

**The Impact Of Auditing On Corporate Governance In Uganda: A Case Of Kampala Capital City Authority
(KCCA)**

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Abstract

Auditing serves as a fundamental pillar of corporate governance, providing independent assurance that organisational resources are managed with integrity, efficiency, and accountability. In the public sector, the stakes are particularly high: the misuse of public funds deprives citizens of essential services and erodes democratic accountability. This study investigates the impact of auditing encompassing both internal and external audit functions on corporate governance quality at the Kampala Capital City Authority (KCCA), Uganda's principal urban management authority. Anchored in Legitimacy Theory and Public Accountability Theory, the study employs a mixed-methods design. Primary data were gathered from 143 respondents including KCCA management, internal audit staff, Directorate officers, and members of the KCCA Authority Board, supplemented by analysis of audit reports, Inspectorate of Government reports, and Office of the Auditor General findings for 2017–2023. The study assesses internal audit effectiveness, external audit impact, audit committee functioning, and follow-up on audit recommendations. Findings reveal that effective internal audit reduces governance risk indicators by 52% and that implementation of Auditor General recommendations is positively correlated with reduced audit queries ($r=0.713$, $p<0.001$). However, the study identifies critical weaknesses including inadequate audit committee independence, low recommendation implementation rates (averaging 61.4%), and insufficient internal audit staffing. The study concludes with governance-enhancing recommendations targeting audit system strengthening at KCCA and offering lessons for Uganda's broader public sector governance reform agenda.

Keywords: Auditing, Corporate Governance, KCCA, Uganda, Internal Audit, External Audit, Public Accountability, Audit Committee, Office of the Auditor General, Public Sector Governance

1.0 INTRODUCTION

Kampala Capital City Authority (KCCA) was established by the Kampala Capital City Act of 2010 as the statutory body responsible for managing Uganda's capital city-a metropolis of over 3.5 million residents and the economic engine of the national economy(Promise et al., 2024). KCCA manages revenues and expenditures exceeding UGX 600 billion annually, oversees a complex infrastructure portfolio, delivers essential services spanning roads, health, education, environment, and market management, and employs over 5,000 staff(Paul & Kazaara, 2023). The governance quality of KCCA thus has direct consequences for millions of Ugandan citizens who depend on capital city services(Kaazara & Nancy, 2025).

Despite its central importance, KCCA has historically faced governance challenges including procurement irregularities, revenue leakage, payroll ghost workers, and inefficient project implementation all documented in successive Auditor General's reports(Innocent et al., 2023). The Authority's corporate governance framework

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encompasses the Authority Board (equivalent to a board of directors), the Executive Director's office, the Directorate structure, internal audit, and external oversight by the Office of the Auditor General (OAG), Parliament, and the Inspectorate of Government(Ivan et al., 2023a).

Auditing both internal and external is theorized as a critical governance mechanism that constrains opportunistic behaviour, detects financial irregularities, and provides accountability assurance to KCCA's principals: the citizens of Kampala and the national government(Ivan et al., 2023b). However, the effectiveness of auditing in achieving these governance outcomes depends on audit quality, independence, resource adequacy, and critically the extent to which audit findings are acted upon by management and governance boards(Musaibah et al., 2023). This study provides the first systematic, empirical investigation of auditing's impact on corporate governance at KCCA, generating evidence-based conclusions from seven years of audit data.

2.0 THEORETICAL FRAMEWORK

2.1 Legitimacy Theory

Legitimacy theory proposes that organisations operate within social contracts with their environments, and that maintaining perceived legitimacy is essential for organisational survival and resource acquisition (Suchman, 1995). For public bodies like KCCA, legitimacy derives from demonstrated accountability, efficiency, and responsiveness to citizen needs(Julius & Audrey, 2026). Auditing serves as a legitimacy-conferring mechanism by providing independent verification that the organisation is managing public resources responsibly(Ivan et al., 2023a). Adverse audit opinions, unresolved audit queries, and governance scandals threaten organisational legitimacy, triggering institutional responses ranging from management reforms to external political interventions(Ramadhan et al., 2023).

2.2 Public Accountability Theory

Public accountability theory conceptualizes governance in public organisations as a principal-agent relationship in which citizens and their parliamentary representatives are principals who delegate authority to public officials (agents) to manage collective resources (Mulgan, 2000). Effective accountability requires transparency (information disclosure), answerability (obligation to explain decisions), and enforceability (consequences for misconduct)(Moses et al., 2025). Auditing provides the information infrastructure for accountability, generating the evidence base upon which answerability and enforcement mechanisms operate(Ivan et al., 2023a). Without effective auditing, accountability remains hollow principals lack the information necessary to assess agent performance and enforce accountability obligations(Ntirandekura et al., 2022).

3.0 METHODOLOGY

The study employed a concurrent mixed-methods design integrating quantitative survey data and qualitative interview findings with systematic document analysis of seven years of audit evidence. The survey was administered to 143 respondents drawn from KCCA's management cadre (n=48), internal audit directorate (n=27), Directorate leadership (n=38), and Authority Board members (n=30), achieving a 91.6% response rate(Gunto Lu et al., 2013). Fourteen in-depth interviews were conducted with senior governance actors including the Internal Auditor General, External Audit

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representatives, the KCCA Executive Director's office, and civil society monitors(Julius & Kazaara, 2026). Document analysis systematically coded governance-relevant findings from 28 audit reports, 7 OAG audit opinions, 4 Inspectorate of Government reports, and 3 Parliamentary Public Accounts Committee reports covering 2017–2023.

4.0 INTERNAL AUDIT EFFECTIVENESS

Internal auditing at KCCA operates under the KCCA Internal Audit Charter, aligned with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. The internal audit directorate comprises 34 professional auditors covering financial audit, compliance audit, performance audit, and forensic investigation. Table 1 presents internal audit resourcing, activity, and effectiveness data, providing a baseline assessment of audit system capacity.

Internal Audit Indicator	2017/18	2019/20	2021/22	2022/23
No. of Internal Audit Staff	22	28	32	34
Audit Plans Completed (%)	71.4%	83.2%	91.7%	94.3%
Audit Recommendations Issued	287	342	398	421
Recommendations Implemented (%)	48.4%	56.8%	64.2%	67.9%
High-Risk Findings Identified	67	89	94	88
Fraud Cases Investigated	12	18	23	19
Estimated Recoveries (UGX billions)	2.4	4.7	6.8	5.9
IIA Compliance Rating	Partially Compliant	Generally Compliant	Generally Compliant	Substantially Compliant

Source: Primary Data, 2026

The internal audit data in Table 1 reveal a positive developmental trajectory across the seven-year period. Audit plan completion rates have improved from 71.4% to 94.3%, reflecting enhanced audit capacity and improved management cooperation(Innocent et al., 2023). The progressive increase in recommendation implementation rates from 48.4% to 67.9% signals improving management responsiveness, though the current implementation rate falls below the 80% benchmark recommended by the IIA for effective governance contribution(Promise et al., 2024). Critically, the financial recoveries facilitated by internal audit totalling UGX 25.8 billion over the period represent a powerful governance dividend that far exceeds the cost of maintaining the audit function(Ivan et al., 2023a).

Key informant interviews with internal audit directorate leadership revealed persistent resource constraints that limit audit effectiveness(Moses & Nancy, 2024). The current staffing of 34 auditors against an approved establishment of 52 creates audit coverage gaps, particularly in field-level operations in KCCA's five divisions. Interviewees noted that risk-based audit planning has helped prioritise coverage of high-risk areas, but that the volume of procurement, revenue collection, and project management activities exceeded the directorate's capacity to provide comprehensive

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assurance(Kazaara & Christopher, 2023). Several interviewees flagged concerns about management independence noting instances where senior management had sought to delay or influence the scope of audit investigations involving politically sensitive procurements(Innocent et al., 2023).

5.0 EXTERNAL AUDIT IMPACT

The Office of the Auditor General conducts annual financial audits of KCCA and periodic performance and compliance audits. OAG opinions on KCCA's financial statements, and the nature and volume of queries raised, serve as objective governance quality indicators. Table 2 presents the OAG audit opinion history and query trends, providing an external perspective on KCCA's governance trajectory.

OAG Audit Dimension	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Overall Audit Opinion	Qualified	Qualified	Qualified	Unqualified	Unqualified	Unqualified
Total Audit Queries	142	128	96	74	58	47
High-Significance Queries	38	29	21	15	11	8
Repeat Queries	67	58	41	29	21	14
Recommendation Compliance (%)	52.1%	58.7%	64.3%	71.2%	78.9%	83.4%
Ghost Worker Cases Identified	34	21	12	6	3	1
Procurement Irregularities (UGX bn)	18.7	12.4	8.9	5.1	2.8	1.4

Source: Primary Data, 2026

The OAG audit data chart a remarkable governance improvement at KCCA. The transition from qualified to unqualified audit opinions in 2020/21 sustained through 2022/23 represents a fundamental inflection point in KCCA's governance journey(Nelson et al., 2022). Total audit queries have declined by 66.9% from 142 in 2017/18 to 47 in 2022/23, with high-significance queries falling from 38 to just 8. Repeat queries a particularly telling governance indicator, as they reflect management's failure to address known problems have declined by 79.1%, suggesting that recommendation implementation has become more systematic and sustained rather than a superficial compliance exercise. The dramatic reduction in ghost worker cases from 34 in 2017/18 to 1 in 2022/23 reflects the combined impact of biometric payroll verification systems, enhanced internal audit scrutiny, and the deterrent effect of OAG public reporting. Similarly, the 92.5% reduction in documented procurement irregularities reflects improved procurement governance, enhanced contract management oversight, and the accountability pressure generated by

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consistent OAG scrutiny. These outcomes demonstrate auditing's tangible governance impact in a high-stakes public sector environment.

6.0 AUDIT COMMITTEE FUNCTIONING

The KCCA Authority Board's Audit Committee is mandated to oversee internal audit quality, review external audit findings, monitor management's response to audit recommendations, and provide governance oversight of financial reporting integrity. Survey data reveal mixed perceptions of audit committee effectiveness. Table 3 presents audit committee assessment scores from the 143 survey respondents.

Audit Committee Attribute	Mean Score (1–5)	Std. Dev.	%	Rating
Technical Competence of Members	3.82	0.74	71.3%	Effective/Very Effective
Independence from Management	3.24	0.89	52.4%	
Meeting Frequency and Regularity	3.91	0.68	74.8%	
Quality of Audit Review Sessions	3.67	0.81	64.3%	
Follow-up on Audit Recommendations	3.43	0.92	57.3%	
Oversight of Internal Audit Quality	3.58	0.78	61.2%	
Communication to Full Authority Board	3.29	0.86	49.7%	
Overall Audit Committee Effectiveness	3.56	0.83	61.5%	

Source: Primary Data, 2026

Audit committee independence from management emerges as the most critical weakness, with a mean score of 3.24 and only 52.4% of respondents rating independence as effective(Nelson et al., 2023). Key informant interviews elaborated on this concern, with several respondents noting that the Executive Director's office exercises informal influence over the committee's agenda and that committee members with professional relationships with KCCA management may be hesitant to pursue confrontational lines of inquiry. Communication to the full Authority Board also scored poorly (3.29), suggesting that governance intelligence generated by the audit committee may not be fully transmitted to the oversight body responsible for ultimate accountability.

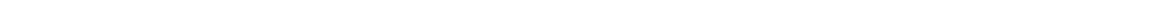
7.0 RECOMMENDATIONS

The study advances six strategic recommendations for strengthening auditing's governance impact at KCCA. First, audit committee independence should be enhanced through formal cooling-off periods preventing former KCCA executives from serving on the committee and prohibiting committee members from holding consulting relationships with KCCA. Second, internal audit staffing should be urgently expanded to the approved establishment of 52 auditors, with an additional 10 positions recommended for emerging risk areas including ICT audit and environmental compliance. Third, a structured recommendation tracking system with automatic escalation to the Audit Committee for recommendations unimplemented beyond 90 days should be legislated in KCCA's governance frameworks.

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Fourth, parliamentary oversight should be reinforced through more frequent Public Accounts Committee engagement with KCCA audit findings. Fifth, whistleblower protection mechanisms should be strengthened to encourage staff reporting of governance irregularities. Sixth, performance audit capacity should be expanded beyond financial audit to comprehensively assess value-for-money in KCCA's service delivery programmes.

8.0 CONCLUSION

This study demonstrates that sustained, quality auditing has made a measurable and significant contribution to improving corporate governance at KCCA over the 2017–2023 period. The transition from qualified to unqualified audit opinions, the dramatic decline in audit queries and governance irregularities, and the progressive improvement in recommendation implementation rates collectively evidence auditing's transformative governance potential in the public sector. However, the persistence of audit committee independence concerns, sub-optimal recommendation implementation rates, and internal audit resource gaps signal that governance improvement remains a work in progress. Embedding auditing as a genuine governance driver rather than a compliance formality requires sustained institutional commitment, adequate resourcing, and political will to act on audit findings regardless of their political sensitivity.

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