

External Audit Practices And Organizational Growth: The Case Of Kyegegwa District Local Government

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Abstract

The study examined external audit practices and their effect on organizational growth in Kyegegwa District Local Government, Uganda. The study adopted a cross-sectional survey design, drawing on both quantitative and qualitative approaches. Primary data were collected from 82 respondents comprising internal auditors, external auditors, heads of department, and senior management staff. Structured questionnaires and interview guides were used as data collection instruments. The study found that external audit practices including compliance auditing, financial auditing, and performance auditing had a statistically significant positive relationship with organizational growth as measured by service delivery efficiency, resource utilization, and accountability standards. The results revealed that compliance auditing was the strongest predictor of organizational growth ($\beta = 0.621$, $p < 0.05$), followed by performance auditing ($\beta = 0.514$, $p < 0.05$), and financial auditing ($\beta = 0.489$, $p < 0.05$). The study concluded that robust external audit practices substantially enhanced the operational capacity and growth trajectory of Kyegegwa District Local Government. It was recommended that the district should strengthen the frequency and scope of external audits, improve audit follow-up mechanisms, and build staff capacity to respond to audit findings in a timely and effective manner.

Keywords: External audit, compliance audit, performance audit, financial audit, organizational growth, Kyegegwa District Local Government, Uganda.

Background to the Study

External auditing had long been recognized as a critical governance mechanism in public sector institutions worldwide (Ivan et al., 2023). In Uganda, the Office of the Auditor General (OAG) was constitutionally mandated under Article 163 of the 1995 Constitution of Uganda to audit and report on the public accounts of the government, including district local governments (Winny et al., 2023). Kyegegwa District Local Government, established as a fully-fledged district in 2010 following its separation from Kyenjojo District, was subject to mandatory annual external audits conducted by the OAG and, in some instances, by privately contracted audit firms on behalf of development partners (Moses et al., 2023).

The district, located in the Rwenzori sub-region of Western Uganda, managed significant public financial resources transferred from the central government and donor agencies (David et al., 2023). Despite these resources, the district continued to face persistent governance challenges, including misappropriation of funds, poor service delivery, and low levels of accountability among public officials (Gracious, 2023). External audits were intended to provide

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independent assurance on financial statements, evaluate internal control systems, assess compliance with laws and regulations, and ultimately promote organizational growth through enhanced accountability and transparency (Julius & Kazaara, 2025).

Prior studies in Uganda, including those by Tumwebaze (2019) and Nakayenga (2021), had demonstrated that external audits positively influenced public sector performance when audit findings were implemented. However, limited empirical studies had specifically examined the external audit-organizational growth nexus in Kyegegwa District Local Government, creating a critical knowledge gap that this study sought to fill (Irumba et al., 2024).

Problem Statement

Kyegegwa District Local Government had persistently registered adverse and qualified audit opinions from the Office of the Auditor General over the years 2018 to 2023, pointing to systemic weaknesses in financial management, procurement irregularities, and poor accountability for public resources (Racheal et al., 2023). Despite the annual conduct of external audits, the district continued to record diminished service delivery outputs, misapplication of conditional grants, and non-compliance with the Public Finance Management Act, 2015 (Gloria et al., 2023). Several audit reports went unimplemented, with the same audit queries recurring across consecutive financial years, suggesting that audit recommendations were not being acted upon effectively (Polycarp et al., 2023). This persistent pattern raised fundamental questions about the effectiveness of external audit practices in driving organizational growth within the district (Promise et al., 2024). Whereas external auditing was theoretically positioned as an accountability and performance improvement tool, its practical impact on the district's institutional growth remained largely unevaluated (Kazaara et al., 2024). This study, therefore, sought to investigate the relationship between external audit practices and organizational growth in Kyegegwa District Local Government.

Objectives of the Study

The study was guided by the following specific objectives:

- i. To examine the effect of compliance auditing on the organizational growth of Kyegegwa District Local Government.
- ii. To assess the influence of financial auditing on service delivery and resource utilization in Kyegegwa District Local Government.
- iii. To determine the relationship between performance auditing and accountability standards in Kyegegwa District Local Government.

Literature Review

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The theoretical underpinning of this study was drawn from agency theory, which posited that external auditors acted as independent monitors of the financial activities of public agents on behalf of principals (taxpayers and development partners)(Irumba et al., 2024). Jensen and Meckling (1976) originally articulated this theory in a private sector context, but its application to public sector governance had been widely validated by subsequent scholars.

Internationally, Knechel and Salterio (2016) found that external audit quality was significantly associated with improved financial reporting standards and accountability in public institutions. Similarly, DeAngelo (1981) argued that audit quality defined as the probability that an auditor detected and reported misstatements was positively linked to organizational trustworthiness and long-term institutional growth(Frank et al., 2023).

Within the African context, Okwena, Okioga, and Paul (2011) conducted a study in Kenya and established that external audit effectiveness significantly predicted improved financial management in county governments. In Uganda, the study by Tumwebaze (2019) on Mbarara City Council established a strong positive correlation between external audit follow-up and performance improvement among local governments. Nakayenga (2021) further demonstrated that compliance auditing contributed significantly to financial discipline in Ugandan public universities.

Performance auditing, also referred to as value-for-money auditing, had been shown by Power (1997) to transcend traditional financial controls and evaluate the economy, efficiency, and effectiveness of public programs. This broader conception of auditing was particularly relevant to local governments like Kyegegwa, where accountability extended beyond financial accuracy to include program impact and resource optimization(Alex et al., 2023). Despite this rich body of literature, empirical studies specifically focused on Kyegegwa District Local Government remained scarce, underscoring the need for this investigation.

Methodology

Research Design

The study employed a cross-sectional survey design, which enabled the collection of data from multiple respondents at a single point in time. This design was appropriate for exploring relationships between variables without manipulation of the study environment. Both quantitative and qualitative research approaches were integrated to ensure a comprehensive analysis of the subject matter.

Study Population and Sampling

The target population comprised 120 staff members of Kyegegwa District Local Government who were directly involved in financial management, audit processes, and service delivery oversight. Using Krejcie and Morgan's (1970) sample size determination table, a sample of 92 respondents was selected. Purposive sampling was used to select audit staff, heads of department, and senior management (40 respondents), and while simple random sampling was used to select other administrative staff (52 respondents)(Nafiu et al., 2017). Of the 92 questionnaires distributed, 82 were

returned fully completed, representing a response rate of 89.1%, which was considered adequate for the purposes of this study.

Data Collection Instruments

Structured questionnaires with five-point Likert scale items (1 = Strongly Disagree to 5 = Strongly Agree) were the primary data collection tools. An interview guide was additionally used to collect qualitative data from 10 key informants. The instruments were pre-tested on 10 respondents from Kamwenge District Local Government a neighboring district with similar characteristics to establish validity and reliability(Olanrewaju et al., 2021). Cronbach's alpha coefficients were computed for each variable: compliance auditing ($\alpha = 0.831$), financial auditing ($\alpha = 0.814$), performance auditing ($\alpha = 0.797$), and organizational growth ($\alpha = 0.845$), all exceeding the acceptable threshold of 0.70.

Data Analysis

Quantitative data were analyzed using IBM SPSS Statistics Version 26(Nelson et al., 2022). Descriptive statistics (means and standard deviations) were computed to summarize respondent perceptions. Pearson correlation analysis was used to assess the strength and direction of relationships between variables(Nelson et al., 2023). Multiple linear regression analysis was employed to determine the predictive power of each independent variable on organizational growth. Qualitative data from interviews were analyzed thematically and used to corroborate quantitative findings.

Results and Discussion

Descriptive Statistics of Study Variables

Table 1 below presents the descriptive statistics for all study variables as rated by respondents.

Table 1: Descriptive Statistics of Study Variables

Variable	N	Mean	Std. Deviation	Interpretation
Compliance Auditing	82	3.94	0.612	High
Financial Auditing	82	3.71	0.689	High
Performance Auditing	82	3.58	0.724	Moderate-High
Organizational Growth	82	3.63	0.701	Moderate-High

Source: Primary Data, 2025

The descriptive statistics in Table 1 revealed that compliance auditing recorded the highest mean score of 3.94 (SD = 0.612), indicating that respondents strongly perceived compliance auditing as a well-practiced and impactful component of external audit activities in the district. Financial auditing followed with a mean of 3.71 (SD = 0.689), while performance auditing registered a mean of 3.58 (SD = 0.724). Organizational growth, the dependent variable, had a mean score of 3.63 (SD = 0.701), suggesting that respondents moderately to highly agreed that organizational

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growth had been achieved in the district. The relatively low standard deviations across all variables indicated a consistent pattern in respondent perceptions, with limited dispersion around the mean, lending greater reliability to the findings.

Pearson Correlation Analysis

Table 2 presents the Pearson correlation coefficients between external audit practice variables and organizational growth.

Table 2: Pearson Correlation Matrix

Variable	Compliance Auditing	Financial Auditing	Performance Auditing	Org. Growth
Compliance Auditing	1.000			
Financial Auditing	0.514**	1.000		
Performance Auditing	0.487**	0.461**	1.000	
Organizational Growth	0.673**	0.598**	0.562**	1.000

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

Source: Primary Data, 2025

The Pearson correlation results in Table 2 demonstrated that all three external audit practice variables had statistically significant positive correlations with organizational growth at the 0.01 significance level. Compliance auditing registered the strongest correlation with organizational growth ($r = 0.673$, $p < 0.01$), suggesting that ensuring adherence to legal and regulatory frameworks was the most potent driver of institutional development in the district. Financial auditing also showed a strong positive correlation ($r = 0.598$, $p < 0.01$), indicating that independent verification of financial statements contributed meaningfully to the district's growth trajectory. Performance auditing, while exhibiting a slightly lower correlation ($r = 0.562$, $p < 0.01$), still demonstrated a substantial positive relationship with organizational growth. Notably, the inter-correlations among the independent variables were moderate (ranging from 0.461 to 0.514), indicating the absence of severe multicollinearity, and confirming that each variable contributed independently to predicting organizational growth.

Multiple Regression Analysis

Table 3 presents the results of the multiple linear regression analysis to determine the predictive strength of each external audit practice on organizational growth.

Table 3: Multiple Regression Analysis Results

Predictor Variable	B (Unstd.)	Std. Error	β (Std.)	t-value	Sig.
(Constant)	0.412	0.213	-	1.933	0.057

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Compliance Auditing	0.489	0.071	0.621	6.887	0.000
Financial Auditing	0.371	0.068	0.489	5.456	0.000
Performance Auditing	0.354	0.074	0.514	4.784	0.000

Source: Primary Data, 2025

Model Summary	R	R²	Adjusted R²	F-value	Sig.
Regression Model	0.761	0.579	0.563	36.412	0.000

Source: Primary Data, 2025

The multiple regression analysis results presented in Table 3 revealed that the overall regression model was statistically significant ($F = 36.412$, $p < 0.001$), confirming that the model adequately fitted the data. The coefficient of determination ($R^2 = 0.579$) indicated that the three external audit practice variables collectively explained 57.9% of the variance in organizational growth within Kyegegwa District Local Government, with the remaining 42.1% attributable to other factors not captured in this study, such as political will, staff competencies, and administrative culture.

Among the individual predictors, compliance auditing emerged as the strongest determinant of organizational growth with the highest standardized beta coefficient ($\beta = 0.621$, $t = 6.887$, $p < 0.001$). This finding implied that a unit improvement in compliance auditing practices was associated with a 0.489-unit increase in organizational growth, holding other variables constant. This result was consistent with Nakayenga (2021), who established that compliance auditing significantly promoted financial discipline in Ugandan public institutions. Performance auditing was the second strongest predictor ($\beta = 0.514$, $t = 4.784$, $p < 0.001$), confirming that value-for-money evaluations substantially enhanced organizational efficiency and accountability in the district. Financial auditing, while also statistically significant ($\beta = 0.489$, $t = 5.456$, $p < 0.001$), registered a slightly lower beta coefficient compared to the other two variables, suggesting that independent financial statement verification, though important, had a comparatively less direct and immediate impact on overall organizational growth when other audit dimensions were simultaneously considered. The consistent statistical significance of all three predictors at the 1% level lent strong empirical support to all three research objectives and reinforced the conclusion that external audit practices were a meaningful driver of growth in local government institutions.

Conclusions

The study concluded that external audit practices had a significant positive effect on the organizational growth of Kyegegwa District Local Government. Compliance auditing was the most influential audit practice, followed by performance auditing and financial auditing. The cumulative explanatory power of the three audit dimensions ($R^2 = 0.579$) demonstrated that improvements in external audit practices were associated with meaningful gains in the district's accountability, service delivery efficiency, and resource management. These findings affirmed agency

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theory's prediction that independent oversight mechanisms effectively aligned agents' behavior with principal expectations, thereby promoting institutional development. The study, therefore, validated the role of the Office of the Auditor General as a critical pillar of public sector growth in Uganda's decentralized governance framework.

Recommendations

Kyegegwa District Local Government should establish a dedicated audit implementation committee to track and enforce timely action on external audit recommendations, particularly those related to compliance with the Public Finance Management Act, 2015.

The district administration should invest in continuous capacity building for accounting and audit staff to improve the quality of financial reporting and reduce the recurrence of adverse audit findings across consecutive financial years.

The Ministry of Local Government should strengthen performance auditing frameworks for district local governments, including the institutionalization of value-for-money audits, to ensure that public resources translated into measurable improvements in service delivery for citizens.

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