

# Effects Of External Audits On Growth Of Small And Medium Enterprises In Uganda: Case Study Of Nile Energy Limited, P.O. Box 34308 Kireka Road, Kampala

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A RESEARCH REPORT TO SUPPORT UP COMING ENTREPRENEURS IN UGANDA

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## ABBREVIATIONS

*SMEs* - Small and Medium enterprises  
*KIU* - Kampala International University  
*DV* - Dependent Variable  
*IV* - Independent Variable  
*LTD* - Limited  
*IT* - Information Technology  
*CEOs* - Chief Executive Officers  
*CAEOs* - Chief Audit Executive Officers  
*CAS* - Computerized Accounting Systems

**Abstract-** The researcher investigated “effect of external audits on growth of small and medium enterprises using a case study of Nile energy limited, Kireka road, Kampala.” The study was guided by three research objectives which were; to determine the challenges facing external auditors at Nile energy limited, Kireka road, Kampala, to find out the solutions to the challenges facing external auditors at Nile energy limited, Kireka road, Kampala and to establish the relationship between external audits and growth of Nile energy limited, Kireka road, Kampala.

The methodology involved qualitative and quantitative research tools based on the findings of the questionnaires and interview guides that were used to gather the necessary data. The study population comprised of accounting staff, support staff and management of the case study. The data collection instruments involved the use of questionnaires and Interviews. The findings of the study revealed that; majority of the respondents were in agreement with the statements on challenges facing external auditors at Nile energy limited, Kireka road, Kampala. This means that external auditors at Nile energy limited, Kireka road, Kampala face challenges like less professional workers, less funding and limited independence, there should be a strong auditing system to serve as a channel of communication with appointed audit committee, staff development through HR reviewing, establishment of strong external auditing system, establishment of effective and consistent external auditing system and there should be formation of audit committees in order to solve the challenges facing external auditors at Nile energy limited, Kireka road, Kampala, on determining the relationship between external audits

and growth of Nile energy limited, Kireka road, Kampala, the researcher found out that there is a strong relationship between external audits and growth of Nile energy limited, Kireka road, Kampala. The researcher recommended that; the business enterprise should recruit a professional to handle the auditing systems, there should be routine system maintenance programs put in place so that the system can be rid of shortfalls such as viruses and fraud among others that may affect the system operations, this business enterprise should ensure that deadlines within which a report should be ready, the business enterprise should set aside budgets for research and development specifically for its auditing projects. The researcher found out that; 50% of the respondents agreed that there is always less professional workers while 30% disagreed with the statement and only 20% had neutral idea on the statement.

## I. INTRODUCTION

This chapter brings forth the introduction to the research paper as it tackles the background of the study, the statement of the problem, purpose of the study, study objectives, research questions, the scope of the study in terms of geography, content/variables and time, and eventually the significance of the study.

### 1.1 Background of the study

Small scale businesses are of great importance to the survival of an economy. They are to an extent an index of development and the wellbeing of the masses. Administrative management is very vital for the survival of any business. It is even more with small businesses since the normal organizational structures are not very visible in small businesses. Management of personnel, use of accounting information and financing options are areas that must be taken seriously for effective management and survival of small businesses. The small scale business entrepreneurs find it extremely difficult to carry on business for certain number of factors ranging from lack of adequate capital to lack of management expertise. In order to solve these problems, local district governments decided to come to the aid of the small scale business entrepreneurs by way of providing loans to them at

very low rates of interest and also providing the management with consultancy services on several occasions. Despite these incentives, there were still frequent business failures among small scale enterprises in Uganda (Osmond, 2011). An accounting and auditing service system is an orderly, efficient scheme for providing accurate financial information and controls. Regulatory requirements and internal administration policies are key considerations in the design of an effective accounting system. Thus accounting and auditing service systems show the books, records, voucher, and files and related supporting data resulting from the application of the accounting process. It involves the design of documents and transactions flow through an organization. The uniqueness of small and medium scale businesses call for careful consideration in the design of accounting systems. Small and medium scale enterprises are a vast majority of businesses found in variety of primary and intermediate production of the economy (Abraham, 2017).

### 1.2 Statement of the Problem

In the recent past, a lot of innovative policies have been initiated and implemented by the state government. The first was the policy of channeling 10 percent of banks' profits before tax into equity investment in small and medium industries. The bankers' committee launched the approved operational guidelines for Small and Medium Industries Equity Investment Scheme (SMIEIS) on August 1, 2001 under the scheme, banks are required to invest 10 percent of their profit before tax in small and medium scale industries of their choice in a partnership effort aimed at improving the flow of funds to revitalize the real sector of the economy (CBN, 2002).

Despite these efforts, most small scale enterprises in Nigeria still fail mostly because of adequate administrative management expertise. Some small scale enterprises could not boast of adequate accounting standard that is capable of providing information on the activities and decision process of the enterprise. Without proper knowledge of accounting, one will find it difficult to provide adequate administrative management that will ensure the survival of small scale enterprises in Uganda. Therefore this study aimed to find out the effects of external audits on growth of small and medium enterprises, in selected business in Kampala, a case study of Nile energy limited, Kireka road, Kampala.

### 1.3 Purpose of the Study

The study sought to establish the relationship between external audits and growth of small and medium enterprises, case study of Nile energy limited, Kireka road, Kampala.

### 1.4 Objectives of the Study.

- i. To determine the challenges facing external auditors at Nile energy limited, Kireka road, Kampala.
- ii. To find out the solutions to the challenges facing external auditors at Nile energy limited, Kireka road, Kampala.
- iii. To establish the relationship between external audits and growth of Nile energy limited, Kireka road, Kampala.

### 1.5 Research Questions

- i. What are the challenges facing external auditors at Nile energy limited, Kireka road, Kampala?

- ii. What are the solutions to the challenges facing external auditors at Nile energy limited, Kireka road, Kampala?
- iii. Is there a relationship between external audits and growth of Nile energy limited, Kireka road, Kampala?

### 1.6 Scope of the study.

#### 1.6.1 Content scope

The study details external audits as the independent variable and growth of small and medium enterprises as a dependent variable.

#### 1.6.2 Geographical Scope

The research was carried out at growth of Nile energy limited, Kireka road, Kampala. This particular case study was chosen because it is of convenience to the researcher in terms of its type of business and availability of data for the research work.

#### 1.6.3 Time Scope

The study covers growth of Nile energy limited, Kireka road, Kampala for the period of 2019 to 2020.

#### 1.6.4 Study scope

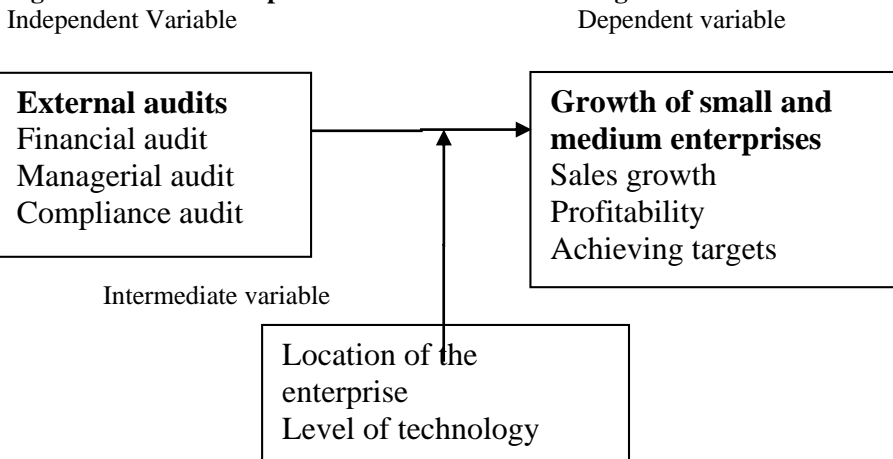
The study was carried out at Nile energy limited located at plot 2, Kireka Road, Old Port Bell Road, Kampala Uganda.

### 1.7 Significance

- a) This research paper will be of prime benefit to the management and staff of Nile energy Limited and for other businesses as well, since it will enable them identify and understand the risks and problems associated with external auditing and growth of small and medium enterprises and how best to combat such problems.
- b) This information will also be of great importance to other business companies and bodies that have adopted and those that are yet to adopt the system of external auditing in knowing the pressure points to be emphasized and well managed in order to pursue the system successfully.
- c) The study will also be of great benefit to the students who will be able to access this information that will guide them in research and equip them with knowledge as far as external auditing and growth is concerned

### 1.8 Conceptual framework

**Figure 1.1: Relationship between external audits and growth of small and medium enterprises**



**Source: Bukenya (2021)**

Figure 1.1 shows how the dependent variable and the independent variable were measured. The dependent variable was measured in terms of; sales growth, profitability and achieving targets. The independent variable was measured in terms of; financial audit, Managerial audit and Compliance audit. The intervening variable was measured in terms of; location of the enterprise and level of technology.

## II. STUDY METHODOLOGY

### 2.1 About this chapter

This chapter brings forward the methodology of the study and in doing this, the discussion here under majorly involves the study design, area of study, the population studied, sample size and the selection method, the data collection tools or methods, way of data management, data processing and data analysis. The

researcher also points out some of the challenges or limitations that may come up during the study process.

### 2.2 Study Design

The researcher used a qualitative and quantitative research tools based on the findings of the questionnaires and interview guides that were used to gather the necessary data.

### 2.3 Population of the study

This encompasses the accounting staff, support staff and management of Nile energy ltd who actually recorded and even used the same information generated as a result of external auditing. All the above categories were considered in the study.

### 2.4 Sample Size and Selection Method

The researcher used convenient sampling to come up with 33 respondents of the business enterprise as broken down below.

**Table 2.4.1 showing the category and size of respondents used for the study category**

Category	Size
Management staff	6
Accounting staff	7
Support staff	20

**Source; Primary data, 2021**

The purposive technique used above in selection of respondents is not only for its time and money saving aspect, but also helps in selection of typical and relevant cases necessary to equip the study with the required information. Besides, the simple random sampling method was also used to select a sample of respondents without any bias from the accessible population. Each party of the target population in this case has an equal opportunity

of independence as far as expression of their opinions is concerned.

### 2.5 Data Collection Tools/Methods

This study based on data collected from two major categories of sources as primary and secondary. Whereas the primary source of data to use is the questionnaire to collect more information and clarify on some information, it majorly

constituted structured and open-ended questions focusing on the research objectives and control questions to check correctness and consistency. The secondary data source involves mainly the organization financial and management reports. This record inspection was carried out in relevance to the study objectives. Besides, the study employed the use of interview which involves interacting face to face with the respondents sampled for the study and finding out issues concerning the research objectives.

### 2.6.1 Questionnaire

Under this category, the researcher decided to use this form to gather information. These are pre-formulated written set of questions to which respondents write their opinions or answers. The researcher had open ended questionnaire where the respondent gave his opinion according to their own understanding of the questions while in a close ended questionnaire, the respondent decides one of that accordingly for example opinions like agree, strongly agree, disagree and strongly disagree that are provided by the researcher.

### 2.6.2. Interview

An interview is a dialogue between an interviewer and interviewee. It is an organized conversation aimed at gathering data about a particular topic. The researcher explains to the respondents why the study was carried out. This helps to find out the views of the respondents in the organization.

## 2.7 Data Management

### 2.7.1 Data Processing

Collection of data researched was followed by sorting, data arrangement and scrutiny for any arising inconsistencies so as to obtain an objective and reasonable judgment.

### 2.7.2 Data Analysis

Data analysis in this case was done quantitatively with statistical techniques such as the statistical package for social scientists. The use of table, frequencies and percentages was employed in the analysis so as to ensure accuracy, adequacy and completeness of the study.

## 2.8 Limitations

I. Cost of the research. Just like any other research, costs are normally unavoidable and these included, transport costs, airtime costs, typing, printing and binding costs among others that came up unpredicted. However, as far as costs are concerned, the researcher had to acquire soft loans from friends and relatives so as to meet the costs of the research.

II. Time required to carry out the research. The time required to carry out the research was not adequate, given unpredicted and uncertain happenings that hindered timeliness such as delays and bad weather which the researcher definitely had to bear with and try as much as possible to work longer hour in order to compensate for the lost time.

III. Uncooperative respondents. As usual, not every respondent during research was completely willing to cooperate positively towards the demands of the researcher, some were even hostile.

## III. FINDINGS , CONCLUSION AND RECOMMENDATIONS

### 5.0 Introduction

This chapter looks at discussions and summary of the findings based on the objectives, conclusions and recommendations of the study and suggested areas of further research.

### 5.1 Discussion of the findings

#### 5.1.1. Findings on challenges facing external auditors at Nile energy limited, Kireka road, Kampala

The researcher found out that; 50% of the respondents agreed that there is always less professional workers while 30% disagreed with the statement and only 20% had neutral idea on the statement. 50% of the respondents agreed that there is usually limited independence, 24% disagreed with the statement while only 26% were neutral. 70% agreed that there is always less funding, while 30% disagreed with the statement and none of the respondents had a neutral view. 70% of the respondents agreed that achieving strategic objectives usually depends on competition outside the organization while 6% disagreed and only 24% were neutral. Findings also showed that 56% of the respondents agreed on the minimization of the arithmetic errors and 24% disagreed and 20% had a neutral view. 58% of the respondents agreed that achieving strategic objectives usually depends on technological advancement outside the organization, 32% had neutral view and 10% disagreed with the statement.

#### 5.1.2 Findings on solutions to challenges facing external auditors at Nile energy limited, Kireka road, Kampala

The researcher found out from the study that; 80% of the respondents agreed that there should be staff development through human resource reviewing while 10% disagreed with the statement and only 10% had neutral idea on the statement. 64% of the respondents agreed that there should be establishment of strong external auditing system, 16% disagreed with the statement while only 20% were neutral. 64% agreed that there should be establishment of effective and consistent external auditing system, while 8% disagreed with the statement and 18% of the respondents had a neutral view. 60% of the respondents agreed that there should be formation of audit committees while 20% disagreed and only 20% were neutral. Also 100% of the respondents agreed on the statement of there should be a strong auditing system to serve as a channel of communication with appointed audit committee while none of the respondents disagreed and had a neutral view.

#### 5.1.3 Findings on the relationship between external audits and growth of Nile energy limited, Kireka road, Kampala

On determining the relationship, 70% of the respondents agreed that there is a known relationship between external audits and growth of small and medium enterprises while 20% disagreed with the statement and only 10% had neutral idea on the statement. 46% of the respondents agreed that there is a significant relationship between external audits and growth of small and medium enterprises, 22% disagreed with the statement while only 30% were neutral. 60% agreed that there is a strong relationship between external audits and growth of small and medium enterprises while 30% disagreed with the statement and 10% of the respondents had a neutral view. 80% of the respondents agreed that effective auditing system leads to profitability while none of

the respondents disagreed and only 20% were neutral. 60% of the respondents agreed on the statement of effective auditing system leads to increased sales growth while 6% of the respondents disagreed and 34% had a neutral view. Finally on this objective, findings revealed that there is a good relationship between external audits and growth of Nile energy limited, Kireka road, Kampala.

## 5.2 Conclusion

The overall findings indicate that majority of the respondents were in agreement with the statements on challenges facing external auditors at Nile energy limited, Kireka road, Kampala. This means that external auditors at Nile energy limited, Kireka road, Kampala face challenges like less professional workers, less funding and limited independence.

The researcher concluded that there should be a strong auditing system to serve as a channel of communication with appointed audit committee, staff development through human resource reviewing, establishment of strong external auditing system, establishment of effective and consistent external auditing system and there should be formation of audit committees in order to solve the challenges facing external auditors at Nile energy limited, Kireka road, Kampala.

On determining the relationship between external audits and growth of Nile energy limited, Kireka road, Kampala, the researcher found out that there is a strong relationship between external audits and growth of Nile energy limited, Kireka road, Kampala. Therefore external audits has a strong relationship of ( $r^2=0.669$ ,  $P=0.35$ ) this suggests a positive effect on growth.

## 5.3 Policy Recommendations

Basing on the findings of the study, the researcher made the following recommendations for Nile energy limited and similar organizations in improving on their growth.

The business enterprise should recruit a professional to handle the auditing systems. This is because any wrong entry of data will certainly generate inaccurate and unreliable results. Staff must therefore be adequately trained to enable them efficiently operate the system.

There should be routine system maintenance programs put in place so that the system can be rid of shortfalls such as viruses and fraud among others that may affect the system operations.

This business enterprise should ensure that deadlines within which a report should be ready. This will enable the accountant to work within the set schedules.

The business enterprise should set aside budgets for research and development specifically for its auditing projects. These will improve and update the external auditing system.

The researcher also recommended that the firm should run the computerized accounting systems alongside the manual system where some data can be captured manually.

## APPENDIX I:

### 13. QUESTIONNAIRE

Dear respondent,

## 5.4 Areas of further study

There is need for more research on how financial record keeping can be maintained in providing better auditing results.

## ACKNOWLEDGEMENT

Firstly, I would like to thank the Almighty God for everything he has done for me, I also acknowledge the review team that took time to read this work and make corrections. The Small business owners of kireka Market especially the Nile Energy limited that filled the Questionnaire, I thank you very much

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I am **Turabiirwe Lovence**, an independent researcher, and an accountant , I am carrying out a study on the effect of external audits on growth of small and medium enterprises using a case study of Nile energy limited, Kireka road, Kampala. I am pleased to select you as one of my respondents and any information you provide will be kept confidential and for academic purposes only hence your assistance will be deeply appreciated.

Please place a tick (√) in the space that most accurately reflects your view.

**SECTION A: DEMOGRAPHIC PROFILE**

**1. Gender**

\_\_\_\_\_ Male

\_\_\_\_\_ Female

**2. Age**

\_\_\_\_\_ 20-25

\_\_\_\_\_ 26-35

\_\_\_\_\_ 36-45

\_\_\_\_\_ 46-55

\_\_\_\_\_ Above 55

**3. Level of Education**

\_\_\_\_\_ Certificate

\_\_\_\_\_ Diploma

\_\_\_\_\_ Bachelor

**4. Number of Years at the company**

\_\_\_\_\_ 1-2 years

\_\_\_\_\_ 3-4 years

\_\_\_\_\_ 5years and above

**SECTION B: Challenges facing external auditors at Nile energy limited, Kireka road, Kampala**

Direction: Under the following sections, please tick according to your level of agreement.

1. Strongly Agree    2. Agree    3. Not sure    4. Disagree    5. Strongly Disagree

Please evaluate the statement by ticking in the box with the number that best suits you.

Statement	1	2	3	4	5
There is always less professional workers					

There is usually limited independence					
There is always less funding					
Achieving strategic objectives usually depend on competition outside the organization					
Achieving strategic objectives usually depend on technological advancement outside the organization					

**SECTION C: Solutions to the challenges facing external auditors at Nile energy limited, Kireka road, Kampala**

Direction: Under the following sections, please tick according to your level of agreement.

1. Strongly Agree 2. Agree 3. Not sure 4. Disagree 5. Strongly Disagree

Please evaluate the statement by ticking in the box with the number that best suits you.

Statement	1	2	3	4	5
There should be staff development through HR reviewing					
There should be establishment of strong external auditing system					
There should be establishment of effective and consistent external auditing system					
There should be formation of audit committees					
There should be a strong auditing system to serve as a channel of communication with appointed audit committee					
Any other please specify here below					

**SECTION D: Relationship between external audits and growth of Nile energy limited, Kireka road, Kampala**

Direction: Under the following sections, please tick according to your level of agreement.

1. Strongly Agree 2. Agree 3. Not sure 4. Disagree 5. Strongly Disagree

Please evaluate the statement by ticking in the box with the number that best suits you.

Statement	1	2	3	4	5
There is a known relationship between external audits and growth of SMEs					
There is a significant relationship external audits and growth of SMEs					
There is a strong relationship external audits and growth of SMEs					
Effective auditing system leads to profitability					
Effective auditing system leads to increased sales growth					

**APPENDIX II:**

**TIME FRAMEWORK**

Activity	1	2	3	4	5	6	7	8	9	10	11	12
Proposal development												
Doing library and internet research												
Analysis												
Compiling data												
Submission of the proposal												
Review and editing the proposal												
Submission of the proposal												



**APENDIX IV:**

**STUDY BUDGET**

Activity	Cost/amount(UGX)
Stationary, typing and printing	100,000
Internet bundles and air time	250,000
Transport	660,000
Typing, editing and prof reading	500,000
Total amount	1,855,000

Source;primary data