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Page: 487 – 496 https://amjd.kiu.ac.ug

INTERNAL AUDIT PRACTICES AND FINANCIAL PERFORMANCE PERCEPTIONS IN COMMERCIAL BANKS IN KAMPALA CITY

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Abstract
This study examined internal audit practices and financial performance perceptions among selected commercial banks in Kampala City, Uganda. Specifically, the study assessed professional competence among internal auditors, internal control practices, internal audit independence, and perceived financial performance. A descriptive cross-sectional research design was adopted using questionnaires and interviews to collect data from 108 respondents selected from six commercial banks in Kampala City. Data were analyzed using descriptive statistics, including frequencies, percentages, means, and standard deviations, while interview responses were analyzed thematically. The findings revealed that professional competence, internal controls, and internal audit independence were rated satisfactory among the selected commercial banks. However, financial performance was generally perceived as unsatisfactory, particularly regarding return on investment and liquidity. The study concludes that although internal audit practices support governance and accountability, commercial banks still face operational and financial challenges limiting performance improvement. The study recommends strengthening auditor competence, internal controls, and audit independence to enhance banking sustainability and financial performance.

Keywords: Internal audit, Professional competence, Internal controls, Audit independence, Financial performance, Commercial banks, Uganda

Introduction
Internal audit has increasingly become a strategic governance mechanism for improving institutional accountability, operational efficiency, and financial sustainability within the banking sector globally. Contemporary banking systems operate in highly regulated and risk-sensitive environments characterized by technological disruptions, cyber threats, financial fraud, and compliance pressures, thereby making effective internal audit systems indispensable for organizational stability and performance (Alzeban, 2020; Eulerich et al., 2022). In modern financial institutions, internal audit extends beyond traditional compliance monitoring to include risk management, fraud prevention, governance enhancement, and strategic advisory functions that support organizational performance and stakeholder confidence (Kabuye et al., 2021; Nkundabanyanga et al., 2020). Consequently, commercial banks increasingly rely on internal audit structures to strengthen internal controls, improve transparency, and sustain financial competitiveness.

Globally, studies have demonstrated that professional competence, internal controls, and auditor independence significantly influence organizational effectiveness and financial performance in banking institutions (Alqudah et al., 2022; Drogalas et al., 2023). Effective internal audit functions contribute to improved profitability, liquidity management, operational efficiency, and regulatory compliance through continuous monitoring and evaluation of financial operations (Arena & Azzone, 2021; Oussii & Boulila Taktak, 2022). Similarly, the growing adoption of digital banking technologies and automated financial systems has expanded the scope and complexity of internal auditing practices, requiring commercial banks to strengthen professional auditing competencies and internal governance systems (KPMG, 2023; PwC, 2024).

In Sub-Saharan Africa, the banking sector continues to face persistent challenges associated with fraud, weak governance systems, cybercrime, non-performing loans, and regulatory noncompliance, which negatively affect financial performance and public confidence in financial institutions (Agyemang-Mintah & Schadewitz, 2019; Musimenta et al., 2023). Uganda's banking sector has equally experienced several institutional failures and financial irregularities linked to weaknesses in internal audit systems and internal controls. Cases involving commercial banks such as Crane Bank, Global Trust Bank, and other institutions highlighted the growing need for stronger internal audit mechanisms capable of supporting financial sustainability and risk management within commercial banks (Bank of Uganda, 2022; Kabuye et al., 2021). Despite regulatory reforms and increased supervisory oversight by the Bank of Uganda, concerns regarding internal audit effectiveness, auditor independence, and institutional accountability remain prevalent within the banking industry.

Existing literature has extensively examined the relationship between internal audit and financial performance in developed economies; however, empirical findings remain inconsistent and contextually fragmented in developing countries, particularly within Uganda's commercial banking sector (Alzeban, 2020; Musimenta et al., 2023). Some studies report that effective internal audit systems positively influence financial performance through improved risk mitigation and operational controls, while others reveal weak or insignificant relationships due to institutional and contextual variations (Drogalas et al., 2023; Oussii & Boulila Taktak, 2022). Furthermore, many previous studies concentrated predominantly on inferential and hypothesis-driven analyses with limited emphasis on descriptive institutional realities and staff perceptions regarding internal audit practices in commercial banks. This creates a contextual and methodological gap that necessitates further investigation, particularly using descriptive analytical approaches within Kampala City commercial banks.

Therefore, this study sought to assess internal audit practices and financial performance perceptions among selected commercial banks in Kampala City, Uganda. Specifically, the study examined the level of professional competence among internal auditors, assessed internal control practices, evaluated the independence of internal audit functions, and explored perceptions regarding financial performance within commercial banks. The study contributes to the growing discourse on banking governance and internal audit effectiveness within emerging African financial systems.

Literature Review

Internal audit is widely recognized as a governance mechanism that supports accountability, risk control, fraud prevention, and financial discipline in banking institutions. Recent banking studies show that internal audit quality improves organizational transparency and strengthens management's capacity to identify operational and financial risks before they damage performance (Hazaea et al., 2020; Bilegeya, 2023). In commercial banks, internal audit is especially important because banks operate under strict regulatory demands, handle sensitive financial transactions, and face continuous exposure to credit, liquidity, fraud, and compliance risks (Tanbour, 2025; Musiimenta & Kobusingye, 2025).

Professional competence is one of the major dimensions of internal audit effectiveness. Competent internal auditors possess technical knowledge, ethical judgment, analytical skills, and industry-

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specific experience required to detect irregularities, assess risks, and advise management objectively (Hazaea et al., 2020; Tanbour, 2025). In banking institutions, professional competence also enables auditors to evaluate digital transactions, anti-money laundering compliance, internal reporting systems, and fraud-control procedures. This implies that commercial banks with more competent internal auditors are better positioned to reduce financial losses and improve governance outcomes (Bilegeya, 2023; Musiimenta & Kobusingye, 2025).

Internal control is another important component of banking performance because it provides the rules, procedures, and monitoring systems through which financial transactions are authorized, recorded, and reviewed. Strong internal controls reduce errors, fraud, unauthorized transactions, and regulatory penalties, while weak controls expose banks to financial misstatement and reputational damage (Bilegeya, 2023; Musiimenta & Kobusingye, 2025). For commercial banks, internal controls are therefore not only compliance tools but also performance-supporting mechanisms that enhance operational efficiency, liquidity protection, and profitability management (Hazaea et al., 2020; Tanbour, 2025).

Internal audit independence also remains central to effective audit practice. Independence enables internal auditors to report findings without undue influence from management or operational departments. Where internal auditors lack independence, audit reports may be weakened by bias, fear, or conflict of interest, thereby limiting their usefulness for governance and financial decision-making (Hazaea et al., 2020; Tanbour, 2025). In commercial banks, independence is particularly important because audit findings may involve sensitive issues such as fraud, loan irregularities, internal control breaches, and regulatory noncompliance.

However, previous studies have often emphasized statistical relationships between internal audit and financial performance, with less attention to descriptive evidence on how bank employees perceive professional competence, internal controls, audit independence, and performance realities within specific institutional contexts. The uploaded dissertation also identified limited empirical evidence on internal audit and financial performance in Ugandan commercial banks, especially studies focusing on Kampala City's banking context. This descriptive paper therefore addresses that gap by examining internal audit practices and financial performance perceptions among selected commercial banks in Kampala City.

Methodology

This study adopted a descriptive cross-sectional research design to assess internal audit practices and financial performance perceptions among selected commercial banks in Kampala City, Uganda. The design was suitable because the paper focuses on describing respondents' views on professional competence, internal controls, internal audit independence, profitability, return on investment, and liquidity at one point in time. The original dissertation also adopted a descriptive cross-sectional design for examining internal audit and financial performance in selected commercial banks.

The target population comprised 187 staff members from selected commercial banks in Kampala City. A sample of 127 respondents was selected using Slovene's formula. The respondents included group heads, relationship managers, account officers, financial managers, and auditors from GTBank, I&M Bank, Eco Bank, Cairo International Bank, Opportunity Bank, and UBA Bank . The actual valid questionnaire responses used for descriptive analysis were 108, while 10 interview responses supported qualitative interpretation.

Simple random sampling was used to select account officers, financial managers, and accountants, while purposive sampling was used to select group heads and relationship managers because of

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their managerial knowledge and experience in banking operations. Data were collected using structured questionnaires and interview guides. The questionnaire used a four-point Likert scale ranging from strongly disagree to strongly agree.

Data were analyzed using descriptive statistics, including frequencies, percentages, means, standard deviations, and rankings. The interpretation of mean scores followed the dissertation's scale: 3.26–4.00 as very satisfactory, 2.51–3.25 as satisfactory, 1.76–2.50 as unsatisfactory, and 1.00–1.75 as very unsatisfactory. Interview data were analyzed thematically to support and explain the quantitative findings. The instrument reliability was acceptable, with an overall Cronbach's alpha of 0.84, indicating sufficient internal consistency for descriptive analysis.

Results and Discussion

Demographic Characteristics of Respondents

Table 1: Demographic Characteristics of Respondents (N = 108)

Category	Frequency	Percentage (%)
Gender		
Male	58	53.7
Female	50	46.3
Age		
18–25 years	5	4.6
26–34 years	26	24.1
35–44 years	73	67.6
45–50 years	4	3.7
Education Qualification		
Diploma	4	3.7
Bachelor's Degree	71	65.7
Master's Degree	33	30.6
Years of Experience		
2–5 years	31	28.7
6–10 years	57	52.8
More than 10 years	20	18.5

Source: Field Data (2023)

Results in Table 1 indicate that 53.7% of the respondents were male, while 46.3% were female, implying that commercial banking operations within Kampala City remain relatively male dominated. Regarding age distribution, the majority of respondents (67.6%) were between 35–44 years, followed by 24.1% aged between 26–34 years, suggesting that most respondents possessed mature professional experience relevant to banking operations.

In terms of education level, 65.7% of respondents held bachelor's degrees, while 30.6% possessed master's qualifications. This indicates that commercial banks in Kampala prioritize highly educated personnel in executing banking and audit-related responsibilities. Furthermore, 52.8% of respondents had worked in the banking sector for 6–10 years, implying that most respondents had sufficient organizational exposure and experience to provide reliable information concerning internal audit practices and financial performance perceptions.

Research Question One

What is the level of professional competence among internal auditors in selected commercial banks?

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Table 2: Professional Competence among Internal Auditors

Statements	Mean	Std. Dev	Interpretation	Rank
Fraud detection and fraudulent activities are difficult to detect and affect bank performance	3.42	1.016	Very satisfactory	1
Measures that enhance auditors' efficacy are important for fraud detection	3.30	1.066	Very satisfactory	2
Frauds are identified through internal audit functions	2.64	1.033	Satisfactory	3
Auditors are qualified to undertake audit functions for monitoring and controlling risks	2.55	0.943	Satisfactory	4
Internal auditors effectively plan and control fraud-related risks	2.47	1.033	Unsatisfactory	5
Conscientiousness strongly correlates with task performance	2.17	1.219	Unsatisfactory	6
Average Mean	**2.76**	**0.528**	**Satisfactory**	

Source: Field Data (2023)

Results in Table 2 revealed that professional competence among internal auditors was rated satisfactory with an average mean score of 2.76. This implies that respondents generally believed that internal auditors possessed acceptable levels of technical knowledge, skills, and experience required to execute audit responsibilities within commercial banks.

The findings further showed that respondents strongly agreed that fraud detection and fraudulent activities are difficult to detect and significantly affect bank performance (Mean = 3.42). Respondents also strongly agreed that measures aimed at enhancing auditors' effectiveness are important for effective fraud detection (Mean = 3.30). These findings suggest that commercial banks recognize the importance of auditor competence in strengthening institutional governance and fraud prevention mechanisms.

Additionally, respondents agreed that internal audit functions help identify fraud within commercial banks (Mean = 2.64) and that auditors in their organizations are qualified to undertake audit functions related to monitoring and controlling risks (Mean = 2.55). However, respondents expressed dissatisfaction regarding auditors' planning and control of fraud-related risks (Mean = 2.47) and the relationship between conscientiousness and task performance (Mean = 2.17). This indicates that although auditors are considered academically qualified, some weaknesses still exist regarding practical risk management and behavioral competencies.
Interview findings supported the quantitative results. Key informants indicated that commercial banks employ professionally trained auditors with adequate academic qualifications, certifications, and banking experience. Respondents emphasized that internal auditors contribute significantly to risk management, fraud prevention, regulatory compliance, and profitability improvement within commercial banks.

Research Question Two

How effective are internal controls in selected commercial banks?

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Table 3: Internal Control Practices in Commercial Banks

Statements	Mean	Std. Dev	Interpretation	Rank
Audit controls contain mechanisms that make fraudulent transactions difficult	3.28	1.076	Very satisfactory	1
Firms disclosing internal control weaknesses experience increased capital costs	2.88	0.985	Satisfactory	2
Intentional errors are concentrated in relatively few audits	2.78	1.092	Satisfactory	3
Cash receipts bear relatively strong controls	2.52	1.329	Satisfactory	4
Lack of segregation of accounting and custodial functions hinders fraud detection	2.40	1.119	Unsatisfactory	5
Increased competition increases operational cost-control needs	2.44	1.101	Unsatisfactory	6
Average Mean	**2.72**	**0.660**	**Satisfactory**	

Source: Field Data (2023)

Results in Table 3 revealed that internal controls were rated satisfactory with an average mean score of 2.72. This suggests that commercial banks have established internal control systems aimed at enhancing accountability, minimizing fraud, and ensuring regulatory compliance.
Results indicated that respondents strongly agreed that control audit systems contain mechanisms that make fraudulent transactions difficult to execute (Mean = 3.28). Respondents also agreed that firms disclosing internal control weaknesses experience increased market-adjusted capital costs (Mean = 2.88). These findings imply that strong internal controls are perceived as critical to financial stability and organizational credibility.

Similarly, respondents agreed that intentional errors are concentrated within a few audits and can be predicted by industry patterns (Mean = 2.78), while cash receipt systems were considered to possess relatively strong controls (Mean = 2.52). However, respondents expressed dissatisfaction regarding segregation of accounting and custodial functions (Mean = 2.40), indicating weaknesses in fraud detection and reporting mechanisms.
Qualitative findings further revealed that internal controls help commercial banks comply with Bank of Uganda regulations, reduce fraud exposure, strengthen anti-money laundering compliance, and protect institutions from financial penalties and cyber-related losses. Key informants noted that strong internal controls positively contribute to operational efficiency and financial sustainability within commercial banks.

Research Question Three

To what extent is internal audit independent in commercial banks?

Table 4: Internal Audit Independence in Commercial Banks

Statements	Mean	Std. Dev	Interpretation	Rank
Internal audit reports should not contain conflicts of interest	3.26	0.980	Very satisfactory	1
Commercial banks should possess reliable internal audit departments	3.19	1.027	Satisfactory	2
Internal audit departments should remain independent from audited activities	3.13	1.231	Satisfactory	3
Internal auditors should provide independent opinions	2.90	1.076	Satisfactory	4

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Independent opinions are necessary for achieving audit objectives	2.86	1.180	Satisfactory	5
Independence in audit reporting is the essence of auditing	2.48	1.264	Unsatisfactory	6
Average Mean	**2.97**	**0.621**	**Satisfactory**	

Source: Field Data (2023)

Results in Table 4 showed that internal audit independence was rated satisfactory with an average mean score of 2.97. This implies that respondents generally perceived internal audit departments as relatively independent in executing their duties and reporting audit findings.
Respondents strongly agreed that internal audit reports should not contain conflicts of interest with the bank (Mean = 3.26). They also agreed that every commercial bank should possess a reliable internal audit department capable of supporting banking operations (Mean = 3.19). Furthermore, respondents agreed that internal audit departments should remain independent from the activities they audit and from daily operational processes (Mean = 3.13).

Additionally, respondents agreed that internal auditors should provide independent opinions regarding organizational activities (Mean = 2.90) and that independent opinions are necessary for achieving audit objectives (Mean = 2.86). However, respondents disagreed that independence in audit reporting represents the absolute essence of auditing (Mean = 2.48), indicating that some institutional barriers may still affect complete audit independence.
Interview findings revealed that respondents considered internal audit independence essential for promoting objectivity, transparency, compliance, and institutional accountability. Nevertheless, respondents identified several barriers affecting full auditor independence, including fear of management, corruption, and organizational interference.

Research Question Four

How is financial performance perceived among commercial banks in Kampala City?

Table 5: Financial Performance of Commercial Banks

Statements	Mean	Std. Dev	Interpretation	Rank
Profitability				
Businesses regularly measure and track profitability	3.32	1.052	Very satisfactory	1
Auditor independence reduces fraud and financial reporting errors	3.21	0.972	Satisfactory	2
Internal controls support regulatory compliance	2.67	0.952	Satisfactory	3
Internal audit contributes to organizational profitability	1.83	0.837	Unsatisfactory	4
Internal controls reduce financial loss risks	1.77	0.781	Unsatisfactory	5
Average Mean (Profitability)	**2.56**	**0.919**	**Satisfactory**	
Return on Investment				
Auditor independence reduces non-performing loan losses	2.37	0.816	Unsatisfactory	1
Internal controls contribute to positive investment returns	2.31	0.839	Unsatisfactory	2
Banks possess systems for evaluating investments	2.28	1.075	Unsatisfactory	3
Commercial bank income increases yearly	2.26	1.031	Unsatisfactory	4
Banks conduct sufficient financial analysis	2.27	0.827	Unsatisfactory	5

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Average Mean (ROI)	**2.29**	**0.918**	**Unsatisfactory**	
Liquidity				
Banks possess sufficient cash reserves	2.92	1.415	Satisfactory	1
Banks access additional liquidity sources	2.62	1.243	Satisfactory	2
Internal controls ensure positive liquidity ratios	2.44	0.980	Unsatisfactory	3
Auditors ensure reliable liquidity reporting	2.15	0.984	Unsatisfactory	4
Auditor independence ensures low credit risk	1.94	0.955	Unsatisfactory	5
Average Mean (Liquidity)	**2.41**	**1.115**	**Unsatisfactory**	
Overall Mean	**2.42**	**0.984**	**Unsatisfactory**	

Source: Field Data (2023)

Results in Table 5 revealed that financial performance was rated unsatisfactory with an overall mean score of 2.42. This indicates that despite existing internal audit mechanisms, commercial banks continue to experience financial performance challenges related to profitability, return on investment, and liquidity.

Regarding profitability, respondents rated profitability satisfactory with an average mean score of 2.56. Respondents strongly agreed that businesses regularly measure and track profitability (Mean = 3.32) and that auditor independence reduces risks associated with fraud and financial reporting errors (Mean = 3.21). However, respondents expressed dissatisfaction regarding the contribution of internal audit to profitability (Mean = 1.83) and the ability of internal controls to reduce financial losses (Mean = 1.77).

Concerning return on investment, findings indicated an unsatisfactory average mean score of 2.29. Respondents generally disagreed that internal controls contribute positively to investment returns, that banks possess effective investment evaluation systems, and that commercial bank incomes increase consistently over time. This suggests that selected commercial banks continue experiencing weak investment performance and financial growth challenges.

Similarly, liquidity was rated unsatisfactory with an average mean score of 2.41. Although respondents agreed that banks possess sufficient cash reserves and access to additional liquidity sources, they expressed dissatisfaction regarding the role of internal controls and auditor independence in ensuring positive liquidity ratios and reducing credit risks.

Interview findings revealed that commercial banks face several challenges affecting financial performance, including regulatory compliance pressures, cyber threats, operational risks, fraud exposure, and increasing competition within the banking sector. Respondents emphasized that effective internal audit systems remain essential for strengthening governance, enhancing compliance, and improving long-term financial sustainability.

Conclusion

The study concludes that internal audit practices play an important role in supporting governance, accountability, and operational effectiveness within commercial banks in Kampala City, Uganda. The findings revealed that professional competence, internal controls, and internal audit independence were generally perceived at satisfactory levels among the selected commercial banks. Respondents acknowledged that competent auditors contribute to fraud detection, risk management, and regulatory compliance, while effective internal controls help minimize operational risks and strengthen institutional accountability. Similarly, internal audit independence was perceived as necessary for ensuring objective audit reporting and enhancing organizational transparency. However, despite the satisfactory perception of internal audit practices, financial performance among the selected commercial banks was generally rated unsatisfactory, particularly in relation to

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return on investment and liquidity management. This suggests that although internal audit mechanisms exist within commercial banks, there are still institutional and operational challenges limiting their full contribution toward improving financial performance and long-term banking sustainability.

Recommendation

Commercial banks in Kampala City should strengthen internal audit systems by investing in continuous professional development programs for internal auditors, including specialized training in fraud detection, risk management, digital auditing, and regulatory compliance. Banks should also enhance internal control systems through stronger segregation of duties, improved monitoring procedures, and regular reviews of operational controls to reduce fraud exposure and financial inefficiencies. Furthermore, commercial banks should promote greater independence of internal audit departments by ensuring direct reporting lines to audit committees or boards of directors rather than operational management. Strengthening auditor autonomy, institutional transparency, and governance practices would improve the effectiveness of internal audit functions and potentially contribute to improved profitability, liquidity management, and overall financial performance within Uganda's commercial banking sector.

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