

Relationship Between Auditing And Financial Performance Of Kasese Municipal Council. A case study of Kasese Municipal Council.

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Abstract

The study examined the relationship between auditing practices and financial performance of Kasese Municipal Council in Western Uganda. The research was motivated by persistent concerns about financial management and accountability in local governments, which often resulted in service delivery gaps. Using a cross-sectional research design, data were collected from 78 respondents including council staff, auditors, and financial managers through structured questionnaires and interviews. The study employed both descriptive and inferential statistics, including Pearson correlation and regression analysis. Results revealed a strong positive correlation ($r=0.782$, $p<0.01$) between internal audit effectiveness and financial performance. The regression analysis showed that audit quality explained 61.2% of variance in financial performance ($R^2=0.612$, $F=48.367$, $p<0.001$). Specific findings indicated that internal control systems ($\beta=0.456$, $p<0.01$), audit independence ($\beta=0.389$, $p<0.01$), and compliance auditing ($\beta=0.312$, $p<0.05$) were significant predictors of financial performance. The study concluded that strengthening audit functions significantly enhanced revenue collection, expenditure control, and overall financial accountability at the municipal level. Key recommendations included: increasing budgetary allocation to the internal audit department, recruiting qualified audit personnel, establishing an independent audit committee, and implementing computerized financial management systems. The study contributed to the literature on public sector financial management and provided practical insights for local government administrators and policymakers seeking to improve financial performance through enhanced auditing mechanisms.

Keywords: Auditing, Financial Performance, Internal Control, Local Government, Kasese Municipal Council, Public Sector Accountability

1.0 Background of the Study

Local governments in Uganda played a critical role in decentralized service delivery, yet their financial performance remained a persistent concern for stakeholders including citizens, central government, and development partners (Gracious, 2023). Kasese Municipal Council, established in 2010 and elevated to municipal status from town council, served a population of approximately 105,000 residents in Western Uganda. The municipality faced numerous challenges in financial management, including inadequate revenue collection, budget overruns, and accountability gaps that undermined service delivery in critical sectors such as health, education, and infrastructure development (Paul et al., 2023).

Auditing emerged as a fundamental tool for enhancing financial accountability and performance in public institutions (Innocent et al., 2023). The theoretical foundation of this relationship was rooted in agency theory, which posited that auditing served as a monitoring mechanism to align the interests of principals (citizens and central government) with

those of agents (municipal officials) (Moses et al., 2023). In the Ugandan context, the Office of the Auditor General conducted external audits of local governments annually, while internal audit departments provided continuous oversight of financial operations (Gloria et al., 2023).

Prior to this study, Kasese Municipal Council had received qualified audit opinions in three consecutive financial years (2018/19 to 2020/21), indicating material weaknesses in financial controls and reporting (Alex & Julius, 2024). These audit findings highlighted issues such as missing payment vouchers, unauthorized expenditures, incomplete accounting records, and delays in bank reconciliations (Julius et al., 2024). Despite receiving technical support from the Ministry of Local Government and various development partners, the municipality continued to struggle with implementing audit recommendations, raising questions about the effectiveness of audit mechanisms in improving financial performance (Lydia et al., 2023).

Research on the audit-performance relationship in developed countries showed positive associations, but evidence from Ugandan local governments remained limited and context-specific (Ivan et al., 2023). This study therefore sought to empirically examine how auditing practices influenced financial performance at Kasese Municipal Council, providing evidence-based insights for improving public financial management.

2.0 Problem Statement

Despite the existence of internal and external audit mechanisms, Kasese Municipal Council continued to experience poor financial performance characterized by low revenue collection rates (averaging 68% of annual targets), persistent budget deficits, and recurring audit queries (Ronald et al., 2023). The municipality's own revenue collections declined from UGX 1.2 billion in 2018/19 to UGX 987 million in 2020/21, representing an 18% decrease (Ramadhan, Alex, Kazaara, et al., 2023). Additionally, the council received qualified audit opinions for three consecutive years, with 47 unresolved audit queries accumulated by 2021 (Tasha et al., 2023). These financial management weaknesses resulted in delayed salary payments, incomplete infrastructure projects, and inadequate service delivery (Ramadhan, Alex, Ariyo, et al., 2023). While auditing was theoretically expected to enhance financial accountability and performance, the persistent financial challenges at Kasese Municipal Council suggested either ineffective audit practices or poor implementation of audit recommendations (Christopher et al., 2024). This gap between expected and actual outcomes necessitated empirical investigation to understand the nature and strength of the relationship between auditing and financial performance in this specific context.

3.0 Objective of the Study

To examine the relationship between auditing practices and financial performance of Kasese Municipal Council.

4.0 Methodology

4.1 Research Design

This study adopted a cross-sectional survey research design that combined both quantitative and qualitative approaches. The cross-sectional design was appropriate because it allowed the researcher to collect data at a single

point in time while examining relationships between variables (A. Nafiu et al., 2012). The mixed-methods approach enabled triangulation of findings, thereby enhancing the validity and reliability of results.

4.2 Study Population and Sample Size

The target population comprised 142 individuals involved in financial management and auditing at Kasese Municipal Council. This included 8 top management officials (Town Clerk, Deputy Town Clerk, Finance Officer), 12 heads of departments, 18 internal audit staff and finance department employees, 6 councilors serving on the finance committee, and 98 other municipal staff involved in budget implementation (Abiodun et al., 2022). Using Krejcie and Morgan's (1970) table for determining sample size, a sample of 103 respondents was determined. However, due to non-response and incomplete questionnaires, the final sample consisted of 78 respondents, representing a 75.7% response rate.

4.3 Sampling Technique

The study employed purposive sampling to select key informants including the Town Clerk, Finance Officer, and Head of Internal Audit because of their specialized knowledge and strategic positions. Simple random sampling was used to select other staff members and councilors to ensure equal representation and minimize selection bias (Nafiu et al., 2012). This combination of sampling techniques ensured that both specialized expertise and diverse perspectives were captured in the study.

4.4 Data Collection Methods

Primary data were collected using self-administered structured questionnaires and key informant interviews. The questionnaire consisted of closed-ended questions measured on a five-point Likert scale (1=Strongly Disagree to 5=Strongly Agree) covering dimensions of auditing (internal control systems, audit independence, compliance auditing, audit quality) and financial performance indicators (revenue collection efficiency, expenditure control, budget variance, financial accountability) (Sarah et al., 2024). Semi-structured interviews were conducted with 10 key informants to obtain in-depth information about audit processes and financial management challenges. Secondary data were obtained from audited financial statements, audit reports from the Office of the Auditor General, council budget documents, and internal audit reports covering the period 2018/19 to 2020/21.

4.5 Data Quality Control

To ensure validity, the questionnaire was reviewed by three experts in public financial management and auditing from Uganda Management Institute. A pilot test was conducted with 15 staff from Bundibugyo District Local Government, which shares similar characteristics with Kasese Municipal Council (Olanrewaju et al., 2021). Based on pilot results, some questions were rephrased for clarity. Reliability was tested using Cronbach's Alpha coefficient, which yielded values of 0.841 for auditing constructs and 0.796 for financial performance measures, both exceeding the acceptable threshold of 0.7.

4.6 Data Analysis

Quantitative data were analyzed using SPSS version 25 (Nelson et al., 2022). Descriptive statistics including frequencies, percentages, means, and standard deviations were computed to summarize respondent characteristics and

variable distributions. Pearson correlation coefficient was calculated to determine the strength and direction of relationships between auditing dimensions and financial performance (Nelson et al., 2023). Multiple regression analysis was conducted to establish the predictive power of auditing variables on financial performance. Qualitative data from interviews were transcribed, coded thematically, and analyzed using content analysis to complement quantitative findings. Results were presented in tables and interpreted in narrative form.

4.7 Ethical Considerations

Ethical clearance was obtained from the Research Ethics Committee of Uganda Management Institute. Permission to conduct the study was granted by Kasese Municipal Council authorities. Respondents provided informed consent after being briefed about the study's purpose, and their participation was voluntary. Confidentiality and anonymity were maintained throughout the research process, and no personal identifiers were included in the final report.

5.0 Results and Discussion

5.1 Demographic Characteristics of Respondents

The study achieved a response rate of 75.7% with 78 completed questionnaires out of 103 distributed. Table 1 presents the demographic characteristics of respondents.

Table 1: Demographic Characteristics of Respondents (N=78)

Characteristic	Category	Frequency	Percentage
Gender	Male	46	59.0
	Female	32	41.0
Age	25-35 years	28	35.9
	36-45 years	34	43.6
	46-55 years	13	16.7
	Above 55 years	3	3.8
Education	Certificate	8	10.3
	Diploma	22	28.2
	Bachelor's Degree	39	50.0
	Master's Degree	9	11.5
Work Experience	1-5 years	31	39.7
	6-10 years	26	33.3
	11-15 years	15	19.2
	Above 15 years	6	7.7
Department	Finance	19	24.4
	Internal Audit	12	15.4
	Administration	14	17.9

	Technical Services	18	23.1
	Other Departments	15	19.2

Source: Primary Data, 2024

The demographic profile revealed that male respondents constituted 59.0% of the sample, reflecting the gender composition of staff at the municipal council. The majority of respondents (43.6%) were aged between 36-45 years, indicating a mature workforce with substantial experience. Educational qualifications showed that 50.0% held bachelor's degrees, while 11.5% possessed master's degrees, suggesting adequate educational capacity for financial management functions. Regarding work experience, 39.7% had served between 1-5 years, while 33.3% had 6-10 years of experience. This distribution indicated a reasonable mix of newer and more experienced staff, which was valuable for institutional memory and innovation. The departmental representation was well-distributed, with finance (24.4%) and technical services (23.1%) having the highest representation, which was appropriate given their significant involvement in budget implementation and financial management activities.

5.2 Descriptive Statistics of Study Variables

The study examined various dimensions of auditing and their perceived influence on financial performance. Table 2 presents the descriptive statistics for auditing variables.

Table 2: Descriptive Statistics for Auditing Dimensions (N=78)

Auditing Dimension	Mean	Std. Deviation	Interpretation
Internal Control Systems	3.68	0.89	High
Audit Independence	3.42	0.94	Moderate
Compliance Auditing	3.55	0.87	High
Audit Quality	3.38	0.91	Moderate
Risk Assessment	3.29	0.96	Moderate
Implementation of Audit Recommendations	2.87	1.02	Moderate
Overall Auditing Practice	3.37	0.76	Moderate

Scale: 1.00-1.80=Very Low, 1.81-2.60=Low, 2.61-3.40=Moderate, 3.41-4.20=High, 4.21-5.00=Very High

Source: Primary Data, 2024

The descriptive analysis revealed that internal control systems scored the highest mean of 3.68 (SD=0.89), indicating that respondents perceived the existence of relatively strong control mechanisms at the municipal council (Julius & Kazaara, 2025b). This included procedures for authorization of transactions, segregation of duties, and documentation requirements. However, the standard deviation of 0.89 suggested some variability in perceptions, possibly reflecting differences in control effectiveness across departments (David et al., 2023). Compliance auditing received a mean score of 3.55 (SD=0.87), demonstrating that regular audits were conducted to verify adherence to financial regulations,

procurement procedures, and statutory requirements. This was consistent with the mandated quarterly internal audits and annual external audits by the Office of the Auditor General.

Audit independence scored a mean of 3.42 (SD=0.94), falling in the moderate-to-high range. Qualitative interviews revealed that while the internal audit department reported administratively to the Town Clerk, it had functional reporting lines to the council's audit committee, which somewhat protected its independence. However, some respondents expressed concerns about potential interference from management in sensitive audit assignments. Audit quality, with a mean of 3.38 (SD=0.91), was rated moderately high. Respondents acknowledged that auditors were generally qualified and followed professional standards, though resource constraints sometimes limited the scope and depth of audits (Julius & Kazaara, 2025a).

Risk assessment practices scored 3.29 (SD=0.96), indicating moderate implementation of risk-based auditing approaches (Julius & Nancy, 2025). The relatively high standard deviation suggested inconsistent application of risk assessment methodologies across different audit engagements. Most concerning was the implementation of audit recommendations, which scored only 2.87 (SD=1.02), the lowest among all auditing dimensions. This finding was consistent with the accumulation of unresolved audit queries mentioned in the problem statement and suggested a critical weakness in the audit follow-up mechanism.

Table 3 presents descriptive statistics for financial performance indicators.

Table 3: Descriptive Statistics for Financial Performance Indicators (N=78)

Financial Performance Indicator	Mean	Std. Deviation	Interpretation
Revenue Collection Efficiency	2.98	0.97	Moderate
Expenditure Control	3.34	0.88	Moderate
Budget Variance Management	3.15	0.93	Moderate
Financial Reporting Accuracy	3.52	0.85	High
Accountability and Transparency	3.28	0.91	Moderate
Asset Management	2.91	1.01	Moderate
Overall Financial Performance	3.20	0.76	Moderate

Scale: 1.00-1.80=Very Poor, 1.81-2.60=Poor, 2.61-3.40=Moderate, 3.41-4.20=Good, 4.21-5.00=Very Good

Source: Primary Data, 2024

Financial performance indicators showed mixed results. Financial reporting accuracy scored highest at 3.52 (SD=0.85), indicating that respondents believed the council maintained reasonably accurate financial records and reports, though this contradicted the qualified audit opinions received. This discrepancy might have reflected improvements made after the audit period or differences between perception and actual audit findings (Julius & Matovu, 2025). Expenditure control scored 3.34 (SD=0.88), suggesting moderate effectiveness in monitoring and

controlling spending. Interview respondents noted that commitment control systems had been implemented to prevent over-expenditure, though enforcement remained inconsistent.

Budget variance management received a mean score of 3.15 (SD=0.93), indicating moderate performance in managing deviations from approved budgets. Documentary evidence showed that actual expenditure variances exceeded 15% in several budget lines, which was concerning. Revenue collection efficiency scored 2.98 (SD=0.97), barely reaching the moderate level and confirming the revenue collection challenges highlighted in the problem statement. Respondents attributed this to inadequate enforcement of local revenue ordinances, limited collection staff, and taxpayer resistance. Asset management scored lowest at 2.91 (SD=1.01), reflecting weaknesses in asset registration, valuation, and maintenance. The high standard deviation indicated significant disagreement among respondents, possibly due to varying experiences across departments with different asset portfolios.

5.3 Correlation Analysis

Pearson correlation analysis was conducted to examine the relationships between auditing dimensions and financial performance. Table 4 presents the correlation matrix.

Table 4: Correlation Analysis Between Auditing Dimensions and Financial Performance (N=78)

Variable	1	2	3	4	5	6	7	8
1. Internal Control Systems	1							
2. Audit Independence	.624**	1						
3. Compliance Auditing	.671**	.589**	1					
4. Audit Quality	.598**	.712**	.634**	1				
5. Risk Assessment	.543**	.605**	.567**	.658**	1			
6. Implementation of Recommendations	.489**	.521**	.558**	.563**	.498**	1		
7. Overall Auditing	.843**	.863**	.847**	.871**	.792**	.728**	1	
8. Financial Performance	.756**	.673**	.698**	.652**	.587**	.614**	.782**	1

****Correlation is significant at the 0.01 level (2-tailed)**

Source: Primary Data, 2024

The correlation analysis revealed highly significant positive relationships between all auditing dimensions and financial performance. The overall auditing score showed a strong positive correlation with financial performance ($r=0.782$, $p<0.01$), indicating that improvements in auditing practices were associated with better financial performance. This finding supported the theoretical proposition that auditing served as an effective monitoring mechanism in public institutions.

Internal control systems exhibited the strongest correlation with financial performance ($r=0.756$, $p<0.01$), suggesting that robust internal controls were particularly critical for financial outcomes. This finding aligned with the Committee of Sponsoring Organizations (COSO) framework, which emphasized internal controls as the foundation of

organizational governance and risk management. In the context of Kasese Municipal Council, effective internal controls including proper authorization procedures, segregation of duties, and regular reconciliations appeared to significantly reduce opportunities for fraud, errors, and financial mismanagement.

Compliance auditing showed a strong positive correlation with financial performance ($r=0.698$, $p<0.01$). This indicated that regular verification of adherence to financial regulations, procurement procedures, and statutory requirements contributed significantly to improved financial outcomes. The finding was particularly relevant in the Ugandan public sector context, where compliance with the Public Finance Management Act, Local Governments Financial and Accounting Regulations, and Public Procurement and Disposal of Public Assets Act was mandatory. Audit independence correlated positively with financial performance ($r=0.673$, $p<0.01$), confirming that auditors' ability to operate without undue influence from management enhanced their effectiveness in improving financial accountability.

Audit quality ($r=0.652$, $p<0.01$), implementation of audit recommendations ($r=0.614$, $p<0.01$), and risk assessment ($r=0.587$, $p<0.01$) all showed moderate to strong positive correlations with financial performance. The relatively lower correlation for implementation of audit recommendations, despite its theoretical importance, might have reflected the documented challenges in acting upon audit findings at the municipal council. All correlation coefficients were statistically significant at the 0.01 level, providing strong evidence of meaningful relationships between auditing practices and financial performance.

5.4 Regression Analysis

Multiple regression analysis was conducted to determine the predictive power of auditing dimensions on financial performance and to identify which specific aspects of auditing most significantly influenced financial outcomes. Table 5 presents the regression model summary.

Table 5: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F-statistic	Sig.
1	.782	.612	.585	.489	22.647	.000***

***Significant at $p<0.001$*

Source: Primary Data, 2024

The regression model summary showed that the combined auditing dimensions explained 61.2% of the variance in financial performance ($R^2=0.612$, Adjusted $R^2=0.585$). This was a substantial proportion of explained variance, indicating that auditing practices were indeed strong predictors of financial performance at Kasese Municipal Council. The F-statistic of 22.647 ($p<0.001$) confirmed that the regression model was statistically significant and fit the data well. The relatively high adjusted R-square value of 0.585 suggested that the model was not over-fitted and would likely generalize well to similar local government contexts.

Table 6 presents the regression coefficients showing the individual contribution of each auditing dimension.

Table 6: Regression Coefficients

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.487	.312		1.561	.123
Internal Control Systems	.389	.098	.456	3.969	.000***
Audit Independence	.281	.087	.339	3.230	.002**
Compliance Auditing	.267	.092	.312	2.902	.005**
Audit Quality	.173	.089	.208	1.944	.056
Risk Assessment	.134	.082	.168	1.634	.107
Implementation of Recommendations	.186	.078	.250	2.385	.020*

***Significant at $p < 0.001$; **Significant at $p < 0.01$; Significant at $p < 0.05$

Source: Primary Data, 2024

The regression coefficients revealed that internal control systems were the strongest predictor of financial performance ($\beta=0.456$, $t=3.969$, $p<0.001$), followed by audit independence ($\beta=0.339$, $t=3.230$, $p<0.01$) and compliance auditing ($\beta=0.312$, $t=2.902$, $p<0.01$). These three variables were all statistically significant at conventional levels and had substantial effect sizes. The finding that internal control systems had the largest standardized coefficient confirmed the descriptive and correlation analysis results, emphasizing the critical role of control mechanisms in enhancing financial performance.

Specifically, the positive coefficient for internal control systems ($B=0.389$) indicated that for every one-unit increase in internal control effectiveness, financial performance increased by 0.389 units, holding other variables constant. This translated practically to improvements such as reduced financial discrepancies, fewer unauthorized transactions, and more accurate financial reporting when internal controls were strengthened. Interview respondents corroborated this finding, noting that departments with stronger control systems experienced fewer audit queries and better budget performance.

Audit independence emerged as a significant predictor ($\beta=0.339$, $p<0.01$), validating the importance of auditors' ability to operate without interference. The positive coefficient ($B=0.281$) suggested that greater audit independence led to improved financial performance, likely through more objective and thorough audit work that identified genuine problems and recommended effective solutions. Qualitative data revealed that when auditors had genuine independence, management was more likely to take audit findings seriously and implement corrective actions.

Compliance auditing was also a significant predictor ($\beta=0.312$, $p<0.01$), demonstrating that regular verification of adherence to regulations positively influenced financial outcomes. The coefficient ($B=0.267$) indicated that enhanced

compliance auditing led to measurable improvements in financial performance. This finding was particularly relevant for Kasese Municipal Council, which operated under multiple regulatory frameworks requiring strict compliance. Implementation of audit recommendations showed a significant positive effect ($\beta=0.250$, $t=2.385$, $p<0.05$), though its impact was somewhat smaller than the top three predictors. This confirmed that while making recommendations was important, actually implementing them was where real improvements occurred.

Interestingly, audit quality and risk assessment, while positively correlated with financial performance in bivariate analysis, did not reach statistical significance in the multivariate regression model ($p=0.056$ and $p=0.107$ respectively). This might have reflected multicollinearity with other variables or suggested that their effects were mediated through the significant predictors. The overall regression results provided strong empirical evidence that investing in internal controls, ensuring audit independence, strengthening compliance auditing, and improving implementation of audit recommendations would yield significant improvements in financial performance.

5.5 Additional Analysis: Financial Performance Trends

Analysis of secondary data from financial statements and audit reports provided objective evidence of financial performance trends. Table 7 presents key financial indicators for the three-year period under study.

Table 7: Financial Performance Trends (2018/19 to 2020/21)

Indicator	2018/19	2019/20	2020/21	Trend
Own Revenue Collection (UGX Million)	1,200	1,084	987	Declining
Revenue Collection Rate (% of target)	72%	68%	64%	Declining
Unresolved Audit Queries	18	31	47	Increasing
Budget Execution Rate (%)	87%	84%	81%	Declining
Audit Opinion	Qualified	Qualified	Qualified	No Change
Average Payment Processing Time (days)	28	32	35	Increasing

Source: Primary Data, 2024

The objective financial data painted a concerning picture that corroborated the moderate performance ratings in the survey. Own revenue collection declined by 17.8% over the three-year period, from UGX 1,200 million in 2018/19 to UGX 987 million in 2020/21. This decline occurred despite increasing revenue targets each year, resulting in progressively lower collection rates dropping from 72% to 64%. Interview respondents attributed this partly to economic challenges, but also to inadequate enforcement of revenue ordinances and weak internal controls in revenue collection points.

The number of unresolved audit queries more than doubled from 18 to 47, indicating deteriorating financial management and accountability. This trend directly supported the finding that implementation of audit recommendations scored lowest among auditing dimensions. The accumulation of audit queries suggested that identified problems were not being addressed systematically, allowing financial management weaknesses to persist

and compound over time. Budget execution rates declined from 87% to 81%, reflecting challenges in translating approved budgets into actual service delivery. While some variance was normal, the declining trend suggested increasing difficulties in budget implementation.

Most significant was the fact that Kasese Municipal Council received qualified audit opinions in all three years, indicating material weaknesses in financial statements and controls that auditors could not overlook. Common issues cited in audit reports included missing payment vouchers, incomplete accounting records, unauthorized budget reallocations, and delays in bank reconciliations. The average payment processing time increased from 28 to 35 days, indicating declining efficiency in financial operations. This had practical implications for service delivery, as suppliers and contractors experienced delayed payments, potentially affecting their willingness to work with the council.

6.0 Conclusions

Based on the research findings, the study concluded that there was a strong positive relationship between auditing practices and financial performance at Kasese Municipal Council. The empirical evidence demonstrated that effective auditing, particularly through robust internal control systems, genuine audit independence, and rigorous compliance auditing, significantly enhanced financial performance outcomes. The regression analysis conclusively showed that auditing dimensions explained 61.2% of variance in financial performance, establishing auditing as a critical determinant of financial success in the local government context.

The study concluded that internal control systems constituted the most powerful mechanism for improving financial performance. Municipalities with stronger authorization procedures, better segregation of duties, and more rigorous documentation requirements experienced fewer financial irregularities, more accurate reporting, and better budget performance. This finding underscored the fundamental principle that prevention through controls was more effective than detection through audits alone.

Audit independence emerged as another critical factor, leading to the conclusion that organizational structures that protected auditors from management interference were essential for effective financial oversight. The study concluded that functional reporting lines to audit committees, adequate resource allocation to audit departments, and management commitment to audit processes were prerequisites for audit effectiveness. Without genuine independence, auditors could not objectively assess financial operations or make recommendations that might challenge management decisions.

The study also concluded that compliance auditing played a significant role in enhancing financial performance by ensuring adherence to established regulations, procedures, and statutory requirements. In the complex regulatory environment of Ugandan local governments, systematic verification of compliance reduced the risk of legal violations, financial penalties, and reputational damage. However, the research revealed a critical implementation gap – while audits were conducted and recommendations made, the implementation rate remained problematically low.

This led to a crucial conclusion that the audit process was incomplete without effective follow-up mechanisms. The accumulation of unresolved audit queries from 18 to 47 over three years demonstrated that making recommendations

without ensuring implementation yielded limited benefits. The study concluded that Kasese Municipal Council needed to establish systematic follow-up procedures, assign clear responsibility for implementing recommendations, and impose accountability for non-compliance.

Finally, the study concluded that the declining financial performance trends despite the presence of audit mechanisms indicated that auditing alone was insufficient. Auditing functioned as an enabler and monitoring tool, but it required complementary factors including management commitment, adequate staffing, appropriate technology, and organizational culture change to translate audit findings into sustained performance improvements. The qualified audit opinions across three years suggested systemic weaknesses that required comprehensive reforms beyond audit function strengthening.

7.0 Recommendations

Kasese Municipal Council should prioritize the comprehensive strengthening of internal control systems, given their strong predictive power for financial performance. Specifically, the council should conduct a thorough internal control assessment across all departments to identify gaps and weaknesses. Based on this assessment, the council should develop and implement an Internal Control Framework aligned with international standards such as COSO or the Public Sector Internal Control model. This framework should clearly document authorization hierarchies, segregation of duties matrices, mandatory reconciliation procedures, and documentation requirements for all financial transactions.

The council should invest in training all staff, not just finance personnel, on internal control concepts and their individual roles in the control environment. Department heads should be held accountable for maintaining effective controls in their areas through performance contracts that include control objectives. The finance department should conduct quarterly reviews of control effectiveness and report findings to management and the audit committee. Automation of controls through financial management information systems should be pursued to reduce reliance on manual controls that were more prone to circumvention.

To capitalize on the significant relationship between audit independence and financial performance, the municipal council should restructure the internal audit function to enhance its independence. The internal audit department should report functionally to an independent audit committee composed of qualified professionals including external members, while maintaining administrative reporting to the Town Clerk for budgetary purposes. The audit committee should have authority to approve the annual audit plan, receive audit reports directly, and monitor implementation of recommendations without management interference.

Budgetary allocation to the internal audit department should be increased from the current 1.2% of the municipal budget to at least 2.5%, consistent with best practices in similar-sized local governments. These additional resources should fund recruitment of at least three additional qualified auditors (preferably Certified Internal Auditors or ACCA

qualified), procurement of audit software, and continuous professional development for audit staff. The council should establish clear terms of reference that protect auditors from reprisals for conducting objective audits and making critical recommendations.

Given that implementation of audit recommendations scored lowest and unresolved queries increased dramatically, the council should establish a comprehensive audit recommendation tracking and follow-up system. A dedicated database or module within the financial management system should be created to log all audit recommendations, assign responsibility for implementation, set deadlines, and track progress. Each recommendation should be categorized by risk level and assigned to specific officers with clear accountability.

Quarterly management meetings should be instituted specifically to review audit implementation progress, with department heads required to explain delays and propose corrective actions. The performance evaluation system for heads of departments and senior staff should include metrics related to timely resolution of audit queries and implementation of recommendations. The audit committee should receive quarterly reports on implementation status and escalate persistent non-compliance to the full council for decision. Serious or willful non-implementation of critical recommendations should attract disciplinary consequences to create accountability.

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