

Journal of Finance and Accounting

ISSN Online: 2616-4965



Stratford
Peer Reviewed Journals & books

The Relationship between Audit Committee Effectiveness and Financial Management in Government Ministries in Kenya

Veronica Jepkemei Ruto & Abdullatif Essajee

ISSN: 2616-4965

The Relationship between Audit Committee Effectiveness and Financial Management in Government Ministries in Kenya

***¹Veronica Jepkemei Ruto & ²Abdullatif Essajee**

**¹Graduate Student, Department of Finance and Accounting School of Business
University of Nairobi**

**²Lecturer, Department of Finance and Accounting School of Business
University of Nairobi**

***E-mail of the Corresponding Author: vejeru@gmail.com**

How to cite this article: Ruto, V.J. & Essajee, A. (2018). The Relationship between Audit Committee Effectiveness and Financial Management in Government Ministries in Kenya, Journal of Finance and Accounting, 2(3), 15-34.

Abstract

Like any other organization, audit committee is a vital mechanism the government needs to use to monitor management's behavior in the sector in order to enhance a proactive oversight of financial compliance, reporting and disclosure process. The audit committee plays an oversight responsibility and assists a board to monitor responsibilities of an organization or institution hence their effectiveness is crucial in proper financial management. The objective of the study was to examine the relationship between audit committee effectiveness and financial management in government ministries in Kenya. Specific objectives of the study were to establish the effect of audit committee membership composition on financial management in government ministries in Kenya, to find out the relationship between audit committee independence and financial management in government ministries in Kenya, to determine how audit committee charter affects financial management in government ministries in Kenya, and to establish the relationship between audit committee members technical skills and financial management in government ministries in Kenya. The study utilized a descriptive research design whereby descriptive survey designs were used. The target population of the study consisted of the members of the audit committee who made a target population of 60 respondents. The sample size of 30 respondents was generated by sampling 50% of the respondents in each committee. Primary data was used in this study by use of questionnaires. Data was organized mainly by use of frequencies, descriptive and inferential statistics. Descriptive statistics included mean and standard deviation. Inferential statistical techniques included correlation and

regression analysis which was used to draw a causal relationship between the independent variables and financial management. The study found that audit committees with more than 3 members have been found to be more effective on ministerial financial management compared to those with fewer members. The study also established that competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in your ministry. The study finally established that audit committee membership composition contribute most to the financial management followed by audit committee independence. At 5% level of significance and 95% level of confidence, audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills are significant in financial management. The study concluded that audit committee meetings are held at least 4 times in a year in specified intervals increasing financial performance of the various ministries. The study recommended that government ministries to adopt proper audit charter by having independent directors on the board, an independent board chair, an effective audit committee both external and internal audit mechanisms so as to independently carry audit mandate in the department.

Keywords: *Audit committee independence, audit committee charter, audit committee membership composition, audit committee members technical skills, financial management, government ministries, Kenya.*

1.1 Introduction

Blue Ribbon Committee (BRC, 2009) reports that audit committees have become imperative for financial management in the public sector in recent years. Audit committee is a mechanism of good corporate governance. Organizations and firms need to continuously improve their global standards management leading to effectiveness and efficiency. The audit committee ensures the quality, credibility, and objectivity of financial reporting. The audit committee member has a role to oversight responsibility of the organization (BRC, 2009). The characteristics of audit committee are to enhance the effectiveness of responsibilities and include composition, qualification and method of communication with all parties as internal auditor, external auditor, management, and board of director to improve audit committee effectiveness (Cohen, 2002).

In public sector, audit committees are required to have a number of characteristics for effective operation in their roles of vetting the integrity of financial statements. The characteristics that include: director independence which is represented by having the proportion of independent nonexecutive directors in the board, tenure of the directors, size of the audit committee, financial expertise for the audit committee, frequency of committee meetings and multiple directorships in the board; as proxy for evaluating the effectiveness of these committees in Kenya (Ogoro & Simiyu, 2014). The Kenya government decided to enforce the establishment and strengthen audit committees in all ministries, departments, State Corporations, and local authorities through the release of Treasury Circular of 4 October 2005 and the public finance management Act for 2012. The committees are expected to carry in depth interrogation of the existing public entity internal controls as well as the operation of the audit function of the public service (Mutai, 2011).

According to Beyanga (2011), an effective auditing service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from

inadequately safeguarded company assets all of which can have a significant effect on the financial performance of an organization. He also stated that auditing is a valuable tool of management for improving performance. Hanim Fadzil, Haron, & Jantan (2005) also noted that auditors help run a company more efficiently and effectively to increase shareholders value. Hermanson and Rittenberg (2005) argued that the existence of an effective auditing function is associated with superior organizational performance. At the empirical level, a survey conducted by Gilkison, KPMG (1999) found that the auditing function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus auditing committee by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

The Kenya government's internal audit system was abolished in 1962. Over the next few years it became apparent that lack of internal audit contributed greatly to laxity in the management of public resources; in compliance with the relevant laws, regulations, procedures; and in internal controls; and the system was reintroduced in 1984. With limited institutional support and an outdated focus on pre-audit activities, Kenya's internal audit function was neither efficient nor effective (OPCS 2008).

Effective audit committees in the public sector are important especially during this moment when countless financial scandals have plagued the public institutions. They include Anglo Leasing scandal of 2005, Grand Regency scandal of 2008, The Housing Finance Scandal, The Triton oil scandal of 2009 among others. On the international scene these committees have been critiqued due to their failure to pinpoint and put an end to the fraudulent activities within the Enron Corporation following its downfall (Ogoro & Simiyu, 2014).

1.2 Research Problem

Audit committees are a mechanism of ensuring the quality, credibility and objectivity of the financial reporting (Lindsell, 2002). They have a role of oversight responsibility and assist a board to monitor responsibilities of an organization or institution hence their effectiveness is crucial in proper financial management (Baxter & Cotter, 2009). However, in the developing economies context, independence of the audit committees has often been compromised by both internal and external forces of the government institutions. There have also been instances where recruitment of technically unskilled members has been brought on board due to existing political systems which have been subject to corruption and embezzlement of funds. This has led to ineffectiveness of the audit committee in delegation of its oversight role (Turley & Zaman, 2007). It is against this background that a study on audit committee effectiveness and financial management in the public sector was warranted.

Several studies have been conducted on the relationship of audit committee effectiveness and financial management in the public sector. Baxter and Cotter (2009) conducted a study on audit committee independence and earnings quality management. The study found that audit committee independence is significantly associated with management of earnings quality. Contrary to this, Nimer and Khuraisat (2012) using multiple regressions found that there is no significant relationship between audit committee independence factors and dividend policy

management in 63 listed Jordanian firms. In another study; Lisic, Neal and Zhang (2011) found a negative association between audit committee financial expertise and incidence of restatements is moderated by CEO power.

Rashidah & Mohamed (2006) found that some inconsistencies exist between the results of their study which failed to find an association between the magnitude of earnings management and the audit committee's financial expertise. In Kenya, Hussein (2003) scrutinized the effect of audit committees on major announcements and other characteristics of companies listed at the Nairobi Stock Exchange (NSE). Ogoro and Simiyu (2014) also conducted a study on effectiveness of audit committees in the public sector: a case of parastatals in Kenya. The researcher found that the most important and influential characteristics of audit committees is multiple directorships and audit committee tenure as they are statistically significant in reducing the number of financial statement restatements.

Despite all the studies that have been done with regard to the topic no study has been done on the relationship between audit committee effectiveness and financial management in government ministries in Kenya. This creates a knowledge gap that exists in this field in that there has been mixed findings on audit committee effectiveness on financial management. Some of the determinants of audit committee effectiveness have been found to have conflicting findings in different contexts. This study therefore sought to fill the existing gap by answering the question: what is the relationship between audit committee effectiveness and financial management in public sector taking a survey of government ministries in Kenya.

1.3 Research Objectives

- i. To establish the effect of audit committee membership composition on financial management in government ministries in Kenya.
- ii. To find out the relationship between audit committee independence and financial management in government ministries in Kenya.
- iii. To determine how audit committee charter affects financial management in government ministries in Kenya.
- iv. To establish the relationship between audit committee members technical skills and financial management in government ministries in Kenya.

2.1 Literature Review

2.1.1 Audit Committee Membership Composition

The audit committee is composed of directors who provide decisions on how the finance of a company will be used and managed. They usually give the final decision before any financial transaction takes place. The committee is appointed by the board of directors in compliance with the charter. Members of the audit committee are considered independent if, in the opinion of the board of directors, they have no relationship that may interfere with the exercise of their independence in carrying out the responsibilities of a director (Simiyu 2014). All audit committee members should be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement (Bond & Dent, 2008). At least one member must have past employment experience in finance or accounting, requisite

professional certification in accounting or any other comparable experience or background that results in the individual's financial sophistication, including service as a chief executive officer, chief financial officer, or other senior position with financial oversight responsibilities or otherwise satisfy standards for financial expertise required for audit committees of companies (Nimer & Khuraisat, 2012).

2.1.2 Audit Committee Independence

The audit committee plays a monitoring role of the ministries providing vital information to the legislature, political parties, the media, the citizens, and other organizations to control the government and its bureaucracy, and points to its value in serving the public interest (Baxter & Cotter, 2009). It is therefore important for the audit committee to have its own independence for it to execute its duties of financial management in an appropriate manner. If it lacks independence the audit committee may be puppet committee which cannot execute its duties appropriately. The independence of an audit committee is considered a vital characteristic influencing the committee's efficiency in managing the process of financial statements (Baxter & Cotter, 2009). The independence of an audit committee can serve as active to control the financial reporting. Therefore, audit committee independence has been found to be significantly associated with measures of earnings quality in prior studies.

2.1.3 Audit Committee Charter

According to the professional guidance of the Institute of Internal Auditors (IIA), in every type of entity, the audit committee should develop appropriate audit charter that specifies on how the audit function could be administered and approved by senior management. The government's constitution, charter, or other basic legal documents should establish the audit activity's powers and duties to assist the audit function to perform its role independently of management influence and objectively. It helps an organization in improving financial risk occurrence, control, and governance processes (IIA, 2004). Davidson, Goodwin, Stewart & Kent, (2005) argued that an auditor's duty is to give a fair and truthful view of a client's set of the company accounts, but auditors cannot guarantee that the company's accounts are entirely free of errors and irregularities.

2.1.4 Audit Committee Members' Technical Skills

Audit committee members with academic and professional qualifications in financial institutions are effective monitors in reducing earnings management. The experience of the audit committee members is generally considered an important characteristic for its effective operation (Lindsell, 2002). The experience and expertise of audit committee members in accounting and/or financial management is positively related to the quality of financial reporting and timeliness. Audit committee with high frequency of training in accounts usually has significant impact on returns on equity and return on asset and hence organizational performance. Similarly, Qin (2007) asserts that firms with higher quality of earning are more associated with audit committee members who have accounts training.

2.2 Theoretical Framework

This section reviewed the theories related to this study. The theories are the institutional theory, and agency theory.

2.2.1 Institutional Theory

Institutional theory developed by Meyer and Rowan (1977) suggests that social and environmental factors play an important role in creating an isomorphic effect which influences the adoption of certain technology, practices, or management structures among organizations in seeking their legitimacy. According to DiMaggio and Powell (1988), the basic concepts and premises of the institutional theory approach provide useful guidelines for analyzing organization-environment relationships with an emphasis on the social rules, expectations, norms, and values as the sources of pressure on organizations. This theory is built on the concept of legitimacy rather than efficiency or effectiveness as the primary organizational goal (Doug & Scott, 2004).

Researcher such as Meyer and Rowan (1991) asserts that innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates). The institutional theory is relevant to this study in that it suggests that organizations incorporate practices, or management structures among departments in seeking to increase their overall performance. The audit committee being an oversight body helps to improve public financial management through application of the principles of the institutional theory. Such principles and practices can be incorporated to better explain the adoption structures and systems into practice and hence in improvement of overall performance of the public sector.

The institutional theory is relevant to the study and the best choice in that it is best suited to explain why organizations incorporate practices, or management structures among departments in seeking to increase their overall performance. The audit committee being an oversight body helps to improve public financial management through application of the principles of the institutional theory. Such principles and practices can be incorporated to better explain the adoption structures and systems into practice and hence in improvement of overall performance of the public sector.

2.2.2 Agency Theory

The agency theory is the work of Jensen and Meckling (1976). Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. Jensen and Meckling (1976) define an agency relationship as "a contract under which one or more persons, the principal (s) engage another person, the agent to perform some service on their behalf that involves delegating some decision-making authority to the agent". As Noreen puts it, "agency theory can be used to provide a series of instructive parables that illustrate the adverse consequences on social and economic systems of unconstrained opportunistic behavior" and can therefore be used as a way of building the case for ethical conduct in business relations.

Agency theory addressed what had become a growing concern, that management engaged in empire building and possessed a general disregard for shareholder interest, what Michael Jensen

called "the systematic fleecing of shareholders and bondholders" (1989), through providing prescriptions as to how the principal should control the agent to curb managerial opportunism and self-interest (Daily, Donell & Arel2003).

This theory is relevant and best suited to the study since it forms the basis of explaining the agency problem between the government and the audit committees. The audit committees are agents of the government and as such the government is the principal. The audit committee may not act in the best interests of the government as pertains to the oversight role in the institutions. As such the theory tries to explain that the audit committee should be in such a way as to work impartially for overall success in financial management in the public sector.

2.2.3 Resource Dependency Theory

Resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Indeed, Johnson (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success.

According to Hillman, Canella and Paetzold (2000) that directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Resource dependent theory is relevant to the current study in that it explains the role that directors of audit committee play in providing or securing essential resources to the various ministries through their linkages to the external environment. The external environment is the government which provides the resources directed to the ministry and which must be approved by the audit committees. Once the resources are released from the central government the audit committee scrutinizes the ministerial budget to ensure that the resources are utilized in the right manner for the required purposes.

This theory is relevant to the current study in that it will inform the researcher on role of board directors in providing access to resources needed by the firm. In addition the researcher will be able to understand on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success.

2.5 Conceptual Framework

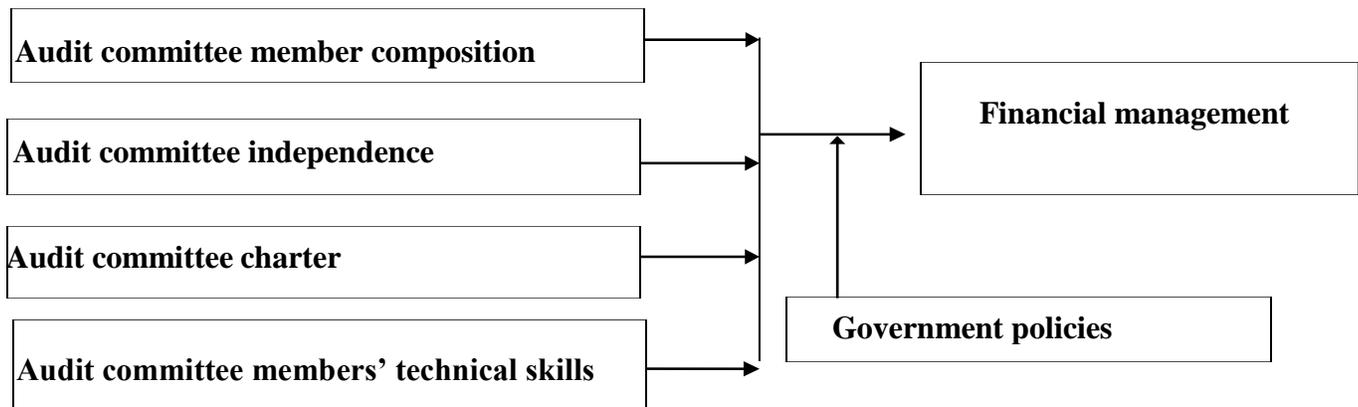


Figure 1: Conceptual framework

3.0 Research Methodology

Descriptive survey design was used in the study. The target population was 20 chairmen, 20 secretaries and 20 directors from every ministry making a target population of 60 members. Simple random sampling technique was used to determine the sample size. The sample of 30 respondents was generated by sampling 50% of the respondents in each committee. Primary data was used in this study. Primary data was collected using questionnaires. Data was organized mainly by use of frequencies, descriptive and inferential statistics. Descriptive statistics included mean and standard deviation. Inferential statistical techniques included correlation and regression analysis which was used to draw a causal relationship between the independent variables and financial management. The quantitative data was analyzed using Statistical Package for Social sciences (SPSS) in order to determine and test the correlation between the dependent variable and each independent variable. Data was presented using tables and figures. Multiple regression analysis was used to determine whether independent variables simultaneously impacted on the dependent variable. The response on audit committee effectiveness on financial management in public sectors was measured by computing indices based on the responses derived from the Likert-Scaled questions.

The relationship equation represented in the linear equation below:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + i$$

Where;

Y= Financial Management a = constant

X₁= Audit Committee Membership Composition

X₂= Audit Committee Independence

X₃= Audit Committee Charter

X₄= Audit Committee Members' Technical Skills $\beta_1, \beta_2, \beta_3,$ and β_4 = beta coefficients

i= error term

4.0 Data Analysis and Interpretation

4.1 Audit Committee Effectiveness and Financial Management in Government Ministries in Kenya

4.1.1 Audit Committee Membership Composition and Financial Management

The respondents were requested to indicate their extent of agreement concerning the statements on audit committee membership composition and financial management. The responses were placed on a five Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The findings were as shown below.

Table 1: Audit Committee Membership Composition and Financial Management

Statement	1	2	3	4	5	Ave.%	Mean	SD
Audit committees with more than 3 members have been found to be more effective on ministerial financial management compared to those with fewer members	0%	0%	8%	71%	21%	78%	3.89	0.2882
The gender a third rule of the constitution has been well incorporated in the audit committee and this has improved effectiveness on financial management in the government ministries	0%	6%	11%	76%	7%	72%	3.61	0.1991
The higher the level of job group, grade or the designation of the audit committee members have led to higher financial management in the ministries	0%	0%	10%	76%	14%	76%	3.78	0.2622

From the findings the respondents strongly agreed that audit committees with more than 3 members have been found to be more effective on ministerial financial management compared to those with fewer members (78%), followed by the higher the level of job group, grade or the designation of the audit committee members have led to higher financial management in the ministries (76%), and that the gender a third rule of the constitution has been well incorporated in the audit committee and this has improved effectiveness on financial management in the government ministries (72%). This depicts that audit committees with more than 3 members have been found to be more effective on ministerial financial management compared to those with fewer members.

4.1.2 Audit Committee Independence and Financial Management

The respondents were requested to indicate their extent of agreement concerning the statements on audit committee independence and financial management. The responses were placed on a five Likert scale ranging from 1 (Very Small Extent) to 5 (Very Large Extent). The findings were as shown in Table 2.

Table 2: Audit Committee Independence and Financial Management

Statement	1	2	3	4	5	Ave. %	Mean	SD
Rotation of the audit committee members has been practiced where members are not allowed to serve a continuous period exceeding 3 years in one ministry increasing independence	0%	6%	12%	67%	15%	79%	3.95	0.9511
A written declaration of conflict of interest through the chair by members is done periodically by the minister of respective ministry	0%	0%	15%	66%	19%	76%	3.80	0.1932
The fixed sitting allowance of Kshs. 2000 is considered a minimal sum and this leads the audit committee to be subject to compromise from the various stakeholders within the ministry	0%	9%	7%	67%	17%	74%	3.69	0.2434
There is periodical declaration of conflict of interest which is done regularly either annually, quarterly or semiannually depending on the government calendar	0%	0%	12%	81%	7%	75%	3.77	0.3413
Disclosure of all material facts known to the members is done immediately once such disclosures are made and this is reported every time there is quorum to the minister in charge	0%	0%	24%	76%	0%	77%	3.84	0.9932

From the findings the respondents agreed to a very large extent that the rotation of the audit committee members has been practiced where members are not allowed to serve a continuous period exceeding 3 years in one ministry increasing independence (79%), followed by disclosure of all material facts known to the members is done immediately once such disclosures are made and this is reported every time there is quorum to the minister in charge (77%), a written declaration of conflict of interest through the chair by members is done periodically by the minister of respective ministry (76%), there is periodical declaration of conflict of interest which is done regularly either annually, quarterly or semiannually depending on the government calendar (75%), and that the fixed sitting allowance of Kshs. 2000 is considered a minimal sum and this leads the audit committee to be subject to compromise from the various stakeholders within the ministry (74%). This depicts that the rotation of the audit committee members has been practiced where members are not allowed to serve a continuous period exceeding 3 years in one ministry increasing independence.

4.1.3 Audit Committee Charter

The respondents were requested to indicate their extent of agreement concerning the statements on audit committee charter and financial management. The responses were placed on a five Likert scale ranging from 1 (Very Small Extent) to 5 (Very Large Extent). The findings were as shown in Table 3.

Table 3. Audit Committee Charter and Financial Management

Statement	1	2	3	4	5	Ave.%	Mean	SD
Audit committee meetings are held at least 4 times in a year in specified intervals increasing financial performance of the various ministries.	0%	2%	23%	71%	4%	76%	3.80	0.629
The work plan has specific number of activities outlined against cost/ budget by the ministry	0%	0%	9%	78%	13%	72%	3.61	0.694
The quorum of the audit committee meetings is when there are 3 out of 6 members with the chairman included	0%	5%	6%	81%	8%	73%	3.65	0.778
The number of each audit committee member's activities, duties and responsibilities is clearly spelt out in the scope by the ministry	0%	0%	9%	79%	12%	75%	3.75	0.639

From the findings the respondents agreed to a very large extent that Audit committee meetings are held at least 4 times in a years in specified intervals increasing financial performance of the various ministries (76%), followed by the number of each audit committee member's activities, duties and responsibilities is clearly spelt out in the scope by the ministry (75%), the quorum of the audit committee meetings is when there are 3 out of 6 members with the chairman included (73%), and that the work plan has specific number of activities outlined against cost/ budget by the ministry (72%). This depicts that Audit committee meetings are held at least 4 times in a year in specified intervals increasing financial performance of the various ministries.

4.1.4 Audit Committee Members' Technical Skills

This section will present findings on audit committee members' technical skills and financial management. The findings are shown in subsequent headings. The respondents were requested to indicate their extent of agreement concerning the statements on audit committee members' technical skills and financial management. The responses were placed on a five Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The findings were as in Table 4.

Table 4: Audit Committee Members' Technical Skills and Financial Management

Statement	1	2	3	4	5	Ave.%	Mean	SD
Prior extensive work experience in other areas / sectors of the members is checked and proven	0%	0%	23%	71%	6%	75%	3.76	0.2562
There are monthly accounts training organized for the audit committee members increasing their understanding of their audit function	0%	0%	10%	78%	12%	80%	3.99	0.1931

From the findings the respondents strongly agreed that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function (80%), and that prior extensive work experience in other areas / sectors of the members is checked and proven (mean=75%). This depicts that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function.

4.1.4.1 Extent of Competence of Audit Committee Staff

The respondents were requested to indicate the extent to which they think staffs in audit committee are competent in carrying out their role. The findings are shown below;

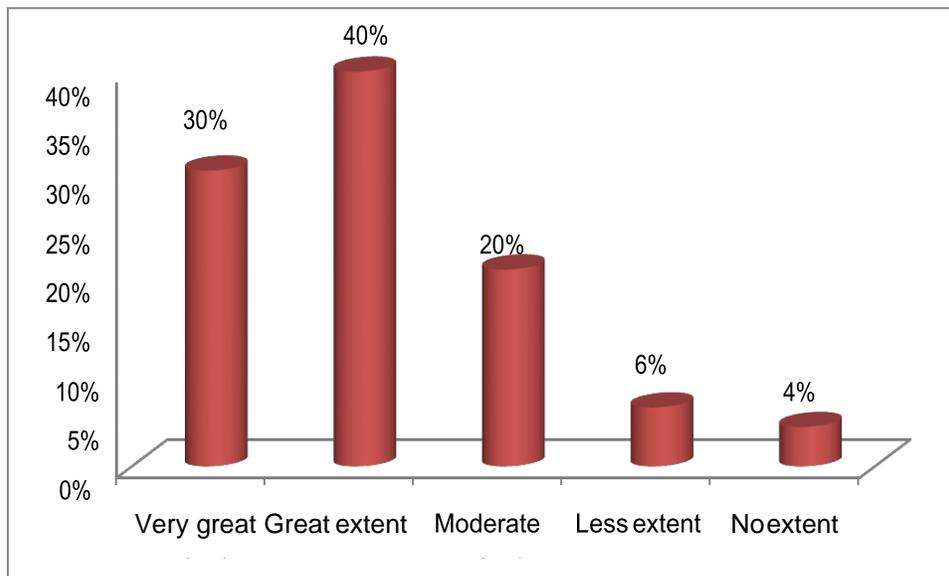


Figure 2: Extent of Competence of Audit Committee Staff

From the findings most (40%) of the respondents indicated to a great extent that the staff members of the audit committee were competent in carrying out their role, 30% indicated very great extent, 20% indicated moderate extent, 6% indicated less extent, while 4% indicated no extent. This depicts that to a great extent the staff members of the audit committee were

competent in carrying out their role.

4.1.5 Financial Management

This section will present findings on financial management in the public sector specifically the government ministries. The findings are shown in subsequent headings. The respondents were requested to indicate their extent of agreement concerning the statements on financial management. The responses were placed on a five Likert scale ranging from 1 (Very Small Extent) to 5 (Very Large Extent). The findings were as shown shown in Table 5.

Table 5: Extent of Agreement on Statement regarding Financial Management

Statement	1	2	3	4	5	Ave.%	Mean	SD
There has been a significant increase in revenues collection as a result of audit committee effectiveness in the recent past within the ministry	0%	0%	6%	80%	14%	82%	4.09	0.5581
There has been reduction/mitigation of fraud in the ministry and this has been as a result of audit committee effectiveness	0%	0%	7%	82%	11%	78%	3.89	0.3572
The frequency of debt management among various departments in the ministry has been increased hence leadingto higher effectiveness in the audit committee on financial management	0%	0%	24%	76%	0%	80%	4.01	0.4162

From the findings the respondents agreed to a very large extent that there has been a significant increase in revenues collection as a result of audit committee effectiveness in the recent past within the ministry (82%), followed by the frequency of debt management among various departments in the ministry has been increased hence leading to higher effectiveness in the audit committee on financial management (80%), and that there has been reduction/mitigation of fraud in the ministry and this has been as a result of audit committee effectiveness (78%). This depicts that there has been a significant increase in revenues collection and financial management as a result of audit committee effectiveness in the recent past within the ministry.

4.1.5 1 Effective Financial Management by Audit Committee

The respondents were requested to indicate the extent to which the various factors affect the effective financial management by audit committee in the ministry. The responses were placed on a five Likert scale ranging from 1 (Not at all) to 5 (Very Great Extent). The findings were as shown in Table 6.

Table 6: Effective Financial Management by Audit Committee

Statement	1	2	3	4	5	Ave.%	Mean	SD
Competency of auditors determines the quality of the audit work performed in your ministry	0%	0%	24%	76%	0%	74%	3.68	0.8224
Competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in your ministry	0%	0%	22%	74%	4%	69%	3.46	0.6343
Low educated and less competent staff affects competency and knowledge on auditing techniques	0%	0%	29%	69%	2%	70%	3.48	0.7112
Lack of competency and knowledge on auditing techniques is another major problem encountered by internal audit function in the public sector organizations	0%	0%	19%	74%	7%	71%	3.54	0.6941

From the findings the respondents agreed to a very great extent that competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in your ministry (74%), followed by lack of competency and knowledge on auditing techniques is another major problem encountered by internal audit function in the public sector organizations (71%), low educated and less competent staff affects competency and knowledge on auditing techniques (70%), and that competency of auditors determines the quality of the audit work performed in your ministry (69%).

This depicts that competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in your ministry. This agrees with a study by Ogoro & Simiyu, (2014), who stated that audit committees are required to have a number of characteristics for effective operation in their roles of vetting the integrity of financial statements. The characteristics include competency and financial expertise for the audit committee as proxy for evaluating the effectiveness of these committees in Kenya.

4.2. Inferential Statistics

The study further applied multiple regressions to determine the relationship between audit committee effectiveness and financial management in government ministries in Kenya. The researcher conducted a multiple regression analysis so as to test relationship among variables (independent) on the relationship between audit committee effectiveness and financial management in public sector taking a survey of government ministries in Kenya. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the

measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (relationship between audit committee effectiveness and financial management in public sector taking a survey of government ministries in Kenya) that is explained by all the four independent variables (audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills).

4.2.1 Model Summary

Model summary" table, provides information about the regression line ability to account for the total variation in the dependent variable

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.921 ^a	.849	.845	.04131

Table 4.9 illustrates the strength of the relationship between financial management and independent variables. From the determination coefficients, it can be noted that there is a strong relationship between dependent and independent variables given an R² values of 0.849 and adjusted to 0.845. This shows that the independent variables (audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills) accounts for 84.5% of the variations in financial management.

4.2.2 ANOVA Results

Analysis of variance (ANOVA) is a collection of statistical models used to analyze the differences among group means and their associated procedures (such as "variation" among and between groups).

Table 8: ANOVA of the Regression

	Sum of Square	df	Mean of Square	F	Sig.
Regression	195.57	4	48.892	9.44956	0.000817935
Residual	108.65	21	5.174		
Total	304.22	25			

Analysis of Variance (ANOVA) was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between variables (dependent and independent variables). This helps in bringing out the significance of the regression model. The ANOVA results presented in Table 4.10 shows that the regression model has a margin of error of p = .0008. This indicates that the model has a probability of 0.08% of giving false prediction. This therefore points to the significance level of the model.

4.2.3 Coefficient of Correlation

Multiple regression analysis was conducted as to determine the relationship between the financial management and the independent variables.

Table 9: Coefficient of Correlation

	Un-standardized		Standardize	t	Sig
	Coefficients		Coefficients		
	B	Std. Err	Beta		
(Constant)	3.77	0.451		8.359202	0.004
Audit committee membership composition	0.782	0.121	0.146	6.46281	0.003
Audit committee independence	0.463	0.079	0.126	5.860759	0.001
Audit committee charter	0.473	0.073	0.045	6.479452	0.005
Audit committee members' technical skills	0.532	0.073	0.142	7.287671	0.004

Financial Management= 3.77 + 0.782* Audit Committee membership composition + 0.463* audit committee independence + 0.473* audit committee charter + 0.532* audit committee members' technical skills

From the finding in Table 10, the study found that holding audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills; at zero financial management will be 3.77. It was established that a unit increase in audit committee membership composition, while holding other factors (audit committee independence, audit committee charter, and audit committee members' technical skills) constant, will lead to an increase in financial management by 0.782 (p = 0.003). Further, unit increase in audit committee independence, while holding other factors (audit committee membership composition, audit committee charter, and audit committee members' technical skills) constant, will lead to an increase in financial management by 0.463 (p = 0.001). A unit increase in audit committee charter, while holding other factors (audit committee membership composition, audit committee independence, and audit committee members' technical skills) constant, will lead to an increase in financial management by 0.473 (p =0.005).

Moreover, unit increase in audit committee members' technical skills, while holding other factors (audit committee membership composition, audit committee independence and audit committee charter) constant, will lead to an increase in financial management by 0.532 (p = 0.004).

This infers that audit committee membership composition contribute most to the financial management followed by audit committee independence. At 5% level of significance and 95% level of confidence, audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills are significant in financial management.

4.3. Discussion of Findings

The study found that audit committees with more than 3 members have been found to be more effective on ministerial financial management compared to those with fewer members. This agrees with a study by Bond & Dent, (2008) who stated that audit committee with many members have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background that results in the individual's financial sophistication, including service as a chief executive officer, chief financial officer, or other senior position with financial oversight responsibilities or otherwise satisfy standards for financial expertise required for audit committees of companies.

The study further established that the rotation of the audit committee members has been practiced where members are not allowed to serve a continuous period exceeding 3 years in one ministry increasing independence. This agrees with a study by Baxter & Cotter, (2009), who stated that it is important for the audit committee to have its own independence for it to execute its duties of financial management in an appropriate manner. If it lacks independence the audit committee may be puppet committee which cannot execute its duties appropriately thus the membership should be rotational to avoid compromising of the members.

The study also established that audit committee meetings are held at least 4 times in a year in specified intervals increasing financial performance of the various ministries. This agrees with a study by Kent, (2005) who argued that audit committee meeting should be held regularly to ascertain the financial performance of the ministries. This is so because an auditor's duty is to give a fair and truthful view of a client's set of the company accounts at regular intervals.

The study established that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function. This agrees with a study by Qin (2007) who asserts that firms with higher quality of earning are more associated with audit committee members who have accounts training. Audit committee with high frequency of training in accounts usually has significant impact on returns on equity and return on asset and hence organizational performance.

The study further found that that to a great extent the staff members of the audit committee were competent in carrying out their role. This agrees with a study by Lang, (2010) who stated that the experience and expertise of audit committee members in accounting and/or financial management is positively related to the quality of financial reporting and timeliness.

The study found that there has been a significant increase in revenues collection and financial management as a result of audit committee effectiveness in the recent past within the ministry. This agrees with a study by Beyanga (2011), who argued that an effective auditing service help in revenue collection and financial management, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance of an organization.

Finally the study established that competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in your ministry. This agrees with a study by Ogoro & Simiyu, (2014), who stated that audit committees are required to have a number of

characteristics for effective operation in their roles of vetting the integrity of financial statements.

5.0 Conclusion

Form the findings the study concluded that the audit committees with more than 3 members have been found to be more effective on ministerial financial management compared to those with fewer members.

Secondly also found that rotation of the audit committee members has been practiced where members are not allowed to serve a continuous period exceeding 3 years in one ministry increasing independence.

Thirdly the study concluded that audit committee meetings are held at least 4 times in a year in specified intervals increasing financial performance of the various ministries. Fourthly the study concluded that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function.

Fourthly the study concluded that there has been a significant increase in revenues collection and financial management as a result of audit committee effectiveness in the recent past within the ministry.

Finally the study concluded that competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in your ministry.

6.0 Recommendations

Management in the government ministries and other public institutions should enhance the effectiveness of audit committee by ensuring defined scope of auditing, top management supports to the audit committee, promote corporate governance, adopt skilled and qualified manpower, enable properly delineated authority, maintain integrity, objectivity, and professional independence and understand the firm's finances and operations.

Government ministries should adopt proper audit charter by having independent directors on the board, an independent board chair, an effective audit committee both external and internal audit mechanisms so as to independently carry audit mandate in the department.

Government ministries should adopt strategies that would discourage incomplete and restricted access to all forms of audit evidences; lack of planning, personnel management system, understanding on the role and responsibilities of the internal audit function, proper audit charter, sufficient staffing so as to pave way for effective audit committee operations in the government Ministries.

Government ministries should ensure the staff competency, professional auditing and offer guidance needed for audit staff committee competency, knowledge of auditors on auditing techniques, and efficiency of the auditor.

Government ministries must ensure the effectiveness of audit committee operations so as to establish and maintain effective internal accounting controls, provide reasonable assurance for safeguard ministry assets, reduce corruption and fraud cases, provide consulting services to assist management in implementing of governance processes, reduce the risk of public corruption, and

improve corporate governance.

References

- Baxter, P., & Cotter, J. (2009). *Audit committees and earnings quality*. *Accounting & Finance*, 49(2), 267-290.
- Beyanga, N. (2011). *Internal Audit in Banks and The Supervisor's Relationship with Auditors*. Basel Committee on Banking Supervision, 2-16.
- Bond, J. & Dent, U. (2008). *Auditing: A Nigeria Perspective*. Owerri: Mantle Publisher.
- Cohen, J. (2002). Corporate governance and the audit committee process. *Contemporary Accounting Research*, 19: 573-594.
- Daily, S., Donnell, E. & Arel, B. (2003). The influence of auditor experience on the persuasiveness of information provided by management. *Auditing: A journal of practice & theory*, 27(1), 67-83.
- Davidson, R., Goodwin-Stewart, J., & Kent, P. (2005). Internal governance structures and earnings management. *Accounting & Finance*, 45(2), 241-267.
- DiMaggio, P. (1988). Interest and agency in institutional theory. *Institutional patterns and organizations: Culture and environment*, 1, 3-22.
- Doug, M. & Scott, P. (2004). "Institutional theory." Pp. 408-14 in *Encyclopedia of Social Theory*, George Ritzer, ed. Thousand Oaks, CA: Sage.
- Gilkison, B. KPMG. (1999). *Accounting for a clean green environment*.
- Hanim, F., Haron, H., & Jantan, M. (2005). Internal auditing practices and internal control system. *Managerial Auditing Journal*, 20(8), 844-866.
- Hermanson, B. and Rittenberg, J. (2005). Functions and Objectives of Internal Audit and their Underlying Conditions. *Managerial Auditing Journal*, 247-250.
- Hussein, M. (2003). Internal auditing effectiveness: an expansion of present methods,

Managerial Auditing Journal, Vol. 16 No. 8, pp. 443-50.

Jensen, M. & Meckling, W. (1976). Agency Theory: Firm resources and sustained competitive advantage. *Journal of Management*, 17(1) 99-120.

Lindsell, D. (2002). *Blueprint for an Effective Audit Committee*, Accounting,

Meyer, K. & Rowan, N. (1977). *The Agency Theory*. In T. Clarke, & D. Branson, the SAGE Handbook of Corporate Governance (pp. 407-408). SAGE Publishers.

Ogoro, G. & Simiyu, C. (2014). Effectiveness of Audit Committees in the Public Sector: A Case of Parastatals in Kenya. *Research Journal of Finance and Accounting* ISSN 2222- 1697 (Paper) ISSN 2222-2847 Vol.6, No.4, 2015.

Qin, M. (2007). Risk management: the reinvention of internal control and the changing role of internal audit, *Accounting, Auditing & Accountability Journal*, Vol. 16 No. 4, pp. 640-61.

Turley, S., & Zaman, M. (2007). Audit committee Effectiveness: Informal Processes and Behavioral Effects. *Accounting, Auditing and Accountability Journal*, 20 (5).