

Internal auditing concepts for small and medium enterprises



**ASSIGN
BUSTER**

INTRODUCTION

1. 0 Background

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2007). It delivers greater value to an organization by championing good governance, supporting enterprise risk management rollout, consolidating compliance processes, and potentially coordinating various other corporate monitoring functions (Rick & Todd, 2008).

Corporate governance is a set of processes, controls, and structures generally performed within the organization by, or on behalf of, stakeholders (including the board or other body directly appointed by stakeholders, to ensure that their interests are protected and their goals are achieved (Norman, 2007). Over the past years, there has been a loud call for “ good governance” of organizations (Zelege, 2007).

In the wake of corporate scandals, widespread unethical behavior, and illegal activity in some of the most respected organizations, corporate governance has become important in both public and private organizations (Tumuheki, 2007). These accounting scandals and legislation highlight the critical role the internal audit function plays in corporate governance (Deborah et al, 2008). It is therefore not surprising that the Institute of Internal Auditors (IIA) puts a lot of effort in guiding its members to become corporate governance specialists, capable to assist both management and the board (Jan, 2005).
<https://assignbuster.com/internal-auditing-concepts-for-small-and-medium-enterprises/>

Uganda, like other transition economies, now increasingly recognizes that corporate governance is an essential tool for prosperity and economic growth. (Tumuheki, 2007). For Small and Medium Enterprises, especially those with a serious desire to grow and perhaps someday get stock exchange listings of their own, they should consider adopting key elements of corporate governance as this will help them gain access to information and resources for growth. The presence of proper accounting and bookkeeping practices increases confidence in SMEs and makes them less risky to invest or finance. According to Wee & Teck (2003), there has been a recent growing call for the application of corporate governance to SMEs. They argue that, corporate governance has similar benefits to SMEs as to listed companies and therefore similar guidelines that apply to listed companies should also be applicable to SMEs.

2.0 Statement of the Problem

Small and Medium Enterprises (SMEs) are critical for Uganda because of their role in economic growth and poverty reduction. A dynamic and vibrant SME sector will provide sustainable growth, generate jobs and therefore reduce poverty levels. As companies globally face issues relating to transparency, accountability and timely disclosure of material information, the concept of corporate governance and business ethics in SMEs has gained significant importance (Shahnawaz, 2003). In Uganda, SMEs which form 90% of the private sector, lack organised in-house procedures to manage and supervise internal controls, risk management, business performance and cash flows. This has caused a high collapse rate, with 40 % failing within one year and 80 % within five years (Kasule, 2008) despite the high formation rate. This

has prompted me to look at the relationship between internal audit proficiency and corporate governance in the small and medium scale enterprises in Uganda.

3. 0 Purpose of the Study

The purpose of the study seeks to evaluate the relationships between internal audit proficiency and internal controls; internal controls and corporate governance; internal audit proficiency and risk management; internal controls and risk management; and risk management and corporate governance in Uganda's SMEs.

4. 0 Objectives of the Study

The specific objectives of the study are stated below:

- i To establish the relationship between internal audit proficiency and internal controls in SMEs
- ii To establish the relationship between internal control systems and corporate governance in SMEs
- iii To establish the relationship between internal audit proficiency and risk management in SMEs
- iv To establish the relationship between internal controls and risk management in SMEs
- v To establish the relationship between risk management and corporate governance in SMEs.

5. 0 Research Questions

- i) What are the causes of lack of internal audit proficiency in Uganda's SMEs?

ii) What role can internal audit proficiency play to promote good corporate governance in Uganda's SMEs?

6. 0 Scope of the Study

The study will focus on internal audit proficiency, internal controls, risk management and corporate governance practices in Uganda's SMEs. It will be conducted within Kampala District since Kampala area has the largest number of SMEs in Uganda. The SMEs will be studied under the following categories; trade and commerce, service and manufacturing.

7. 0 Significance of the Study

The study will benefit the SME sector since it will highlight areas of emphasis that they should take advantage of. Scholars and academicians may be inspired to carry out further studies based on these findings. The study is expected to boost the literature gap on internal audit and corporate governance in the SME sector. Policy makers and other stakeholders will benefit from the findings of this research since they will be able to draw conclusions based on the findings.

8. 0 Conceptual Framework

The conceptual frame work draws upon the works of Faudziah et al, (2005), Laura & Michael, (2002) and Tushabomwe (2006) with adjustments made to fit SMEs in Uganda. It explores the relationship between two variables; internal audit proficiency and corporate governance in Uganda's SMEs.

According to Gerrit & Ignace (2006), internal controls more specifically and risk management have been considered fundamental elements of organizational governance and that, it is the job of internal auditors to help

organisations accomplish their objectives by bringing systematic and disciplined approaches to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal auditors have an important role in the corporate governance process (Jan, 2007) and therefore need to be out in front, leading organisations with regards to the internal control systems and also focusing on strategic business objectives. They also need to establish themselves as vital cogs in their organizations, rather than as observers who watch from the periphery and wait for events to impact them (Sawyer & Vinten, 1996). Therefore their experience and skill in carrying out audit work is of great importance since constructive advice to the Board and management adds value to organizations. The following conceptual frame work will be used to guide the study.