audit (IA) roles and challenges faced by internal auditors in fulfilling their mandate among listed firms in Uganda and 2) to examine the extent to which internal auditor challenges could inhibit the performance of internal auditor roles.

Design/ methodology - This is an exploratory study with mixed methods design. We collected data from internal auditors of 13 listed firms in Uganda through both the questionnaire and interview guide. Data were analyzed using SPSS and XL STAT 2016 with Partial Least Square Modelling because of the small sample used in this study.

Findings - We find eight (8) most perceived internal auditor roles in Uganda such as 'internal audit reports on the system for generating financial information'. Many of these roles suggest that internal auditors perceive their roles consistent with traditional ones that were designed to safeguard firm's assets and assist in the production of reliable accounting information for decision-making purposes. We also find five (5) most perceived internal auditor challenges such as 'internal audit recommendations are not worked on by management'. Furthermore, these internal auditor challenges explain about 31% variation in perceived internal auditor roles.

Research limitations/implications - As the internal auditors face many difficulties, it is difficult to see how they could perform their perceived roles effectively and thereafter embark on their expanded roles as espoused in the model charter of Institute of Internal Auditors (IIA). Although we employ a relatively small sample size, this study's findings can be generalized to Uganda and other similar environments' listed firms. The results are useful in informing the debates of the regulators, standard setters, external auditors, academicians and policy makers. If internal audit function appear incipient in listed firms in this environment, it could be a worthwhile endeavor to establish what it is like in non-listed firms.

Originality / value - We examine perceived internal auditor roles, internal auditor challenges and how the latter affects the former using evidence from Uganda - a developing economy. We also contribute towards a methodological position of mixed methods design by producing results from a smaller sample augmented by interview results in an environment characterized by smaller populations so that inferences can be made. The interpretive research agenda caters to social aspects of internal auditing neglected by positivist studies that largely tackle questions founded in the realist ontological position.

Key words- Internal auditor roles, Challenges, Uganda, Listed companies, Partial Least Square Modelling

Paper type- Research paper



1. Introduction

The role of internal audit came much more in the spotlight in the outcome of corporate scandals in the US and UK and the financial crisis in Asia in the late 1990s. Recently, cases of corporate failures in Africa are also on the rise -Carrefour in Algeria, Sainsbury in Egypt, Uchumi Super markets in Uganda and Tanzania, Crane Bank, Global Trust Bank and National Bank of Commerce in Uganda among others (Mindra, 2017; Kapner, 2001; Muhereza, 2012; Auditor General's Report, 2014). These developments put into question the panoptical role of internal auditors with Mindra (2017) castigating gatekeepers who may have been knowing what was happening and possibly fell into deep sleep; yet Roussy and Brivot (2016) argued that external auditors regard internal auditors as "watchdogs" charged with detecting critical internal control weaknesses. Contemporaneously, Nkundabanyanga (2016) attributes increased corporate failure cases to a poorly thought system of internal controls like the internal audit. Internal Audit Function (IAF) is considered culpable because it is one of the core corporate governance machinery aiming to inform managers and governors about how well the systems and processes designed to keep the organization on track are working and also helps to improve those systems and processes where necessary (Soh and Martinov-Bennie, 2011). IAF is valuable to an organization as it deals with issues that are fundamentally important to the survival and prosperity of that organization. Specifically, Internal Audit Function (IAF) looks beyond financial risks and statements to consider wider issues such as the firm's reputation, growth, and its impact on the environment and the way it treats employees (IIA, 2017). The roles of internal audit in any firm are known to rotate around evaluation of the effectiveness of internal controls, risk management and governance processes (IIA, 2017; Gramling et al., 2004; IIA, 2013; Ebaid, 2011).

If an internal audit fails to perform such roles, it raises questions on what could be the cause. Internal auditors across the globe according to Chambers and Odar, (2015) are faced by the twin challenges of achieving clarity and internal agreement about their public interest commitment and enhancing their mandatory internal audit requirements and for this case, they have been listed as one of the corporate governance gatekeepers who failed to prevent or even detect the global financial crisis. Ebaid's (2011) study conducted on Egyptian firms indicate that internal audit function is less developed and faces many difficulties with respect to organizational status particularly organizational independence, management support, and qualifications of internal audit staff. Despite the growing interest in internal audit (Shabnam et al., 2014; Pizzini et al., 2015; Coetzee and Lubbe, 2014; Regoliosi and D'eri, 2014 Stewart and Subramaniam, 2010; Christopher et al., 2009), scholars continue to cry scant literature on the topic (Roussy and Brivot, 2016; Roussy, 2013; Mihret and Grant, 2017), others going ahead to suggest that internal audit quality is a polysemous notion (Roussy & Brivot, (2016). This devoid is much more pronounced in developing countries (Abuazza, 2015). Exploratory studies examining perceived roles of internal auditors and challenges facing these internal auditors in developing countries and particularly in the African context are also scarce. Yet according to PwC (2014), Africa is a complex continent with diverse economies and industries daunting performance of internal audits. Most of the few studies regarding internal audit function have concentrated on internal audit in the public sector in terms of its independence, evaluation of their roles and how internal audit can predict performance and accountability (Ejoh and Ejom, 2014; Agumas, 2015; Mihret and Woldeyohannis, 2008; Mihret and Yismaw, 2007). To the best of the researchers' knowledge, only Ebaid (2011) has carried out an exploratory study on internal audit function on the African scene using evidence from Egypt but since then, there has been changes in the field of accountancy profession like increased use of information technology to aid fraud and by-pass internal controls. Moreover, Ebaid (2011)'s study did not capture the perceptions of internal auditors on what would be their roles other than the existing documented ones. This paper fills this lacuna.

At the same time, much of the literature has focused on the internal auditors' independence and objectivity without examining what they perceive as their roles and impediments/challenges they face in pursuing their mandate. For example, Stewart and Subramaniam (2010) present a summary of the literature on internal audit independence and objectivity, while Christopher et al., 2009, analyse the threats to independence of independence of internal auditor. Yet much more focus has been on role of internal audit in corporate governance (e.g. external auditors, audit committee and management) (Gramling et al, 2004) and internal auditors' governance role (Cohen et al., 2004) plus documentation of changes in internal audit as a result of shifts in global business practices (Allegrini et al., 2006). Such literature potentially fails to contextualize the most prevalent challenges and internal auditor roles, and how or by what magnitude the challenges affect the perceived performance of such roles. Thus in this paper, we aim to establish the perceived internal audit roles and challenges facing internal auditors in fulfilling their mandate among listed firms in Uganda by attempting at answering the following research questions.

RQ1: What are the currently perceived internal audit roles?

RQ2: What are the challenges facing internal auditors in performance of their roles?

RQ3: What is the potential impact of internal auditor challenges on internal auditor role performance?

This paper adopts a cross sectional and a mixed methods design to examine the currently perceived internal audit roles and challenges in performing such roles. From a sample of 13 listed firms on Uganda's stock exchange, we enlist responses from 30 respondents (Chief Audit Executives (CAEs), Internal Audit Managers (IAM), Senior Internal Auditors (SIA), Internal Audit Officers (IAO) and Internal Audit Assistants (IAA); analyzed using SPSS and XL STAT 2016 with Partial Least Square Modeling because of the small sample used in this study. We also interview 10 Chief Audit Executives to supplement and cross-validate questionnaire answers and analyse these to reduce and display the data and draw conclusions (i.e. in the case of this study formulate descriptions of the interview findings written in the form of a narrative). The use of quantitative and qualitative methods in internal audit research in a single suite is supported by Mihret and Grant (2017) who reason that purely positivistic research gives an incomplete picture. For example they challenge the assumption that empirical phenomena represent an objective reality that is not affected by context. They particularly contend that "...the predominant choice of a positivist approach to internal auditing research leads to conceptualizing the function as a neutral technical tool and that this results in neglecting the complex social context...(p.700). We find eight (8) most perceived internal auditor roles in Uganda such as 'internal audit reports on the system for generating financial information'. We also find five (5) most perceived internal auditor challenges such as 'internal audit recommendations are not worked on by management'. Furthermore, these internal auditor challenges explain about 31% variation in perceived internal auditor roles.

These results have important implications and contribute to literature in a number of ways. First, the research results are useful for policy formulation especially the regulators of listed firms, governments and the institute of internal auditors on what to focus on in the context of addressing internal auditor challenges. Second, the results are relevant for external auditors who are required under the International Standards on Auditing (ISA) to consider various aspects of corporate governance like IAF, identifying and assessing the risks of material misstatement through understanding the entity and its environment (ISA 610, 2016; ISA 315, 2016). Third, findings of this study will help internal auditors in Uganda and other similar settings to evaluate themselves in the context of their perceived role performance. Lastly, the paper contributes to the scant literature existing on IAF in emerging economies.

The remainder of the paper is structured as follows: Section 2 provides a review of the extant literature relating to the IAF; its roles and challenges. In Section 3, the research method employed is outlined. Section 4 presents the findings and their discussion and section 5 is conclusion and implications.

2. Literature Review

The Institute of Internal Auditors (IIA, 2013) defines IA as:

An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation [...] to evaluate and improve the effectiveness of risk management, control and governance processes.

This implies that an entity is helped to achieve its objectives by the internal audit applying an organized and disciplined approach to monitor, evaluate and improve the effectiveness of risk management, control, and governance processes. This definition further shows that the role of internal audit has shifted from compliance assurance and assets safeguarding to value-added assurance and consulting services which are critical to augmenting stakeholders' value (Ebaid, 2011; Bou-Raad, 2000). The presence of assurance and consulting in the definition of internal audit means that internal audit is becoming a proactive, consumer-focused activity concerned with the important issues of control, risk management, and governance (Hass et al., 2006; Chapman and Anderson, 2002).

2.1 *The IAF Roles*

Although there are presently no compulsory requirements for listed companies to have an IAF in developing countries like Uganda, specific references can be made in the Uganda Public Finance Management Act (PFMA) of 2015 which requires every government department / entity to have an internal audit function. We refer to the PFMA of 2015 because some of the listed firms on Uganda Securities Exchange (USE) are government owned for example National Insurance Corporation (NIC) and New Vision Printing and Publishing Company Limited. Similarly, the Ugandan Capital Markets Corporate Governance guidelines (CMCGG) of 2003 require the board to establish an IAF which will be supervised by the audit committee and particularly, the audit committee will: Review the adequacy, scope, functions and resources of the internal audit function and ensure that it has the necessary authority to carry out its work; Review the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function; Review any appraisal or assessment of the performance of the members of the internal audit function; Approve any appointment or termination of senior staff members of the internal audit function; Ensure that the internal audit function is independent of the activities of the company and is performed with impartiality, proficiency and due professional care; Determine the effectiveness of the internal audit function; and be informed of resignations of internal audit staff members and provide the resigning staff members an opportunity to submit reasons for resigning. We refer to CMCGG of 2003 because, USE is regulated by the Capital Markets Authority (CMA). However, the CMCGG of 2003 do not mention any role of the IAF. On the contrary, Section 48 of PFMA 2015 states the internal audit function roles as appraisal of the soundness and application of the accounting, functional and operational controls of a vote; evaluating the effectiveness and contributing to the improvement of risk management processes of a vote; and providing assurance on the efficiency, effectiveness and economy in the administration of the programmes and operations of a vote.

Despite increased corporate governance disclosure requirements for example Audit Committee Charter, no similar requirements exist for the IAF or its charter in developing economies

especially in the African context that is universally accepted. Given that private and public companies are not required to make disclosures about their IAF charter (if one exists), researchers are limited in their ability to examine the roles and responsibilities of the IAF, using publicly available information and this means that decisions are not taken based on a full set of facts especially in the developing countries. Accordingly, prior research (Soh and Martinov-Bennie, 2011; Carcello et al., 2005; Castanheira et al., 2010) into the roles of the IAF has been mainly enabled through surveys of heads of internal audit and Chairpersons of audit committees. Gramling et al. (2004) suggested that the internal audit activities typically includes risk assessment, control assurance and compliance work, all of which map directly into corporate governance. Other areas where internal audit can concentrate include offering consultancy services to management, and the performance of quality, health, safety and environmental audits (Soh and Martinov-Bennie, 2011). The Chartered Institute of Internal Auditors stipulates that Internal Audit should include within its scope: the design and operating effectiveness of the internal governance structures and processes; the information presented to the board and executive management and; the processes and controls supporting strategic and operational decision making.

The government of Uganda charter of internal audit functions (2008, p.2) sets the scope of internal audit function to include the investigation and appraisal of the adequacy and effectiveness of the ministries/departments/agencies system of internal control and quality of performance by carrying out the following assigned responsibilities: Review and report on the system for generating financial information and data, and on the reliability and integrity of financial statements and other related accounting and financial information; Conduct systems audit to ascertain whether or not internal controls are appropriate to the entity, and whether or not they are operating effectively and efficiently; Conduct Value for Money audits on key activities of the public sector entity to ascertain whether or not value has been obtained (efficiency, effectiveness, and economy); Conduct risk management audits to ascertain whether or not management has set procedures for risk identification and management including frauds and money laundering; Conduct environment audits to ascertain whether or not management has put in place procedures for identifying environmental risks in its activities, and for ensuring that these environment risks are monitored and managed appropriately; Conduct periodic reviews to confirm whether or not Government policies and specific applicable instructions are followed, and confirm whether or not management is complying with all applicable legislations and regulations; Review management arrangements for ensuring that objectives and values of the entity are being achieved; Conduct reviews on various projects implemented by the entity and report on project management, implementation, and conduct post implementation reviews; Conduct reviews on resource acquisition, deployment & utilization, disposal and whether there are appropriate and adequate arrangements for safe custody of Government assets; Conducting special audits and investigations as it may be requested by a competent authority. Similarly, the model internal audit activity charter suggested by the Institute of Internal Auditors outlines the roles and responsibilities of internal auditors (IIA, 2013, p.2) as the following:

- Evaluating risk exposure relating to achievement of the organization's strategic objectives;
 - Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
-

- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organization's risk management processes;
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board; and
- Evaluating specific operations at the request of the Board or management, as appropriate.

A study conducted by Ebaid (2011) found out that 94 percent of internal audit time in Egyptian listed firms is spent on financial audit and internal controls activities while the remaining 6 percent of internal audit time is spent on risk management activities, consulting activities, and corporate governance activities. Further, Ebaid (2011) found out that internal auditors in the Egyptian listed firms do not include in their activities value addition to an entity's operations and this calls for a change in the performance of roles. A study carried out by Agumas (2015) in the Ethiopian public sector found out that the governance process role of internal audit function is positively related with the existence of competent staff and compliance with professional audit standards. Internal audit function will perform their roles of risk management and review of the effectiveness of internal controls (Agumas, 2015) when there is existence of compliance with international standards on auditing and other national laws regarding auditing, unrestricted access to books of accounts and any other necessary information, formal mandate, top management support and competent leadership as well as adequate funding.

2.2 IAF challenges

After and during the financial scandals in the early 2000s, Enron, or at least one that took place during the last economic crisis, Lehman Brothers, people wondered whether the internal audit department in various corporations existed or not. Chambers and Odar (2015) concludes that if one accepts that internal audit is one of the gate keepers that failed during the economic crisis in Asia and the financial scandals in the UK and USA, we must provide remedies and one such remedy provided by Chambers and Odar (2015) is to strengthen risk management function of internal audit. Lenz and Sarens (2012) in their research testified that the IAF in these companies that collapsed in the early 2000s had identified many shortcomings, but these warnings were ignored. The supervisory committees were not focused on reducing risk exposure and general importance of the IAF.

In the ancient times, internal auditors reported to mid-level accounting management and later to the finance director and then to the chief executive (who is at the executive apex of all business processes). Currently, it is important that internal auditors report directly to board especially to the audit committee of the board which handles all issues regarding internal audit. In Uganda's public

sector, internal auditors report to the audit committee and to the internal auditor General and for that case there is no clear reporting line (PFMA, 2015). In the private sector, each firm has its own internal audit charter and there is no universally accepted reporting line for internal auditors in Uganda. However, the Institute of Corporate Governance in Uganda puts it clear that internal auditors report to the Board of Directors but this is not enforceable.

Agumas (2015) identified a number of challenges facing the internal audit function in Ethiopia's public sector and these are; lack of independence, unclear formal mandate, restricted access to some areas of Government operations, insufficient funding, incompetent leadership and lack of management support. Internal auditors are faced by environmental related challenges such as management support and other factors like budget allocations, employment arrangements and audit committee strength which before external auditors rely on their work must evaluate (Bame – Aldred et al., (2013). Bota-Avram (2009) identifies the development of skills as a very important challenge facing internal auditors in today's environment and this can partly be handled by emphasizing continuous professional development programmes that may be costly for the firm. Similarly, an exploratory study conducted on listed firms in Egypt by Ebaid (2011) reveals that, the IAF has low levels of organizational independence, management support and qualified internal audit staff. Given the above challenges, the researchers are further motivated to confirm whether these challenges exist in Uganda and if there are any further challenges faced by the internal audit function 6 years later after Ebaid's study of listed firms in Egypt.

2.3 Internal audit challenges and internal auditor role-performance

How the internal audit challenges have impacted on internal audit role performance has not yet (as far as we are aware) been empirically examined. According to Mihret and Grant (2017), "the whole process of internal audit evidence-gathering, undertaken with the cooperation of the auditee, presumes auditees' self-knowledge [and] because the effectiveness of internal auditing as a surveillance mechanism depends on whether the auditee has knowledge of when audits are to be conducted" the authors propose that "Auditees will tend to be suspicious of the role of internal auditing and thus be minimalist in their cooperation with (or support of) internal auditors because auditing may be perceived as a surveillance tool with a disruptive impact on the regular activities of the organization" (p.707). We argue that if for example, there is scope limitation or internal audit recommendations are not implemented, this will serve to demotivate internal auditors in executing their mandate, going forward. Moreover, if internal audit staff are not supported to further their professional careers this will thwart the development of internal auditors' skillsets. Yet broadening the skillset of internal audit departments may influence the perceived value of the internal audit and its acceptance by internal audit stakeholders (Mihret and Grant, 2017). A study by Christopher et al (2009) critically analysing independence of internal audit function in Australia found that internal audit long-term was rare because of their movement to other functions of a company. Thus suggests a lack of support to further internal auditors' professional careers. As a result we conjecture a negative relationship between internal auditor challenges and internal audit role-performance.

3. Methodology

Research design and sample

The study adopts a cross sectional and mixed methods design to examine the currently perceived internal audit roles and challenges facing internal auditors in performing their roles. We study all 16 listed companies on Uganda Securities Exchange during the month of May 2017. The respondents were Chief Audit Executives (CAEs), Internal Audit Managers (IAM), Senior Internal Audi-

tors (SIA), Internal Audit Officers (IAO) and Internal Audit Assistants (IAA). The CIAs were selected because of their experience, knowledge and participation in strategic decision making. The senior internal auditors were selected because of the presumed diverse knowledge and participation in operational decision making. The internal auditors and Audit assistants were selected since they are the most involved in the day to day activities (actual auditing). The choice of the participants is similar to other recent similar studies exploring IAF (see Ebaid, 2011; Soh and Martinov-Bennie, 2011).

Of the 16 firms listed on Uganda Securities Exchange, only 13 firms have internal audit staff at their headquarters in Uganda. Other firms operate without an internal audit department but use internal auditors from their headquarters outside Uganda. Responses were received from 13 firms who at least had a sitting internal auditor in Uganda. Usable questionnaires were received from 60 respondents. Of the 60 respondents, 12 were CAEs, 20 were IAMs, 10 were SIAs and 18 were IAOs. 73% were males while females were 27%. 70% had a first degree, 27% had a master's degree and 3% had other academic qualifications while 97% of the respondents had professional qualifications. 33% of the respondents had been in professional service for 5 years and below while 50% had served in the accountancy profession for a period of above 5 years but below 10 years while 17% had served for more than 10 years. All the respondents had the necessary knowledge and expertise to respond to the questionnaire. 10 Chief Audit Executives were interviewed while 3 were out of office on official leave.

Data collection instruments, reliability and Validity

This study used both the questionnaire and interview guide. The questionnaire contained both closed and open-ended questions. The questionnaire was used to confirm the relevant internal audit roles, and challenges facing internal auditors. The interview guide is used as a supplement the questionnaire. The questionnaire is divided into 3 sections: Section A for background information, section B for documented internal audit roles and challenges and section for open-ended questions. The questions were anchored on a 4 point Likert scale. The anchors for internal auditor roles ranged from strongly disagree (1) to strongly agree (4) while those of internal auditor challenges were reversed on the same scale. The interviews are employed in this study primarily to gain an in-depth understanding of the subject matter under study and has been used in previous studies (Kaawaase et al., 2016; Katamba et al., 2012; Ebaid, 2011; Soh and Martinov-Bennie, 2011; Jamali et al., 2010).

In terms of reliability, the Cronbach α values were 0.834 (for internal auditor challenges) and 0.960 (for perceived internal auditor roles) indicating reliability of the instrument (De Vellis 2003; Nunnally, 1978). These compared well with Dillon-Goldstein's rho (D.G rho) which according to Chin (1998), is considered to be a better indicator than Cronbach's alpha. In terms of validity, we used average variance extracted (AVE) as a criterion of convergent validity and according to Fornell and Larcker (1981), an AVE value of at least 0.5 indicates sufficient convergent validity, meaning that a latent variable is able to explain more than half of the variance of its indicators on average (Gotz, Liehr-Gobbers, & Krafft, 2010). Similarly we assessed discriminant validity using the Fornell and Larcker (1981) criterion that states that the AVE of each variable should be greater than the latent variable's highest squared correlation with any other latent variable. The analysis showed that these two validity criteria were met.

Data analysis

We performed the required analyses from closed ended questions with the help of SPSS and XLSTAT 2016-partial least square modeling. Responses from the interview guide and open-ended questions were analyzed through cross case analysis (transcript analysis) (Miles and Huberman, 1994) that is, qualitative data analysis contains three linked sub-processes: data reduction, data display and draw-

ing conclusions. First, we wrote stories from interviews. The post-interview analysis of the transcripts involved a detailed search for underlying themes in the evidence collected. Second, following the initial transcripts studied, a comprehensive coding system was developed intuitively so as to facilitate the identification of issues and themes emerging from the transcript analysis (“open coding”), as outlined by Parker and Roffey (1997). Third, in line with Huberman and Miles (1994), matrices and templates summarizing the themes identified were developed in order to display the core issues emerging from the coding process. That aided in identifying cross-case patterns in the data, with predominant ones becoming evident partially by mapping the relative incidence of different codes. Detailed examination of these matrices therefore enabled us to recognize regular patterns and explanations in the evidence collected. Lastly, detailed field notes, memos, interview summaries and post-interview analyses were studied and analyzed together with the matrices and templates outlined above. Doing this enabled us to formulate descriptions of the interview findings written in the form of a narrative, thereby plotting the thought processes of the respondents interviewed. These were then used to augment the results of analyzing the questionnaire data.

4. Results and discussion

The perceived internal audit roles

This study’s first research question was to find out the currently perceived internal audit roles. This research question was answered by first, examining those existing documented internal audit roles that are relevant for Uganda and second, by asking respondents to write down those internal audit roles not in their respective firm’s internal audit charter which can be performed by an internal auditor or are already being performed by the internal auditor. Third, we interviewed the CAEs to find out whether internal auditors perform roles that are outside the Internal Audit Charter (IAC) or if IAs can perform other roles other than those in the respective firm’s IAC and in existing literature. Table I results indicate those relevant roles for internal auditors in Uganda among those documented. However, using Partial Least Square Modeling we confirmed eight (8) most perceived internal auditor roles out of the thirty five (35) originally identified per Table I. These confirmed roles can be taken as the most relevant internal auditor roles in Uganda. Table II shows these roles.

	Min	Max	Mean	Dev
Internal Audit in this entity reviews the system for generating financial information.	3.00	4.00	3.700	0.466
Internal Audit in this entity reviews the reliability of financial statements and other related accounting and financial information.	2.00	4.00	3.567	0.568
Internal Audit in this entity reports on the system for generating financial information.	2.00	4.00	3.633	0.556
Internal Audit in this entity reports on the reliability of financial statements	1.00	4.00	3.500	0.682
Internal Audit in this entity reports on the reliability of other related accounting and financial information	1.00	4.00	3.433	0.679
Internal Audit in this entity conducts systems audit to ascertain whether or not internal controls are appropriate to the entity.	3.00	4.00	3.700	0.466
Internal Audit in this entity assesses whether or not internal controls are operating effectively	3.00	4.00	3.867	0.346
Internal Audit in this entity conducts Value for Money audits on key activities of the entity to ascertain whether or not value has been obtained (efficiency, effectiveness, and economy).	1.00	4.00	3.633	0.718
Internal Audit in this entity conducts risk management audits to ascertain whether or not management has set procedures for risk identification.	2.00	4.00	3.733	0.521
Internal Audit in this entity conducts risk management audits to ascertain whether or not management has set procedures for risk management including frauds and money laundering.	2.00	4.00	3.767	0.504
Internal Audit in this entity conducts environment audits to ascertain whether or not management has put in place procedures for identifying environmental risks in its activities.	1.00	4.00	2.433	1.104
Internal Audit in this entity conducts environment audits to ascertain whether or not management has put in place procedures for ensuring that these environment risks are monitored.	1.00	4.00	2.400	1.102
Internal Audit in this entity conducts environment audits to ascertain whether or not management has put in place procedures of managing risks appropriately.	1.00	4.00	2.400	1.102
Internal Audit reports the entity's significant risk exposures to those charged with governance.	2.00	4.00	3.733	0.521
Internal Audit evaluates risk exposure relating to the achievement of this organization's strategic objectives.	2.00	4.00	3.767	0.504
Internal Audit in this entity conducts periodic reviews to confirm whether or not company policies and specific applicable instructions are followed.	3.00	4.00	3.800	0.407
Internal Audit in this entity conducts periodic reviews to confirm whether or not management is complying with all applicable legislations and regulations.	2.00	4.00	3.700	0.535
Internal Audit in this entity reviews management arrangements for ensuring that objectives of the entity are being achieved.	2.00	4.00	3.733	0.521
Internal Audit in this entity evaluates the operations of the entity to ascertain whether results are consistent with established objectives	3.00	4.00	3.733	0.450
Internal audit evaluates whether operations or programs of an entity are being carried out as planned.	2.00	4.00	3.567	0.568
Internal Audit in this entity evaluates the means of safeguarding company assets.	2.00	4.00	3.567	0.626
Internal audit in this firm verifies the existence of company assets	2.00	4.00	3.633	0.556
Internal Audit in this entity conducts special audits and investigations as it may be requested by a competent authority.	1.00	4.00	3.433	0.774
Internal Audit in this entity evaluates the operating effectiveness of the governance structures and processes.	2.00	4.00	3.700	0.535
Internal Audit in this entity are involved in the processes and controls supporting strategic decision making.	1.00	4.00	2.833	1.020
Internal Audit in this entity are involved in the processes and controls supporting operational decision making.	1.00	4.00	2.500	1.075
Internal audit in this firm develops an annual work plan	3.00	4.00	3.833	0.379
Internal audit supports the Audit committee in performing its duties in this firm	2.00	4.00	3.800	0.484
Internal audit in this firm administers the whistle blower system	1.00	4.00	2.700	1.022
Internal audit in this firm participates in business improvement processes	1.00	4.00	3.200	0.925
Internal audit is a value addition activity in this organization	3.00	4.00	3.800	0.407
Internal audit informs managers and governors about how well the systems and processes designed to keep this firm on track are working	2.00	4.00	3.833	0.461
Internal audit in this entity helps to improve the entity's system and processes	1.00	4.00	3.767	0.626
Internal audit in this entity evaluates the quality of external auditors	1.00	4.00	2.067	1.048
Internal audit in this firm evaluates the degree of coordination with external auditors	1.00	4.00	2.333	1.061

Audit roles & challenges

Table I:
Descriptive Statistics for Internal Audit Roles

Source: Primary data

	Item code	Item loadings	Cron bach α	D.G. rho	AVE
Perceived Internal Auditor Roles					
Internal Audit in this entity reports on the system for generating financial information.	IAR3	0.967	0.960	0.967	0.782
Internal Audit in this entity reports on the reliability of financial statements	IAR4	0.840			
Internal Audit in this entity conducts periodic reviews to confirm whether or not management is complying with all applicable legislations and regulations.	IAR17	0.905			
Internal Audit in this entity reviews management arrangements for ensuring that objectives of the entity are being achieved.	IAR18	0.874			
Internal Audit in this entity evaluates the means of safeguarding company assets.	IAR21	0.876			
Internal audit in this firm verifies the existence of company assets	IAR22	0.919			
Internal Audit in this entity evaluates the operating effectiveness of the governance structures and processes.	IAR24	0.848			
Internal audit supports the Audit committee in performing its duties in this firm	IAR28	0.844			

Table II:
Confirmed
factors for
perceived
internal
auditor
roles

Source: Primary data

Source: Primary data

In Uganda (as can be seen from Table II), environmental audits and special investigations are not considered by some internal auditors as critical roles to be performed. One possible reason for this is capacity gaps. This can be supported by one of the responses during the interview session, but as will be seen later, other internal auditors actually perform such tasks.

“[...] we have capacity to handle our audit plan but we do not have capacity to handle what our stakeholders ask us to do. Our major stakeholders are board, Bank of Uganda, external auditors, management and the group auditors. All these stakeholders send us requests but we cannot handle all of them since we do not have capacity for such requests”

Similarly, it appears that the internal auditors do not consider administering the whistleblower system, evaluation of the quality of external auditors and the degree of coordination with external auditors as their critical roles. It appears not critical for internal auditors in Uganda to be highly involved in processes and controls supporting operational and strategic decision making. Surprisingly, not all that is documented in the internal audit charter in some firms is considered critical by internal auditors for example in one firm, the internal audit charter states that the internal audit shall review and monitor variances against business plans and annual budgets and to ensure they are in line with the organisation's objectives but this is not done (see the excerpt below)

“[...] yes, to me, we fulfill all the responsibilities contained in the charter but we do not monitor variances against business plans and annual budgets since these documents are not availed to us. We do not follow up on external auditor's recommendations and we do not perform specialized audits. We do not perform extensive IT audits. Whereas all that I have said is our role as internal audit and is clearly shown in the charter, our charter is ancient and has not been updated for quite some time. There is need to update the internal audit charter at least every end of year since the world is undergoing rapid developments especially in IT”.

Other than those roles from literature and from the internal audit charters of various firms, some internal auditors in Uganda can provide advisory and consulting services in all aspects of the firm. So internal auditors can also perform environmental audits and special audits as well. From the analysis of open ended questions, internal auditors in Uganda spend time in providing advisory services like identifying the firm's potential new business lines and locations, providing factual advice on information systems prior to their acquisition and installation, and perform consultative reviews to provide the firm with independent insights to projects that the firm is running. Other roles that can be performed by internal auditors include carrying out special investigations, auditing outsourced services, improving integrated reporting, conducting extensive systems audits, training other staff on various aspects especially on the new regulations and reporting frameworks, participating in strategic planning and performance measurement, auditing accountabilities and customer complaints, adding value by helping to improve operations instead of only identifying areas of weaknesses, observing the life style of employees and audit their fancy life to establish their sources of incomes and auditing of security guard services. The following are some of the excerpts that exemplify.

"[...] environmental audits can be conducted by the internal auditor. The key issues under environmental audits include: breaking laws that are aimed at limiting pollution of earth, water and air; not meeting recycling targets set by government; loss of reputation and public image as result of failure to comply, in terms of publicity, fines or closure of certain business activities"

"[...] yes, we perform other roles not included in the charter for example we provide advisory, consulting and special investigations. We advise management on various challenges say if there is anything to decide about, internal audit is engaged. We can also investigate human resources especially employees' discipline and lifestyle"

"[...] internal auditors may encourage companies to shift from traditional reporting to integrated reporting which is the modern way of reporting on company activities"

"[...] internal auditors can audit outsourced service providers especially those that store offsite company key data on their capacity and confidentiality safeguards"

"[...] the audit of more technical areas of the business such as IT systems should be an area of major concern given that companies have moved away from manual processing of transactions to computerized systems"

"[...] observe the lifestyle of the employees. This can be in terms of the way they dress, gadgets being held in relation to the salary they earn. This helps to identify the risk of pilferage/ fraud in the entity. Auditors can also monitor the security within the entity for example the security guards at the entrance, receptionist, registering before one accesses the head office, need of visitor's identity card. This is all improving and enhancing internal controls"

Challenges faced by internal auditors in fulfilling their mandate

The second research question sought to establish the currently perceived internal audit challenges in Uganda. Table III results indicate those challenges internal auditors face in Uganda. All internal auditors perceived a number of challenges in fulfilling their mandate. On a scale of 1-4 ranging from 1 (strongly agree to 4 strongly disagree), in Table III it can be discerned that (using mean values) it is

generally agreed that internal auditors face challenges in carrying out their mandate. However, using Partial Least Square Modeling we confirmed five (5) most perceived internal auditor challenges out of the twenty (20) originally identified per Table III. These confirmed roles can be viewed as the most nagging internal auditor challenges in Uganda. Table IV shows these roles.

Table III:
Descriptive
Statistics for
challenges
Internal
Auditor
challenges

	Min	Max	Mean	Std. Dev.
In this organization, internal audit lacks adequate funding	1.00	4.00	1.933	0.944
In this organization, internal audit does not report to the audit committee	1.00	4.00	1.100	0.548
Internal audit has no independent budget in this organization	1.00	4.00	1.800	1.157
Internal audit activities are not given full support of management	1.00	3.00	1.567	0.817
Internal audit remuneration is lower than that for other officers in other departments in this company	1.00	4.00	2.267	1.143
Internal audit staff are not trained frequently in this organization	1.00	4.00	1.767	0.858
The internal audit department of this company has no vision	1.00	3.00	1.100	0.403
The internal audit department of this company has no mission	1.00	2.00	1.067	0.254
There is no clear mandate of internal audit in this company	1.00	2.00	1.067	0.254
Internal audit staff in this firm are not full members of professional bodies	1.00	3.00	1.500	0.777
Chief internal auditor of this organization is not a professional accountant	1.00	2.00	1.033	0.183
Other internal auditors are not professional accountants in this organization	1.00	3.00	1.767	0.858
The audit committee does not approve the internal audit budget in this organization	1.00	4.00	1.500	0.820
The internal audit does not have sufficient staff	1.00	4.00	1.733	0.944
The internal audit in this organization is not perceived as a value addition function	1.00	4.00	1.767	0.971
Internal audit recommendations are not worked upon by management	1.00	3.00	1.467	0.629
Internal audit is restricted to access of information in this entity	1.00	4.00	1.300	0.702
Internal audit cannot compel any officer of the organization to provide information	1.00	4.00	1.267	0.640
Internal auditors are not motivated to perform their duties in this organization	1.00	4.00	1.533	0.819
Internal audit staff are not supported by this firm to further their professional careers.	1.00	4.00	1.533	0.973

Source: Primary data

Table IV: Confirmed internal auditor challenges

	Item code	Item loadings	Cronbach α	D.G. rho	AVE
Internal Auditor Challenges			0.834	0.883	0.583
Internal audit recommendations are not worked upon by management	CIA16	0.725			
Internal audit is restricted to access of information in this entity	CIA17	0.767			
Internal audit cannot compel any officer of the organization to provide information	CIA18	0.803			
Internal auditors are not motivated to perform their duties in this organization	CIA19	0.820			
Internal audit staff are not supported by this firm to further their professional careers.	CIA20	0.760			

Source: Primary data

Table IV:
Confirmed
internal
auditor
challenges

From the analysis of open ended questions, it is evident that all the above challenges exist in addition to internal audit being perceived as non-value adding, benchmarking challenges and hostile auditees. Internal auditors are stuck with handling fraud given that fraud has become sophisticated and requires a high class of systems and trained staff. The following excerpts from interviews and open-ended questions can explain the situation further.

“[...] there is one big challenge in this work. In Uganda, fraud is so high and it involves staff dealing with fraudsters outside the bank. Fraud involving staff is very hard to detect but as auditors, we must try to prevent it. Staff are under pressure of paying school fees, buying gifts for their loved ones and meeting other private errands. It is unfortunate that we as auditors cannot stop it as sometimes our recommendations are not implemented. Unfortunately, in this bank we are only 2 internal audit staff and my colleague is my secretary. I am the only practical auditor auditing 26 branches and I am expected to be everywhere”

“[...] yes, there are challenges. Auditees do not want to give information. Auditees perceive us to be only fault finders and do not want to associate with us. Management does not appreciate our work. Issues of salaries negatively impact on our motivation and the low funds availed to us also affect our operations. Indeed, the issue of independence is real. We do not have independence. Personally, my CEO has a final say on my stay and he determines my salary and my budget to run the department”

Asked about what could be done to allay such challenges, internal auditors suggested that if internal audit reports are tagged to staff's performance appraisal, then employees and management will appreciate the work of internal audit. It is important that management and employees are sensitized on the roles of internal audit and informed that internal audit aims at improving the operations of the organization. Internal auditors may also benchmark other firms both within and outside the country in the same industry. The independence of internal audit is hard to achieve but at least management and those charged with governance as well as the regulator can emphasize on the internal audit having an independent budget approved by the Board Audit Committee. Internal audit staff need to be trained in systems audit and soft skills. One CAE explained that:

“[...] the mechanism we have put in place to minimize fraud is by being careful at the point of recruitment of staff. Information is sought from different sources like the village of origin, police and former schools and universities. Once a staff is suspected to be involved in fraud, he or she can immediately be put under tight surveillance. We carry out impromptu visits both at the main branch and other branches”

“[...] management may decide to use our audit reports as an evaluation tool for other staff though this may have issues with IA relationship with other staff at a personal level. Tagging our audit reports to performance appraisal, there is likely to be audit quality.”

Internal auditor challenges and internal auditor roles' performance

Given the prevailing challenges the internal auditors face, as a corollary, we sought to examine the extent to which internal auditor challenges could inhibit the performance of internal auditor roles in the Ugandan environment. Results in Table V and in Figure I show that internal auditor challenges are negatively related with internal auditor roles' performance ($\beta = -0.557$, t -value = -3.55 , $p < 0.01$). This means that an increase in challenges are associated with decreases in internal auditor role performance. This suggests that organizational practices such as failure to act on internal audit recommendations by management, and restricted access to information in an entity, inter alia, only serve to reduce internal auditor role-performance. To assess the structural model, we evaluated the path coefficient (β), coefficient of determination (R^2), the effect size and the t -statistics. Table

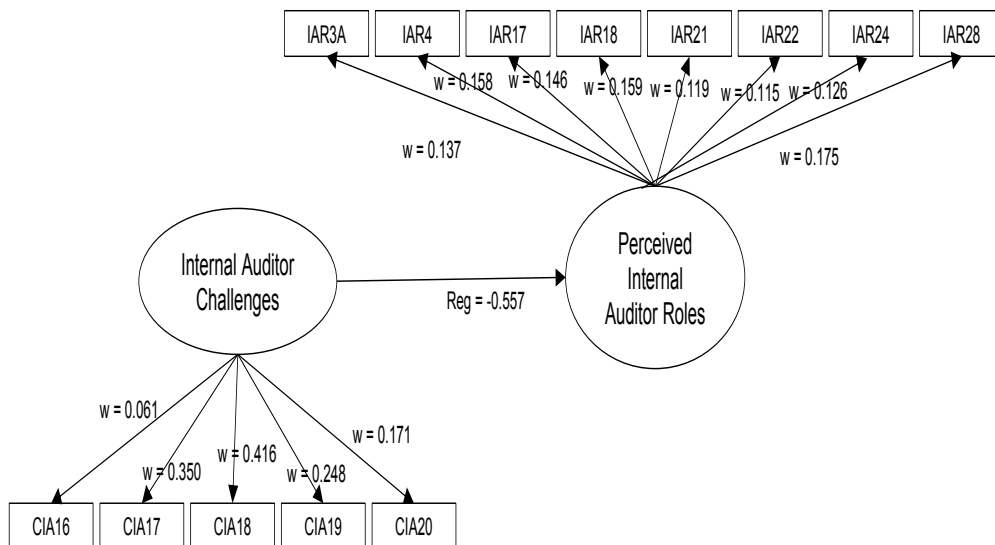
V indicates that internal auditor challenges explain 31% variation in perceived internal auditor roles ($R^2 = 0.310$). The effect was assessed by examining the (f^2) as recommended by Henseler and Sarstedt (2013). We examined the effect size basing on Hair et al (2013) who describes the criteria for evaluation of the size effect. According to the authors, f^2 values of 0.02, 0.15 and 0.35 respectively indicate small, medium and strong effects on the endogenous variable. The effect size of internal auditor challenges on the perceived internal auditor roles is considered strong ($f^2 = 0.450$) confirming a strong negative relationship between internal auditor challenges and perceived internal auditor roles'-performance. In terms of model plausibility, it is also unlikely that the F (12.60), that large, could occur by chance.

Table V: Path coefficient and model assessment

	Values	Contribution	t Value	CR
Internal auditor challenges	-0.557**	100%	-3.55	1.766
R^2	0.310			
Adjusted R^2	0.310			
F	12.60			
Pr > F	0.001			
Pr > t	0.001			
f^2	0.450			

Note: ** $p < .01$

Table 2: Path Diagram



Based on the present results, what internal auditors perceive as their roles are: reporting on the system for generating financial information and on the reliability of financial statements; conducting periodic reviews to confirm whether management complies with all applicable legislation and regulation; review of whether management ensures company objectives are met; evaluating means of safeguarding company assets and also verifying their existence; evaluating operating effectiveness of governance structures and processes and, supporting the audit committee in its oversight functions. Because the most perceived roles of internal auditors in Uganda are few relative to those identified in the model charter by IIA (2013) the results substantiate those of Ebaid (2011) that revealed that internal audit function in Egyptian listed firms was in infancy only focused on financial audit and internal controls compliance and not yet moved towards the expanded new role explained in Institute of Internal Auditors's new definition. However, it is noteworthy that Ugandan listed firms' internal auditors may perform other roles other than those in the internal audit charter and also that not all the roles contained in the internal audit charter are performed by internal auditors.

The negative perception about internal audit is challenging across the globe and even in Uganda. Internal auditors are expected to be everywhere in the firm and report whatever takes place. The employees are hesitant to giving information to internal auditors who are seen as only fault finders and not value adding. Issues of inadequate funding, minimal support from management and independence issues are common. Whereas Chambers and Odar (2015) argued that internal audit is one of those corporate governance gatekeepers that failed to detect or even prevent the global financial crisis, it is implied in this study that internal auditors' challenges impact negatively on their role-performance.

5. Conclusion and implications

The purpose of this study was twofold: 1) to explore the perceived Internal Audit (IA) roles and challenges faced by internal auditors in fulfilling their mandate among listed firms in Uganda and 2) examine the extent to which internal auditor challenges could inhibit the performance of internal auditor roles. We put forward three research questions relating to the perceived internal audit roles, internal auditor challenges and the potential impact of the challenges and roles'-performance. We find eight (8) most perceived internal auditor roles in Uganda such as 'internal audit reports on the system for generating financial information'. Many of these roles suggest that internal auditors perceive their roles consistent with traditional ones that were designed to safeguard firm's assets and assist in the production of reliable accounting information for decision-making purposes. We also find five (5) most perceived internal auditor challenges such as 'internal audit recommendations are not worked on by management'. Furthermore, these internal auditor challenges explain about 31% variation in perceived internal auditor roles. As the internal auditors face many difficulties is therefore difficult to see how they could perform their perceived roles effectively and there after embark on their expanded roles as espoused in the model charter of IIA.

These finding have important implications for researchers and for policy-makers and practitioners. The present study's findings cast doubt about effective performance of internal auditors' roles in Uganda and therefore massive support should be extended in elevating the internal audit status in Uganda. The results of this study should inform deliberations of the regulators, standard setters and policy makers. Indeed, the research results are useful for policy formulation especially the regulators of listed firms, governments and the institute of internal auditors on what to focus on in the context of addressing internal auditor challenges. Especially, the results are relevant for external auditors who are required under the ISA to consider various aspects of corporate governance like IAF, identifying and assessing the risks of material misstatement through understanding the entity and its environment (ISA 610, 2016; ISA 315, 2016). We believe that the findings in this paper will help

internal auditors in Uganda and other similar settings to evaluate themselves in the context of their perceived role performance and therefore the paper contributes to the scant literature existing on IAF in emerging economies. Moreover, the study contributes towards a methodological position of mixed methods design by producing results from a smaller sample augmented by interview results in an environment characterized by smaller populations so that inferences can be made. However, owing to relatively small sample size, these findings should be interpreted with caution. CAEs and other internal auditors were the respondents while other core stakeholders like management and the board audit committee were not included in the study. However, this study's findings are still important and can be generalized to Uganda and other similar environments' listed firms. If internal audit function appears incipient in listed firms in this environment, it could be a worthwhile endeavor to establish what it is like in non-listed firms.

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