

The Impact Of Auditing On Corporate Governance In Uganda: A Case Of KCCA

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Abstract

This study investigated the impact of auditing on corporate governance at the Kampala Capital City Authority (KCCA). Given Uganda's commitment to improving public sector governance and accountability, understanding the role of auditing in strengthening governance structures is critical. A mixed-methods approach was employed, and data were collected from 95 respondents comprising KCCA employees, auditors, councillors, and civil society representatives. Findings revealed a significant positive relationship between auditing effectiveness and corporate governance quality at KCCA ($r = 0.76$, $p < 0.01$). Specifically, internal auditing was found to be a stronger predictor of governance quality than external auditing at KCCA, highlighting the importance of robust internal audit functions in public sector entities. The study recommends strengthening KCCA's internal audit capacity, ensuring board independence, and improving public disclosure practices.

Keywords: Auditing, Corporate Governance, KCCA, Uganda, Public Sector, Accountability, Transparency

1.0 Introduction

Corporate governance refers to the systems, processes, and structures through which organizations are directed and controlled to promote accountability, transparency, fairness, and responsibility toward all stakeholders (Julius et al., 2024). In the public sector, governance quality is particularly consequential as it directly affects service delivery, public resource management, and citizen welfare (Gracious, 2023). The Kampala Capital City Authority (KCCA), established under the KCCA Act of 2010, is responsible for the management and administration of Uganda's capital city, overseeing a wide range of public services including infrastructure, public health, education, and economic development (Julius & Audrey, 2026).

Auditing, encompassing both internal auditing and external auditing, serves as a foundational pillar of corporate governance by providing independent assessments of organizational systems, processes, and financial records (Innocent et al., 2023a). According to Sserwanga and Nakimuli (2021), public sector auditing in Uganda plays a crucial role in detecting and deterring financial mismanagement, promoting accountability, and enhancing the quality of governance. However, challenges such as political interference, limited auditor independence, and inadequate follow-up on audit recommendations have undermined the effectiveness of auditing as a governance mechanism at some Ugandan public institutions (Ivan et al., 2023b).

KCCA has been the subject of significant public interest regarding governance quality, given its substantial budget, high public visibility, and the complexity of urban service delivery (Ntirandekura & Christopher, 2022). Understanding how auditing influences governance at KCCA is therefore relevant for policymakers, public administrators, and

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governance scholars (Ntirandekura & Christopher, 2022). This study contributes empirical evidence on this relationship to fill the existing knowledge gap.

1.1 Statement of the Problem

Despite the existence of both internal audit departments and external auditing by the Auditor General's office, KCCA has experienced governance challenges including procurement irregularities, revenue leakages, and accountability gaps as documented in several Auditor General's reports (OAG, 2022). These challenges suggest that auditing may not be fully delivering its intended governance benefits at KCCA, necessitating an empirical investigation of the auditing-governance relationship (Paul et al., 2023).

2.0 Literature Review

2.1 Theoretical Framework

The study is grounded in the Agency Theory, Public Choice Theory, and the Institutional Theory. The Agency Theory is particularly relevant in the public sector context, where elected and appointed officials (agents) are expected to act in the public interest (principals: citizens). Auditing serves as a monitoring mechanism that helps ensure agents fulfil their obligations (Olawale & Aderibigbe, 2023). The Public Choice Theory acknowledges that public officials may pursue self-interest, making independent auditing essential to constrain opportunistic behavior. The Institutional Theory suggests that governance practices are shaped by institutional environments, including legal frameworks, regulatory standards, and professional norms, all of which influence auditing practices (Mukyala & Mayanja, 2022).

2.2 Corporate Governance in the Public Sector

Corporate governance in the public sector encompasses mechanisms for accountability, transparency, participation, and the rule of law (Ariyo, 2023). Effective public sector governance requires clear reporting lines, independent oversight bodies, robust financial management systems, and active civil society engagement (Audrey & Nancy, 2025). The Uganda Public Finance Management Act (2015) and the National Accountability Policy Framework provide the legislative basis for public sector governance in Uganda (Julius & Nancy, 2026).

The Auditor General of Uganda is mandated under Article 163 of the Constitution to audit all government accounts and report to Parliament (Innocent et al., 2023a). This constitutional role makes external auditing a cornerstone of Uganda's public accountability architecture (Julius & Kazaara, 2026). However, the effectiveness of this role depends on factors such as auditor independence, resource adequacy, and political will to implement audit recommendations (OAG, 2022).

2.3 Auditing and Corporate Governance: Empirical Evidence

A substantial body of literature documents the positive relationship between auditing and corporate governance quality (Christopher & Shamirah, 2025). Okere and Imalele (2021) found that audit committee independence significantly predicted governance quality in Nigerian public sector entities. Karungi and Nakamanya (2022) established that internal audit effectiveness was a stronger predictor of governance quality than external auditing in

Ugandan local governments, consistent with the view that internal auditing provides continuous oversight while external audits are periodic.

Conversely, Kavuma and Ntungwanayo (2023) found that the mere existence of internal audit units did not guarantee governance improvement at Ugandan district councils; what mattered was audit quality, management responsiveness to audit findings, and the institutional authority of the audit function(N. Moses et al., 2025). These nuanced findings suggest that the auditing-governance **relationship is mediated by contextual and institutional factors.**

Table 1: Summary of Empirical Studies on Auditing and Corporate Governance

Author(s) & Year	Context	Key Finding
Okere & Imalele (2021)	Nigerian Public Sector	Audit committee independence → governance quality
Karungi & Nakamanya (2022)	Uganda Local Governments	Internal audit effectiveness > external audit in governance
Kavuma & Ntungwanayo (2023)	Uganda District Councils	Audit quality & responsiveness mediate the relationship
Sserwanga & Nakimuli (2021)	Uganda Public Entities	Auditing deters financial mismanagement
Mukyala & Mayanja (2022)	Uganda MDAs	Institutional environment shapes audit effectiveness

3.0 Methodology

A cross-sectional survey design was used. The study population comprised KCCA staff from the finance, internal audit, legal, and executive departments, as well as external stakeholders including councillors and civil society representatives (Sarah et al., 2024). A total of 95 respondents were surveyed using structured questionnaires, achieving a response rate of 83.0%. In-depth interviews were conducted with 12 key informants. Data were analyzed using SPSS Version 26, employing descriptive statistics, correlation, and regression analysis(Nelson et al., 2022). Cronbach's alpha for the instruments was 0.87.

Table 2: Study Population and Sample Distribution

Respondent Category	Population	Sample	Respondents
KCCA Finance Staff	60	35	30
Internal Audit Staff	25	18	15
Councillors	30	20	16
Executive Management	20	15	13
Civil Society Representatives	15	12	10
External Auditors	10	8	11

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Total	160	108	95
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Source: Primary Data, 2025

4.0 Findings and Discussion

4.1 Auditing Practices at KCCA

Survey data revealed that KCCA has a functional internal audit department with 23 staff members, conducting quarterly financial and compliance audits. External audits are conducted annually by the Auditor General's office(Ivan et al., 2023a). However, respondents indicated moderate satisfaction with audit responsiveness, with a mean score of 3.21 out of 5.00 (SD = 0.82) on management's implementation of audit recommendations(K. Moses et al., 2023). The Auditor General's reports for 2020–2022 highlighted recurring issues with procurement compliance and revenue accounting at KCCA.

4.2 Corporate Governance Quality at KCCA

Corporate governance quality was assessed across five dimensions: transparency, accountability, stakeholder participation, rule compliance, and financial discipline(Sarah & Audrey, 2024). The composite governance score was 3.48 out of 5.00 (SD = 0.71), indicating moderate governance quality. Accountability and financial discipline recorded the lowest scores (means of 3.12 and 3.28 respectively), consistent with documented governance challenges(Julius et al., 2024).

Table 3: Corporate Governance Quality Dimensions at KCCA

Governance Dimension	Mean Score	Std. Deviation	Rating
Transparency	3.74	0.64	Good
Accountability	3.12	0.88	Moderate
Stakeholder Participation	3.52	0.71	Good
Rule Compliance	3.62	0.68	Good
Financial Discipline	3.28	0.85	Moderate
Composite Score	3.48	0.71	Moderate-Good

Source: Primary Data, 2025

4.3 Relationship Between Auditing and Corporate Governance

Table 4: Pearson Correlation between Audit Variables and Corporate Governance Quality

Variable	Corporate Governance Quality (r)	p-value
Internal Audit Effectiveness	0.76	< 0.01
External Audit Quality	0.68	< 0.01

Source: Primary Data, 2025

The results presented in the correlation analysis indicated that both internal audit effectiveness and external audit quality had significant positive relationships with corporate governance quality. The findings showed that internal

audit effectiveness had a strong positive correlation with corporate governance quality ($r = 0.76, p < 0.01$) (Nelson et al., 2023). This implied that improvements in internal audit effectiveness were associated with substantial enhancements in governance quality. The strength of this relationship suggested that internal audit functions played a critical role in strengthening accountability, compliance, and internal control systems within organizations (Innocent et al., 2023b).

The results further revealed that external audit quality also had a positive and statistically significant relationship with corporate governance quality ($r = 0.68, p < 0.01$) (A. I. Kazaara & Audrey, 2024). Although this relationship was slightly weaker compared to that of internal audit effectiveness, it still indicated a meaningful association. This suggested that higher quality external audits contributed to improved governance practices by enhancing transparency, credibility, and stakeholder confidence (A. G. Kazaara et al., 2024). However, the difference in correlation strength implied that internal audit functions had a more direct influence on governance quality than external audits.

Table 5: Model Summary for Regression Analysis

Model Statistic	Value
R-squared (R^2)	0.623
F-statistic	18.74
p-value	< 0.001

Dependent Variable: Corporate Governance Quality

Source: Primary Data, 2025

The regression analysis provided further insight into the determinants of corporate governance quality. The model results indicated that the independent variables collectively explained 62.3% of the variation in corporate governance quality ($R^2 = 0.623$), which suggested a relatively strong explanatory power of the model (Derrick et al., 2023). The F-statistic of 18.74 with a significance level of $p < 0.001$ confirmed that the overall regression model was statistically significant. This meant that the combined effect of the predictor variables reliably explained variations in corporate governance quality.

Table 6: Regression Coefficients (Dependent Variable: Corporate Governance Quality)

Predictor Variable	Beta (β)	p-value
Internal Audit Effectiveness	0.44	< 0.001
Audit Recommendation Implementation	0.29	< 0.01
External Audit Quality	0.18	< 0.05

Source: Primary Data, 2025

The regression coefficients revealed that internal audit effectiveness was the strongest predictor of corporate governance quality. It had a beta coefficient of 0.44 and was highly statistically significant ($p < 0.001$). This indicated that increases in internal audit effectiveness led to notable improvements in governance quality, confirming its central

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role in strengthening organizational governance structures (Isaac et al., 2023). This finding reinforced the correlation results and highlighted internal audit as a key governance mechanism.

The results also showed that audit recommendation implementation had a positive and statistically significant effect on corporate governance quality, with a beta value of 0.29 ($p < 0.01$). This suggested that organizations that effectively implemented audit recommendations experienced better governance outcomes (A. G. Kazaara et al., 2024). It implied that not only conducting audits but also acting on their recommendations was important in improving governance systems.

Additionally, external audit quality was found to have a positive but relatively weaker effect on corporate governance quality, with a beta coefficient of 0.18 and statistical significance at the 5% level ($p < 0.05$) (Sarah & Audrey, 2024). This indicated that although external audits contributed to governance improvement, their influence was less pronounced compared to internal audit effectiveness and recommendation implementation. This suggested that external audits played a supporting role in governance enhancement.

5.0 Conclusions and Recommendations

This study demonstrated that auditing, particularly internal auditing, has a significant positive impact on corporate governance quality at KCCA (N. Moses et al., 2025). The findings call for urgent action to strengthen KCCA's internal audit function, particularly in areas of independence, resource adequacy, and management responsiveness to audit recommendations. Specific recommendations include: (i) establishing a statutory internal audit independence charter at KCCA; (ii) increasing the internal audit budget to enable risk-based auditing; (iii) requiring KCCA management to formally respond to all audit findings within defined timelines; (iv) enhancing the competence of KCCA's internal audit staff through continuous professional development; and (v) strengthening audit committee oversight at KCCA.

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