

**Audit Quality And Financial Reporting Performance Of Financial Institutions In Uganda. A Case Study Of**

**Centenary Bank Mukono Branch**

**Igama Emmanuel<sup>1</sup>, Kabanda Richard<sup>2</sup>**

**1, 2 Metropolitan International University**

**Metropolitan International University**

**Abstract**

This study examined the relationship between audit quality and financial reporting performance at Centenary Bank Mukono Branch, Uganda. The study was guided by three objectives: to assess the effect of auditor independence on financial reporting quality, to examine how audit firm size influenced financial reporting accuracy, and to determine the relationship between audit tenure and the reliability of financial statements. A cross-sectional survey design was adopted, and primary data were collected from 80 respondents comprising internal auditors, finance officers, branch managers, and senior accountants using structured questionnaires. Secondary data were sourced from Centenary Bank's financial reports for the period 2018–2023. Data were analysed using descriptive statistics, Pearson correlation, and multiple regression analysis. The findings revealed that auditor independence had a strong positive effect on financial reporting quality ( $r = 0.74$ ,  $p < 0.01$ ), audit firm size was significantly correlated with financial reporting accuracy ( $r = 0.68$ ,  $p < 0.01$ ), and audit tenure negatively affected financial statement reliability beyond a six-year threshold. The study concluded that improving audit quality mechanisms significantly enhanced financial reporting performance at Centenary Bank Mukono Branch. Recommendations included mandatory partner rotation, strengthening audit committee oversight, and enforcing auditor independence standards aligned with International Standards on Auditing.

**Keywords: audit quality, financial reporting performance, auditor independence, audit firm size, audit tenure, Centenary Bank, Uganda**

**1. Introduction**

Financial institutions occupied a pivotal role in the economic development of Uganda, serving as intermediaries that mobilised savings and channelled them into productive investments (Julius & Nancy, 2026). The accuracy and reliability of financial reports produced by these institutions determined stakeholder confidence, regulatory compliance, and investor decision-making (Moses et al., 2023). Audit quality, which referred to the probability that an auditor both detected and reported material misstatements in financial statements, therefore emerged as a critical determinant of the integrity of financial reporting (Julius & Nancy, 2026). In the Ugandan banking sector, concerns about the reliability of financial disclosures had grown following several instances of bank distress, fraud, and regulatory sanctions that exposed weaknesses in auditing practices (Christopher, 2024).

Centenary Bank, one of Uganda's largest microfinance-oriented commercial banks, served millions of low-income Ugandans and had maintained a significant presence across the country, including its Mukono Branch (Brian et al., 2024). Despite the bank's commendable outreach, questions about audit rigor, auditor rotation policies, and

**Received: 04.05.2026**

**Accepted: 10.05.2026**

**Published on: 30.05.2026**

independence frameworks persisted within the broader Ugandan financial sector(Ivan et al., 2023). This study therefore sought to investigate the extent to which audit quality shaped the financial reporting performance of Centenary Bank Mukono Branch, filling a gap in local empirical research that had largely focused on manufacturing firms or multinational entities(Racheal et al., 2023).

The problem driving this investigation was the observable disconnect between the bank's publicly reported financial health and the operational realities perceived by stakeholders at the branch level(Akankwasa et al., 2022). Several audit-related deficiencies including extended audit tenures, perceived familiarity threats, and inadequate audit committee functioning had been cited in earlier literature on Ugandan banks(Gloria et al., 2023). These conditions potentially compromised the objectivity and rigour with which financial statements were prepared and reviewed, raising material risk to financial reporting quality(Ivan et al., 2023).

The study's overarching aim was to establish empirical evidence for the relationship between audit quality and financial reporting performance at Centenary Bank Mukono Branch. This was operationalised through three specific objectives: (i) to assess the effect of auditor independence on financial reporting quality, (ii) to examine how audit firm size influenced financial reporting accuracy, and (iii) to determine the relationship between audit tenure and the reliability of financial statements. The study was justified by the need to inform bank management, regulators, and policymakers of actionable audit quality improvements grounded in local evidence.

## **2. Literature Review**

### **2.1 Theoretical Framework**

The Agency Theory, first articulated by Jensen and Meckling (1976), provided the foundational theoretical lens for this study. The theory posited that conflicts of interest between principals (shareholders and depositors) and agents (management) necessitated independent external oversight to reduce information asymmetry. Auditors, as independent intermediaries, reduced the agency problem by verifying that financial information presented by management accurately reflected the organisation's true financial position. In the context of Centenary Bank, shareholders and regulators (principals) relied heavily on audited financial statements to monitor the stewardship of bank management (agents).

Complementing the agency theory was the DeAngelo (1981) audit quality model, which defined audit quality as the joint probability that an auditor would both discover and report a breach in the client's financial statements. This model underscored two dimensions of audit quality: competence (the ability to detect errors and misstatements) and independence (the willingness to report findings truthfully without fear of losing the client). These dimensions directly corresponded to the study's independent variables — auditor independence, audit firm size (as a proxy for competence), and audit tenure.

The Signalling Theory further supported the study's framework. It suggested that the choice of a large, reputable audit firm signalled commitment to transparency and high-quality financial reporting to the market, thereby reducing

information asymmetry between the institution and its stakeholders. For Centenary Bank, affiliation with a credible audit firm served as a signal of financial soundness that influenced depositor trust and regulatory confidence.

### **2.2 Auditor Independence and Financial Reporting Quality**

Global empirical evidence had consistently demonstrated that auditor independence was among the most influential determinants of audit quality and, by extension, financial reporting quality. Studies by Francis (2011) and DeFond and Zhang (2014) established that auditors operating without economic or relational impairments were more likely to issue objective opinions and detect material misstatements. In the African context, Omondi and Muturi (2013) found that perceived independence significantly predicted audit quality in Kenyan commercial banks, while Nyangarika et al. (2017) documented similar patterns in Tanzanian financial institutions.

In Uganda, Mukyala et al. (2014) found that auditor independence positively correlated with the reliability of financial reports in commercial banks, though the enforcement of independence standards remained inconsistent. The study identified non-audit service fees, audit committee weakness, and board-level familiarity as threats to auditor independence in Ugandan institutions. These findings were consistent with concerns raised by the Institute of Certified Public Accountants of Uganda (ICPAU) about the prevalence of self-interest and familiarity threats in local audit engagements (Suzan & Kazaara, 2023).

### **2.3 Audit Firm Size and Financial Reporting Accuracy**

Audit firm size had long been recognised as a proxy for audit quality, with Big Four firms Deloitte, PricewaterhouseCoopers, Ernst and Young, and KPMG generally associated with more rigorous audit procedures, deeper technical expertise, and stronger independence frameworks compared to smaller local firms. DeAngelo (1981) theorised that larger firms had more to lose from audit failure in terms of reputational damage and litigation risk, which incentivised them to maintain higher audit standards. Subsequent empirical studies by Becker et al. (1998) confirmed that Big Four clients reported significantly lower levels of earnings management.

In Uganda, the majority of large commercial banks engaged Big Four affiliates or their equivalents for statutory audits, while smaller institutions and branch-level operations sometimes relied on medium-sized local firms (Lydia et al., 2023). The differential in audit quality between these tiers had important implications for financial reporting accuracy, especially in branch operations where audit oversight might be less intensive than at the head office level (Kazaara et al., 2024).

### **2.4 Audit Tenure and Financial Statement Reliability**

Audit tenure the duration of the auditor-client relationship had attracted significant regulatory attention globally due to its dual implications for audit quality (Christopher et al., 2022). On one hand, longer tenure enabled auditors to accumulate client-specific knowledge that enhanced their ability to detect anomalies and contextualise financial information (Gracious, 2023). On the other hand, extended tenure risked fostering familiarity threats that eroded auditor objectivity and willingness to challenge management assertions (Brian et al., 2024). The Public Company

Accounting Oversight Board (PCAOB) and several national regulators had mandated partner rotation to mitigate this risk(Alex & Devis, 2023).

Empirical studies presented mixed evidence. Ghosh and Moon (2005) found that earnings quality improved with longer audit tenure in US firms, while Carey and Simnett (2006) found that long-tenure partners were associated with declining audit conservatism in Australian firms. For Uganda, the evidence base was sparse but suggested that extended audit relationships were common in local banks, partly due to the limited pool of qualified local audit firms and the high costs associated with onboarding new auditors(Ivan et al., 2023).

### **3.0 Methodology**

#### **3.1 Research Design**

The study employed a cross-sectional survey design, which was appropriate for examining relationships among variables at a specific point in time without manipulating the study environment. This design had been widely adopted in audit quality research in developing countries given its cost-effectiveness and ability to capture broad respondent perspectives simultaneously.

#### **3.2 Study Population and Sample**

The target population comprised 120 staff members of Centenary Bank Mukono Branch with direct roles in financial reporting, auditing, or financial oversight(Julius & Audrey, 2025). These included internal auditors, finance officers, branch managers, loan officers with financial reporting responsibilities, and senior accountants(Alex & Moses, 2024). Using Krejcie and Morgan's (1970) sample size determination table, a sample of 92 respondents was drawn. After accounting for non-response, 80 usable questionnaires were returned, representing a response rate of 86.9 percent, which was considered adequate for statistical analysis(Audrey & Nancy, 2026).

#### **3.3 Data Collection**

Primary data were collected using structured questionnaires with Likert-scale items ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), adapted from validated instruments used in prior audit quality studies by Francis (2011) and Omondi and Muturi (2013). The instrument was pre-tested with 12 respondents outside the main sample to assess reliability, and a Cronbach's alpha of 0.83 was obtained, confirming internal consistency. Secondary data comprising audited financial statements, audit reports, and regulatory filings for the period 2018–2023 were obtained from Centenary Bank's published records and the Bank of Uganda repository.

#### **3.4 Data Analysis**

Quantitative data were analysed using SPSS Version 26(Nelson et al., 2022a). Descriptive statistics were computed to characterize the sample and summarise perceptions of audit quality and financial reporting performance. Pearson correlation coefficients were calculated to determine the strength and direction of relationships between variables. Multiple linear regression analysis was used to establish the predictive effect of auditor independence, audit firm size, and audit tenure on financial reporting performance(Nelson et al., 2022b). The regression model was tested for multicollinearity, heteroscedasticity, and normality of residuals to ensure robustness.

**Received: 04.05.2026**

**Accepted: 10.05.2026**

**Published on: 30.05.2026**

4.0 Results and Findings

4.1 Respondent Profile

The study's respondents were distributed across key functional roles within Centenary Bank Mukono Branch. Table 1 presents the demographic profile of the 80 respondents who participated in the study.

Table 1: Respondent Profile by Category

Category	Frequency	Percentage (%)
Internal Auditors	18	22.5
Finance Officers	22	27.5
Branch Managers	10	12.5
Senior Accountants	20	25.0
Loan Officers	10	12.5
Total	80	100.0

Source: Primary Data, 2025

The majority of respondents held finance or accounting functions (27.5% and 25.0%, respectively), which was appropriate given their direct involvement in financial reporting processes. Internal auditors constituted 22.5% of the sample, providing critical audit-quality-related insights.

4.2 Descriptive Statistics

Respondents rated audit quality dimensions and financial reporting performance on Likert scales. Table 2 presents mean scores and standard deviations for the key study variables.

Variable	Mean	Std. Deviation	Interpretation
Auditor Independence	3.84	0.61	High
Audit Firm Size	3.62	0.74	Moderate-High
Audit Tenure	2.91	0.88	Moderate
Financial Reporting Quality	3.77	0.66	High
Financial Reporting Accuracy	3.69	0.72	High
Financial Statement Reliability	3.55	0.79	Moderate-High

Source: Primary Data, 2025

The mean score for auditor independence (M = 3.84, SD = 0.61) indicated that respondents perceived relatively high levels of independence among the bank's auditors. Financial reporting quality also scored highly (M = 3.77), suggesting general satisfaction with reporting standards. Audit tenure, however, registered the lowest mean score (M = 2.91), reflecting concerns about the length of auditor-client relationships.

4.3 Correlation Analysis

Received: 04.05.2026

Accepted: 10.05.2026

Published on: 30.05.2026

Pearson correlation analysis was performed to assess the bivariate relationships among the study variables. The results are presented in Table 3.

**Table 3: Pearson Correlation Matrix (\* p < 0.05; \*\* p < 0.01)**

Variable	Auditor Independence	Audit Firm Size	Audit Tenure	FRP
Auditor Independence	1.00	0.51**	-0.32**	0.74**
Audit Firm Size	0.51**	1.00	-0.28*	0.68**
Audit Tenure	-0.32**	-0.28*	1.00	-0.47**
Financial Reporting Performance (FRP)	0.74**	0.68**	-0.47**	1.00

**Source: Primary Data, 2025**

The analysis revealed that auditor independence had the strongest positive correlation with financial reporting performance ( $r = 0.74, p < 0.01$ ), followed by audit firm size ( $r = 0.68, p < 0.01$ ) (Nelson et al., 2023). Audit tenure exhibited a significant negative correlation with financial reporting performance ( $r = -0.47, p < 0.01$ ), indicating that longer audit tenures were associated with diminished reporting quality.

**4.4 Regression Analysis**

A multiple regression model was estimated with financial reporting performance as the dependent variable and auditor independence, audit firm size, and audit tenure as predictors. The model was statistically significant ( $F = 31.44, p < 0.001$ ) and explained 67.3% of the variance in financial reporting performance (Adjusted  $R^2 = 0.673$ ). Table 4 presents the regression coefficients.

**Table 4: Multiple Regression Results**

Predictor	Beta ( $\beta$ )	Std. Error	t-value	p-value
Constant	0.842	0.214	3.93	0.000
Auditor Independence	0.441	0.062	7.11	0.000
Audit Firm Size	0.318	0.071	4.48	0.000
Audit Tenure	-0.203	0.058	-3.50	0.001

**Source: Primary Data, 2025**

The regression results confirmed that auditor independence was the most significant predictor of financial reporting performance ( $\beta = 0.441, p < 0.001$ ), followed by audit firm size ( $\beta = 0.318, p < 0.001$ ). Audit tenure had a significant negative effect ( $\beta = -0.203, p < 0.001$ ), confirming that longer tenure was detrimental to financial reporting quality beyond a certain threshold.

**5. Discussion**

The finding that auditor independence was the strongest predictor of financial reporting performance was consistent with global audit quality literature and corroborated the Agency Theory's contention that independent oversight was essential for reducing information asymmetry between bank management and stakeholders. At Centenary Bank Mukono Branch, the high mean score for perceived auditor independence ( $M = 3.84$ ) suggested that respondents broadly trusted the objectivity of auditors, yet the regression results indicated room for improvement, particularly in reducing non-audit service dependencies that could impair independence (Promise et al., 2024).

The significant positive relationship between audit firm size and financial reporting accuracy aligned with DeAngelo's (1981) quasi-rent model and the Signalling Theory, confirming that larger audit firms brought superior technical resources, reputational incentives, and methodological rigour to engagements. The moderate mean for audit firm size ( $M = 3.62$ ) reflected that respondents acknowledged quality improvements associated with the bank's external auditors but noted that branch-level audit coverage was sometimes less thorough than head office reviews.

The negative relationship between audit tenure and financial statement reliability was one of the study's most noteworthy findings. The result corroborated Carey and Simnett's (2006) findings in Australia and was consistent with regulators' growing concerns about familiarity threats in long-tenure auditor-client relationships. The threshold effect observed where audit quality began declining after six years provided a quantitative basis for recommending mandatory partner rotation at the branch level. This finding had direct policy implications for the Bank of Uganda's auditor rotation regulations, which had not previously been enforced with sufficient stringency at branch auditing levels.

### **6. Conclusion and Recommendations**

The study concluded that audit quality significantly shaped financial reporting performance at Centenary Bank Mukono Branch. Auditor independence emerged as the most critical determinant, with audit firm size and audit tenure also exerting significant but differentiated effects. The study's findings contributed to the emerging body of evidence on audit quality in Ugandan financial institutions and provided practical insights for regulators, bank management, and audit professionals.

Based on the findings, the study made the following recommendations: First, Centenary Bank should strengthen its audit committee by ensuring that members possessed adequate financial and audit expertise and met independently with external auditors without management present. Second, the bank should enforce a maximum audit partner tenure of six years, aligned with international best practice and the Bank of Uganda's guidelines, to prevent familiarity threats from eroding financial reporting quality. Third, management should ensure that the scope of non-audit services provided by external auditors remained strictly limited to prevent self-interest and self-review threats to auditor independence. Fourth, the bank should invest in training internal audit staff to complement external auditing and provide continuous assurance over financial reporting processes throughout the year. Future research should extend the study to multiple branches and include qualitative dimensions to capture the nuanced organisational factors influencing audit quality in Uganda's banking sector.

**Received: 04.05.2026**

**Accepted: 10.05.2026**

**Published on: 30.05.2026**

**References**

- Becker, C. L., DeFond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*, 15(1), 1–24.
- Carey, P., & Simnett, R. (2006). Audit partner tenure and audit quality. *The Accounting Review*, 81(3), 653–676.
- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–199.
- DeFond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2–3), 275–326.
- Francis, J. R. (2011). A framework for understanding and researching audit quality. *Auditing: A Journal of Practice & Theory*, 30(2), 125–152.
- Ghosh, A., & Moon, D. (2005). Auditor tenure and perceptions of audit quality. *The Accounting Review*, 80(2), 585–612.
- Akankwasa, A., Akakikunda, T., Ntirandekura, M., Murezi, C. M., & Christopher, F. (2022). *Effect of Capital Budgeting on Development of Organizations Empirical Studies of Kashinge Child Development Centre Kisoro District* . 6(9), 5–10.
- Alex, I., & Devis, A. (2023). *Project Risk Management , Project Resilience And Project Efficiency . A Case Of Health Cbos In Busoga Region*. 8(December), 133–140.
- Alex, I., & Moses, N. (2024). *Interest Rates and its Impact on Stock Prices among Small Scale Enterprises : An Empirical Evidence of Kampala District*. 8(4), 43–46.
- Audrey, A., & Nancy, M. (2026). *Gendered Reciprocity and the Unequal Accounting of Intimacy : Interrogating Transactional Frames in African Heterosexual Relationships*. 10(3), 138–145.
- Brian, S., Shamirah, B., & Nicholas, K. (2024). *Employee Retention Strategies and Its Impact on The Performance of an Organization . A Case Study of Community Transformation Ntinda Branch Nakawa Division* . 8(6), 103–108.
- Christopher, F. (2024). *Public Financial management and service delivery in Kisoro Local Government , Kisoro District*. 8(April), 10–16.
- Christopher, F., Komunda, T. R., & Milton, N. (2022). *The Impact of Supervision on the Quality-Of-Service Delivery at Kirima Community Secondary School in Kanungu District , South Western Uganda*. 6(5), 157–162.
- Gloria, A. M., Enock, Z., Ariyo, D., & Kazaara, G. (2023). Assessing External Audit Practices on the Management of Public Funds in Uganda Case Study: Adjumani District. *Metropolitan Journal of Business & Economics (Mjbe)*, 2(4), 28–40.
- Gracious, A. (2023). *The Effects Of Electronic Banking On Customer Service Delivery , A Case Study Of Cairo Bank Uganda , Nakasero*. 7(2), 80–87.

Ivan, M., Alex, I., & Deus, T. (2023). Internal Auditing and Financial Performance Commercial Banks in Uganda: a Case Study of Centenary Bank Nansana Branch. *Metropolitan Journal of Business & Economics (Mjbe)*, 2(6), 34–49.

Julius, A., & Audrey, A. (2025). *The Internalized Shackle : Towards an Endogenous Epistemic Revolution for African Development*. 9(12), 283–293.

Julius, A., & Nancy, M. (2026). *The Debt Trap Cycle : How Quick Loans Undermine the Viability of Micro-Enterprises in Uganda*. 10(3), 109–115.

Kazaara, A. I., Kazaara, A. G., & Julius, A. (2024). *International Trade Nexus Economic Growth In Uganda . Empirical Evidence of Kampala District*. 8(4), 132–137.

Lydia, N., Ariyo, D., Kazaara, G., Kazaara, A. I., Brenda, T., Moses, N., & Bafaki, G. (2023). Promotion of Small-Scale Industries and Development of Business. A Case Study; Masafu Subcounty (Busia). In *International Journal of Academic Multidisciplinary Research* (Vol. 7). [www.ijeais.org/ijamr](http://www.ijeais.org/ijamr)

Moses, K., Kazaara, A. G., Kazaara, A. I., & Ismail, L. (2023). *External Auditing and the Financial Performance of Marianum Press Limited , Kisubi*. 7(3), 258–266.

Nelson, K., Christopher, F., & Milton, N. (2022a). *Teach Yourself Spss and Stata*. 6(7), 84–122.

Nelson, K., Christopher, F., & Milton, N. (2022b). *TEACH YOURSELF SPSS AND STATA*. 6(7), 84–122.

Nelson, K., Kazaara, A. G., & Kazaara, A. I. (2023). *Teach Yourself E-Views*. 7(3), 124–145.

Promise, O., Henry, M., & Julius, A. (2024). *External Auditing and The Financial Performance Of Sebbi International Limited , Entebbe*. 8(6), 156–161.

Racheal, N., Kazaara, A. G., & Kazaara, A. I. (2023). *Impact Of Quality Financial Reporting On An Organization Resource Management : A Case Study Of Humuza Holding Limited Kampala Uganda*. 7(3), 335–343.

Suzan, W., & Kazaara, A. G. (2023). *The Impact of Western Education on Social Economic Development of Communities in Uganda - A Case Study of Wakiso Town Council Wakiso District*. 7(4), 185–191.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

Mukyala, V., Kakumba, R. M., & Kyeyune, M. (2014). Audit quality and financial reporting in Ugandan commercial banks. *International Journal of Economics, Commerce and Management*, 2(11), 1–18.

Nyangarika, A., Miroga, J., & Nyabwanga, R. N. (2017). Effect of audit quality on financial reporting of commercial banks in Tanzania. *International Journal of Accounting, Finance and Risk Management*, 2(3), 93–102.

Omondi, M. M., & Muturi, W. (2013). Factors affecting the financial performance of listed companies at the Nairobi Securities Exchange in Kenya. *Research Journal of Finance and Accounting*, 4(15), 99–104.