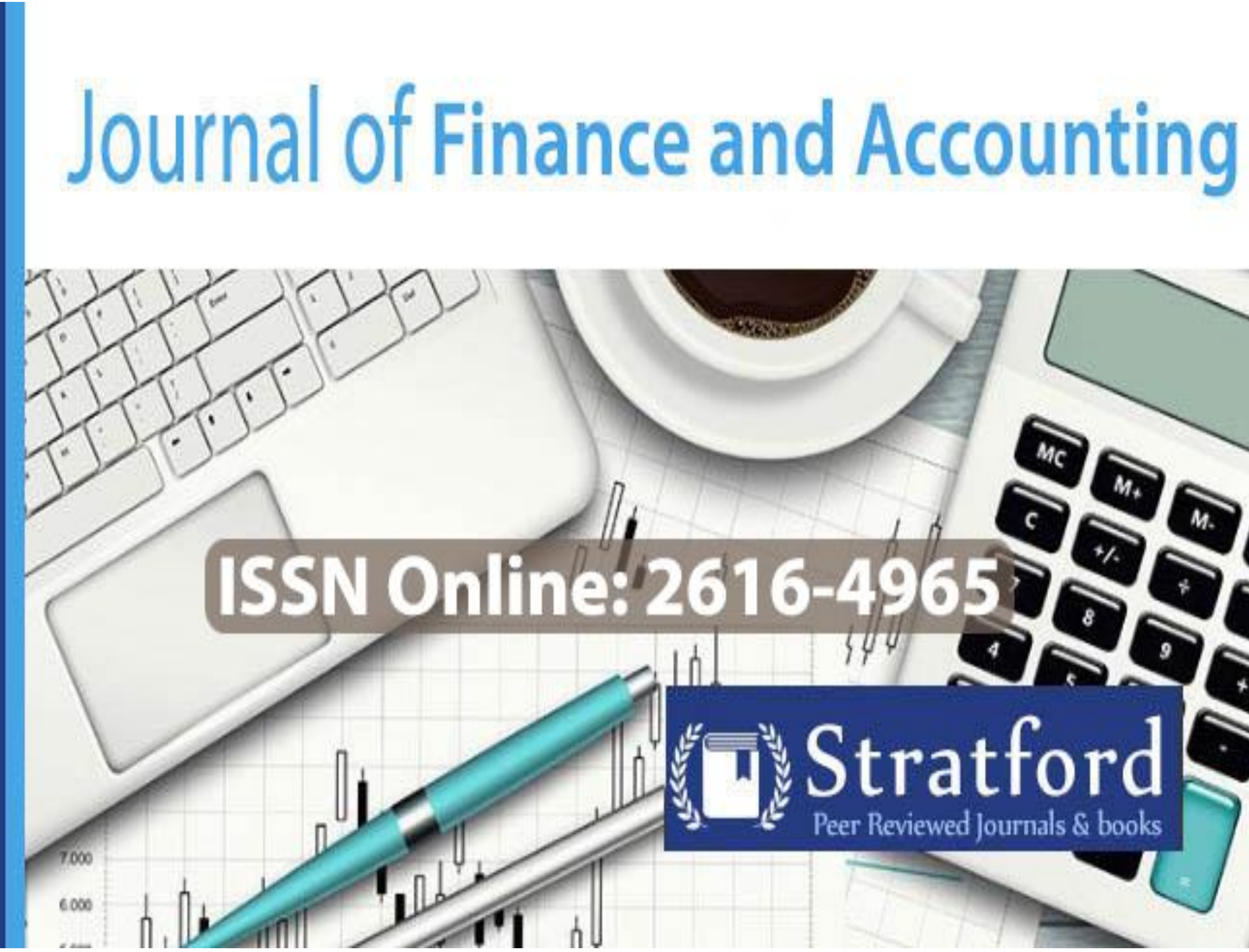

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Abstract

In the fast-paced and highly regulated business environment, compliance auditing has emerged as a backbone that influences how well financial institutions perform. Despite the widespread adoption of compliance auditing practices among commercial banks in Kenya, many institutions continue to experience inconsistent financial performance, characterized by unstable profitability trends, rising non-performing loans, and inability to maintain adequate capital and liquidity ratios. This study investigated the impact of compliance auditing practices on the corporate financial performance of commercial banks in Kenya, specifically examining the effects of policy audits, risk management audits, operational audits, and data privacy audits. The study was grounded in Agency Theory, Legitimacy Theory, System Theory, and the Balanced Scorecard Model. A descriptive survey design was adopted, targeting a population of 902 top and middle-level management staff from all 39 commercial banks in Nairobi, Kenya. Using the Taro Yamane (1967) formula, a sample size of 277 respondents was determined and selected through proportionate stratified random sampling. A questionnaire was used as the primary data collection instrument, and data was analysed using descriptive and inferential statistics through SPSS Version 29.0. The findings revealed that compliance auditing practices had a significant combined impact on corporate financial performance (Adj $R^2 = 0.762$, $F = 208.65$, $p < 0.05$). All four compliance auditing practices demonstrated statistically significant positive effects on financial performance, with policy audits recording the strongest effect ($B = 0.389$, $p = 0.001$), followed by risk management audits ($B = 0.373$, $p = 0.000$), data privacy audits ($B = 0.361$, $p = 0.000$), and operational audits ($B = 0.261$, $p = 0.003$). The study concludes that entrenchment of compliance auditing practices is essential for optimizing profitability, growth, and cost efficiency in commercial banks. Future researchers should extend the investigation to other sectors and incorporate both financial and non-financial performance attributes.

Keywords: *Compliance Auditing, Policy Audits, Risk Management Audits, Operational Audits, Data Privacy Audits, Financial Performance, Commercial Banks, Kenya*.

1.1 Introduction

In the fast-paced and highly regulated global business environment, performance serves as a crucial indicator of an organization's success or failure, playing a pivotal role in decision-making processes (Oladutire & Oladeji, 2020). The growth and development of economies worldwide depend, among other things, on the performance of their financial sectors, with compliance auditing emerging as a backbone in maintaining stakeholder trust, detecting risks, and improving operational efficiency (Ezejiofor & Okolocha, 2020; Sishumba et al., 2022). Globally, the stakes for non-compliance in the financial industry are high, with institutions that fail to comply facing operational disruptions, financial penalties, and reputational damage (Sathyamoorthi et al., 2020). For instance, Taiwan and Italy recorded compliance levels as low as 25% in 2019, while Sri Lanka's financial institutions recorded a compliance rate of only 47.2% in 2021, underscoring the pervasive nature of compliance challenges across jurisdictions (Dissanaye et al., 2021).

At the regional level in Africa, shifting the focus from mere adherence to laws toward value creation has emerged as a transformative strategy that enhances the management of bank assets and results in improved financial performance (Oladutire & Oladeji, 2020). In Botswana, composite credit risk, inefficiencies in resource allocation, and inadequate risk management practices in the banking sector have been cited as significant contributors to financial underperformance (Sathyamoorthi et al., 2020). Similarly, Zambia's commercial banks have been unable to attain their set goals due to incidents of fraud and theft rooted in a lack of effective internal audits (Sishumba et al., 2022). In Ghana, significant risk management auditing factors, including liquidity, credit, and interest rate disclosures, have been found to positively influence financial performance (Apreku-Djan et al., 2022), further affirming the critical role of compliance auditing across Africa's banking landscape.

Locally in Kenya, despite the widespread adoption of compliance auditing practices, many commercial banks still experience inconsistent financial performance, characterized by an inability to maintain adequate capital and liquidity ratios, rising non-performing loans, and occasional insolvency proceedings (CBK, 2023; CBK, 2022). Return on assets for Kenyan commercial banks stood at 2.6% in 2017, declined to 1.7% in 2019, recovered to 3.1% in 2020, then dropped again to 2.50% in 2021, reflecting an unstable profitability trend linked to poor internal control functions and rising credit risks (Statista, 2022; Wanjiru, 2025). Studies conducted locally affirm that compliance auditing practices, including data privacy audits, policy audits, operational audits, and risk management audits, are key strategies that influence institutions' financial performance and stability (Muriithi & Muigai, 2024; Wekesa & Malenya, 2020). However, despite evidence on individual facets, there remains scant comprehensive research that examines the combined effect of these practices on corporate financial performance (Kipyegon, 2023; Abdirahman, 2021).

It is against this background that this study sought to investigate the impact of compliance auditing practices on the corporate financial performance of commercial banks in Kenya, with specific focus on policy audits, risk management audits, operational audits, and data privacy audits. The study was grounded in Agency Theory, Legitimacy Theory, System Theory, and the Balanced Scorecard Model, adopting a descriptive survey design targeting 902 top and middle-level management staff from all 39 commercial banks in Nairobi, Kenya (CBK, 2024). A proportionate stratified random sampling technique was used to select 277 participants, with data collected through a semi-structured questionnaire and analyzed using descriptive and inferential statistics

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via SPSS Version 29.0. The findings contribute to the body of knowledge on compliance auditing, enriching policy formulation and best practices in Kenya's banking sector.

1.2 Problem Statement

In Kenya, despite the widespread adoption of compliance auditing practices among commercial banks, many institutions still experience inconsistent financial performance, characterized by the inability to maintain adequate capital and liquidity ratios, rising non-performing loans, and occasional insolvency proceedings (CBK, 2023; CBK, 2022). Return on assets for Kenyan commercial banks stood at 2.6% in 2017, declined to 1.7% in 2019, recovered to 3.1% in 2020, and dropped again to 2.50% in 2021, reflecting an unstable profitability trend linked to poor internal control functions, rising credit risks, and muted loan uptake due to a high-interest rate environment (Statista, 2022; NCBA, 2024; Wanjiru, 2025). Despite regulatory reforms and increased emphasis from the Central Bank of Kenya, many banks continue to report persistent high non-performing loans and governance lapses, suggesting that the poor development in profitability undermines strategic decision-making by regulators and bank management seeking to align audit functions with long-term financial stability (Ali, 2023; Abdirahman, 2021).

Several Kenyan studies have examined individual aspects of compliance auditing and financial performance. For instance, Simbiri et al. (2023) found that risk management audits are associated with higher return on assets and return on equity, while Wambua et al. (2022) and Oloo et al. (2022) demonstrated that compliance with internal control guidelines has a measurable positive effect on the profitability of commercial banks. Additionally, Kipyegon (2023) observed that data privacy audits and operational process-oriented audits play a statistically significant role in enhancing financial performance. Despite this evidence, there remains scant comprehensive research that examines the combined effect of policy audits, risk management audits, operational audits, and data privacy audits on corporate financial performance, creating a knowledge gap that limits both academic understanding and policy formulation in Kenya's banking industry, which this study sought to address.

1.3 Research Objectives

The primary research objective was to investigate the impact of compliance auditing on the corporate financial performance of commercial banks in Kenya. The following were the specific objectives;

i. To establish the effect of policy audits on the financial performance of commercial banks in Kenya.

ii. To determine the effect of risk management audits on the financial performance of commercial banks in Kenya.

iii. To find out the effect of operational audits on the financial performance of commercial banks in Kenya.

iv. To determine the effect of data privacy audits on the financial performance of commercial banks in Kenya.

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1.4 Research Questions

i. What is the effect of policy audits on the financial performance of commercial banks in Kenya?

ii. What is the effect of risk management audits on the financial performance of commercial banks in Kenya?

iii. What is the effect of operational audits on the financial performance of commercial banks in Kenya?

iv. What is the effect of data privacy audits on the financial performance of commercial banks in Kenya?

2.1 Literature Review

This section presents the theoretical and empirical literature underpinning the study. It begins with a review of the theories that guided the study, followed by an examination of empirical studies related to the study variables. The section concludes with a conceptual framework illustrating the relationship between compliance auditing practices and corporate financial performance of commercial banks in Kenya.

2.2 Theoretical Review

2.2.1 Agency Theory

Agency theory, developed by Jensen and Meckling (1976), explains the relationship between principals, such as shareholders, and agents, such as company executives, suggesting how these interactions shape organizational outcomes. The theory posits that monitoring mechanisms, including financial audits, performance evaluations, and robust reporting systems, are essential in reducing information asymmetry and aligning the interests of both parties, thereby minimizing agency problems (Panda & Leepsa, 2020). In the context of commercial banks, where operations involve long term liabilities, high stakes decision making, and complex financial instruments, agency risks are particularly acute, making compliance auditing a pivotal tool that bridges the gap by enforcing accountability and control mechanisms (Sandhya, 2021). The theory was used in this study to underpin policy audits and risk management audit practices, explaining how well designed audit mechanisms enhance financial performance through the reduction of agency related inefficiencies (Deribe & Regasa, 2022).

2.2.2 Legitimacy Theory

Legitimacy theory, propounded by Suchman (1995), assumes that organizations are obligated to create additional value in society and must maintain interaction between their value systems to gain and sustain legitimate status. The theory identifies three types of legitimacy, namely cognitive, pragmatic, and moral, which collectively encompass the formation of accountability, reporting, and the implementation of organizational changes in response to societal expectations (Gao & Cao, 2022). In the banking sector, which operates in a highly regulated industry, survival depends on maintaining legitimacy with regulators, customers, and society, compelling banks to operate in a manner consistent with existing social norms and regulatory frameworks (Francés-Gómez, 2020). This theory was used in the study to underpin the data privacy audit practice variable, as data privacy compliance signals institutional accountability and garners societal approval and support, which in turn contributes to financial performance.

2.2.3 System Theory

System theory, developed by Ludwig Von Bertalanffy in the 1940s, provides a framework that explains how recognized achievement and performance in organizational initiatives are rooted in the correlation of many interacting elements within a larger system (Bertalanffy, 1968). The theory posits that all system parts depend on one another, with feedback from the environment enabling organizations to identify changing attitudes and behaviours, thereby impacting knowledge and skill development (Lai & Huili, 2020). In the banking context, the theory supports the view that compliance auditing practices form an interrelated system through the management and operations of subsystems, enabling banks to function cohesively and align with external regulatory demands (Fang et al., 2021). The theory was particularly applicable in underpinning operational audit practices in this study, as operational audits evaluate the effectiveness, efficiency, and compliance of organizational operations within the broader institutional system, contributing to improved financial performance.

2.2.4 Balanced Scorecard Model

The Balanced Scorecard model, developed by Kaplan and Norton (1992), is a strategic management tool that integrates four performance perspectives, namely financial, customer innovativeness, internal business processes, and learning and growth, to link organizational performance to strategy. The model goes beyond traditional financial evaluation methods, enabling organizations to balance short and long term goals, as well as financial and non-financial measures, thereby providing a comprehensive view of performance through a single integrated report (Stojkovski & Nenovski, 2021). In the banking sector, which is considered the most controlled and regulated industry, the BSC framework compels institutions to set financial objectives alongside concrete activities that consider internal processes, customer satisfaction, and employee development (Burtseva & Chausow, 2020). The model was used in this study to anchor the dependent variable of corporate financial performance, measured through profitability, growth, and cost efficiency, as commercial banks are expected to develop strategic compliance auditing practices to remain agile and achieve their broader organizational goals (Kaplan & Norton, 1992).

2.3 Empirical Review

2.3.1 Internal Policy Audits and Financial Performance

Several studies have documented the benefits of internal policy audits on financial performance. Chen and Chen (2024) empirically assessed the impact of mandatory internal policy auditing systems on the financialization of enterprises based on China's A-share listed companies spanning 2007 to 2021, revealing that companies that prioritize robust audit practices position themselves to safeguard their reputation, operate efficiently, and achieve sustainable performance and growth. Similarly, Hazaea et al. (2020) investigated internal policy audits in Yemeni commercial banks from the perspectives of independence, adherence to internal audit standards, and governance principles, finding that improved performance in institutions is greatly influenced by independence, governance policies, and adherence to principles as dimensions of internal policy audits. Locally, Mungai et al. (2021) revealed a direct correlation between the effectiveness of internal controls and financial performance in public universities in Kenya, noting that defining procedures for monitoring and enforcing compliance helps auditors identify areas of non-compliance and work with management to implement corrective actions. Despite these findings, most reviewed studies relied solely on descriptive statistics or were conducted in contexts different from Kenya's commercial banking sector, creating gaps that this study sought to address.

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2.3.2 Risk Management Audits and Financial Performance

The relationship between risk management audits and financial performance has been widely investigated across different contexts. Mamari et al. (2022), focusing on Saudi Arabian banks, revealed that predictor variables including capital adequacy, credit risk, and liquidity risk agents positively impact banks' performance as measured by return on assets and return on equity, with effective risk management helping banks enhance operational efficiency and reduce costs. In Ghana, Apreku-Djan et al. (2022) found that significant risk management auditing factors, including liquidity, credit, and interest rate disclosures, positively influence financial performance, although the study's small sample of nine banks limited its generalizability. Locally, Nderitu (2022) explored the effect of risk based auditing on the performance of deposit taking savings and credit cooperatives in Kenya, finding that credit risk, liquidity risk, and capital adequacy audits positively impact performance, with a unit change in risk based auditing resulting in a 53.04 unit change in the dependent variable. These findings collectively affirm the critical role of risk management audits in enhancing financial performance, though contextual and methodological gaps necessitated further investigation within Kenya's commercial banking sector.

2.3.3 Operational Audits and Financial Performance

Research on operational audits consistently demonstrates their positive influence on organizational financial performance. Mohammed et al. (2022) investigated the effect of operational audits on enhancing the growth of Iraqi government banks, finding a significant positive link between operational audit practices and financial performance, noting that audits reduce costs, identify inefficient processes, and help ensure compliance with policies and laws. In Indonesia, Fuadah et al. (2023) analyzed the operational audit function in measuring company performance, revealing that the main goal of operational audits is to evaluate resource utilization efficiency, management practice effectiveness, and the alignment of operational activities with strategic objectives. Similarly, Novi (2024) found a positive relationship between operational audit practices and organizational performance of manufacturing companies in Indonesia, with the significant value of the operational audit variable at 0.003, confirming that operational auditing draws management's attention to deficiencies in planning, resource allocation, and policy implementation. However, most of these studies were conducted outside the banking sector or relied on qualitative data collection methods, creating methodological and contextual gaps that this study sought to bridge.

2.3.4 Data Privacy Audits and Financial Performance

The influence of data privacy audits on organizational financial performance has attracted growing scholarly attention. Arumugam and Karuppuchamy (2025) examined the ways in which data protection audits influence hospital performance in India, finding a positive effect of data protection audit practices on performance, noting that continuous checks ensure data is protected and compliance with data protection laws is maintained. In Algeria, Meghdouri and Bouras (2025) explored the ways in which data security protection enables financial performance in the banking sector, finding that for each unit increase in data security, investor confidence and performance increased by 0.50, affirming that data security and protection practices are closely associated with higher investor confidence. Locally, Kagechu (2023) determined that data privacy audit practices led to approximately a 10% increase in the performance of banks listed on the Nairobi Securities Exchange, with preliminary evidence suggesting that data privacy breaches negatively impact performance, especially when experienced more than once. Despite these findings, most studies

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focused on a single aspect of compliance auditing or were conducted in sectors other than commercial banking, leaving a gap in understanding how data privacy audits collectively influence corporate financial performance in Kenya's banking sector.

2.4 Conceptual Framework

A conceptual framework is a diagrammatic representation that illustrates the relationship between the independent and dependent variables in a study. The conceptual framework demonstrates the relationship between compliance auditing practices (independent variables) and corporate financial performance (dependent variable) of commercial banks in Kenya. Figure 1 presents the conceptual framework showing the relationship between these variables.

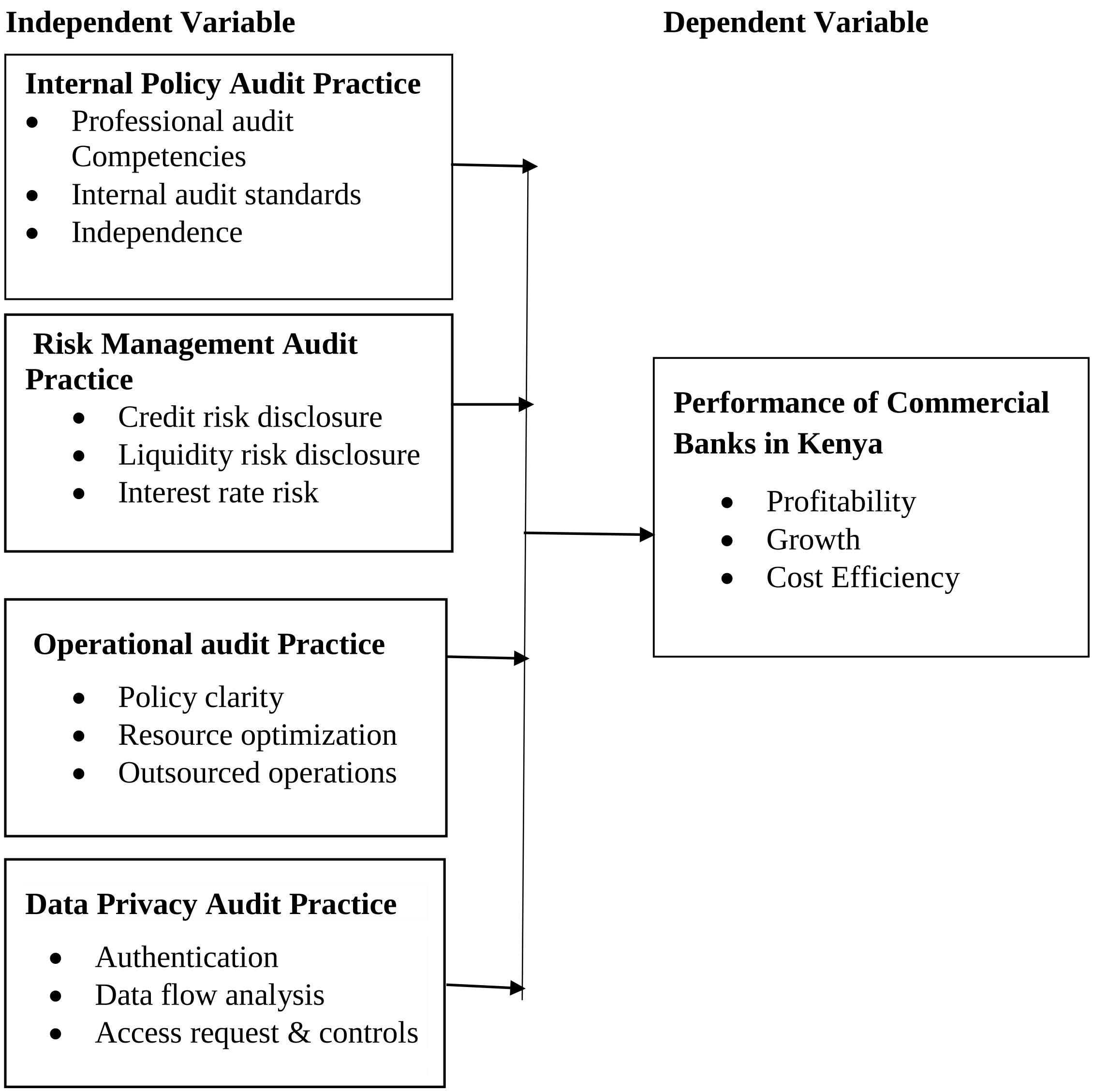

Figure 1: Conceptual Framework

The framework depicts four key compliance auditing practices as independent variables: policy audits, risk management audits, operational audits, and data privacy audits. These practices are hypothesized to influence the dependent variable, which is corporate financial performance, measured through profitability, growth, and cost efficiency. The conceptual framework illustrates that effective implementation of these compliance auditing practices is expected to result in improved financial performance outcomes for commercial banks.

3.1 Research Methodology

The study adopted a descriptive survey research design, which enabled the researcher to establish the current status of compliance auditing practices and their influence on the financial performance of commercial banks in Kenya. The target population comprised 902 top and middle-level management staff drawn from all 39 commercial banks in Nairobi, Kenya, spanning operations management, marketing, finance, and information technology departments (CBK, 2024). Using the Taro Yamane (1967) formula, a sample size of 277 respondents was determined, selected through a proportionate stratified random sampling technique to ensure representativeness across all strata. A semi-structured questionnaire was used as the primary data collection instrument, gathering both quantitative and qualitative data. Validity was ascertained through content and construct validity tests, while reliability was confirmed through Cronbach's Alpha, which yielded an overall coefficient of 0.8, exceeding the recommended threshold of 0.7 (Johnson & Christensen, 2024). Data was analysed using descriptive and inferential statistics, including correlation and multiple linear regression analysis, with diagnostic tests for multicollinearity, heteroscedasticity, and autocorrelation conducted to ensure conformity with classical linear regression assumptions.

4.1 Results and Findings

This chapter presents the findings from the data collected and analysed in the study. A total of 277 questionnaires were distributed to top and middle level management staff across all 39 commercial banks in Nairobi, Kenya, of which 260 were returned fully answered, representing a response rate of 93.8%. This response rate was considered adequate for analysis, conclusions, and recommendations, as it surpassed the 70% threshold recommended by Kothari (2004). The findings are presented in accordance with the study objectives, covering demographic background, descriptive statistics, diagnostic tests, correlation analysis, and regression analysis, providing a comprehensive account of the influence of compliance auditing practices on the corporate financial performance of commercial banks in Kenya.

4.2 Demographic Statistics

The demographic characteristics of the study respondents were examined from the perspectives of gender, age, academic qualification, and management related experience. Findings revealed that female respondents constituted the majority at 56%, while male respondents accounted for 44%, indicating an inclusive gender representation with no bias in data collection. In terms of age, the majority of participants were aged between 30 and 39 years, representing 61% of the total respondents, followed by the 40 to 49 age group at 22%, confirming that most participants were mature and experienced professionals whose responses could be relied upon. Regarding academic qualifications, 50% of respondents held postgraduate qualifications, 44% held undergraduate degrees, and 6% had doctoral qualifications, reflecting a highly educated sample with relevant expertise in compliance auditing. On management related experience, 51% of respondents had between 6 and 10 years of experience, 29% had between 11 and 15 years, and 15% had over 16 years, confirming that the majority of participants based their responses on considerable practical experience in management positions within commercial banks.

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4.3 Descriptive Statistics

Descriptive statistics were used to analyse the data collected through the survey questionnaire, measuring central tendency and dispersion through means and standard deviations. Respondents were required to rate various statements on a five point Likert scale, where a score of 1 indicated total disagreement and a score of 5 indicated total agreement. The classification system adopted by Zaidaton and Bagheri (2009) was applied to interpret the results, whereby a mean score of 3.80 and above was considered high, 3.40 to 3.79 was considered moderate, and 3.39 and below was considered low. The findings across all four compliance auditing practice variables and the dependent variable of financial performance are summarised in Table 4.1 below.

Table 1: Summary of Descriptive Statistics for Study Variables

Variable	Overall Mean	Std. Deviation	Interpretation
Policy Audit Practices	3.75	0.63	Moderate
Risk Management Audit Practices	4.42	0.85	High
Operational Audit Practices	4.21	0.73	High
Data Privacy Audit Practices	3.28	1.72	Low
Financial Performance	3.41	0.52	Moderate

Source: Survey Data (2025)

The descriptive findings indicate that risk management audit practices recorded the highest mean score of 4.42, reflecting a high level of adoption and perceived impact on financial performance among respondents. Operational audit practices followed closely with a mean of 4.21, also rated highly by respondents. Policy audit practices recorded a moderate mean of 3.75, while financial performance registered a moderate mean of 3.41, suggesting that compliance auditing practices collectively contribute to improved financial outcomes in commercial banks. Data privacy audit practices recorded the lowest mean of 3.28 with the highest standard deviation of 1.72, indicating moderate agreement with notable variability in respondents' perceptions, which may reflect differences in the level of data privacy audit adoption across the sampled banks.

4.4 Diagnostics

Prior to conducting inferential analysis, diagnostic tests were performed to ensure that the data conformed to the classical linear regression assumptions. Three diagnostic tests were conducted, namely multicollinearity, heteroscedasticity, and autocorrelation tests, and the results are presented in this section.

The multicollinearity test was conducted using Variance Inflation Factors (VIF), with results indicating that all variables recorded VIF values below the threshold of 10, specifically policy audits (VIF = 7.08), operational audits (VIF = 5.48), data privacy audits (VIF = 5.32), and risk management audits (VIF = 3.67), confirming that none of the independent variables suffered from multicollinearity (Osborne & Waters, 2019). The heteroscedasticity test yielded a chi-square value of 1.64 and a p-value of 0.2745, which was greater than the 0.05 significance level, confirming the null hypothesis of homoscedasticity and indicating that no heteroscedasticity existed in the data. Finally, the autocorrelation test was conducted using the Durbin Watson statistic, with values ranging between 1.116 and 3.542 across the study variables, reflecting that the model's residuals were not autocorrelated, as values closer to 2 indicate independent observations (Flatt & Jacobs, 2019). The results of all three diagnostic tests confirmed that the data met the necessary regression assumptions, providing a sound basis for proceeding with inferential analysis.

4.5 Correlation Analysis

A Pearson Product Moment correlation analysis was conducted to establish the nature and strength of the relationship between the four compliance auditing practices and the corporate financial performance of commercial banks in Kenya. Table 2 displays the correlation test analysis results.

Table 2: Correlation Matrix

	Financial Performance	Policy Audit	Risk Management Audit	Operational Audit	Privacy Audit
Financial Performance	1.000				
Policy Audit	.623**	1.000			
	0.000				
Risk Management Audit	.548**	.230**	1.000		
	0.000	0.000			
Operational Audit	.566**	.324**	.250**	1.000	
	0.000	0.000	0.000		
Privacy Audit	.540**	.197**	.133*	.281**	1.000
	0.000	0.001	0.032	0.000	

The findings revealed that all four independent variables exhibited strong positive and statistically significant correlations with financial performance at $p < 0.001$. Specifically, policy audits recorded the strongest correlation with financial performance ($r = 0.623$, $p < 0.001$), followed by operational audits ($r = 0.566$, $p < 0.001$), risk management audits ($r = 0.548$, $p < 0.001$), and data privacy audits ($r = 0.540$, $p < 0.001$). Based on the classification by Huber (2004), whereby correlation coefficients ranging from 0.5 to 0.9 are considered substantial or strong, all four independent variables demonstrated strong positive correlations with financial performance, exceeding the 0.5 threshold. These findings imply that improvements in any of the compliance auditing practices would be associated with enhanced financial performance in commercial banks, and that commercial banks investing in robust policy audits, risk management audits, operational audits, and data privacy audits are more likely to experience improved financial performance outcomes.

4.6 Regression Analysis

A multiple linear regression analysis was conducted to examine the combined influence of compliance auditing practices on the corporate financial performance of commercial banks in Kenya. The model summary presented in Table 3 indicates that the four independent variables had a strong combined relationship with the dependent variable, with a multiple correlation coefficient (R) of 0.875, reflecting a very strong positive relationship between the predictor variables and financial performance. The coefficient of determination (R^2) of 0.766 indicates that 76.6% of the variance in financial performance is explained by the four compliance auditing practices, while the adjusted R^2 of 0.762 confirms the model's robustness and goodness of fit.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.875a	0.766	0.762	0.33558

The ANOVA results presented in Table 4 reveal that the overall regression model was statistically significant, with an F-statistic of 208.65 and a p-value of 0.000, which is less than the 0.05 significance level, providing strong evidence that compliance auditing practices collectively have a significant impact on the financial performance of commercial banks in Kenya.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	93.987	4	23.497	208.65	.000b
	Residual	28.716	255	0.113		
	Total	122.703	259			

The regression coefficients presented in Table 5 indicate that all four compliance auditing practices demonstrated statistically significant positive effects on financial performance. Policy audits had the strongest effect (B = 0.389, β = 0.393, t = 12.027, p = 0.001), followed by risk management audits (B = 0.373, β = 0.348, t = 10.969, p = 0.000), data privacy audits (B = 0.361, β = 0.344, t = 10.815, p = 0.000), and operational audits (B = 0.261, β = 0.256, t = 7.643, p = 0.003).

Table 5: Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-1.158	0.146		-7.908	0.000
Policy Audit	0.389	0.032	0.393	12.027	0.001
Risk Management Audit	0.373	0.034	0.348	10.969	0.000
Operational Audit	0.261	0.034	0.256	7.643	0.003
Privacy Audit	0.361	0.033	0.344	10.815	0.000

Based on these findings, the regression equation was expressed as follows:

$$\mathbf{Y = -1.158 + 0.389X_1 + 0.373X_2 + 0.261X_3 + 0.361X_4}$$

These results provide strong empirical evidence that compliance auditing practices, when implemented collectively, significantly enhance the financial performance of commercial banks in Kenya, affirming the need for commercial banks to invest in comprehensive compliance auditing systems encompassing policy audits, risk management audits, operational audits, and data privacy audits.

5.1 Discussions

The findings revealed that policy audits had the strongest positive and statistically significant effect on financial performance ($B = 0.389$, $p = 0.001$). These findings are consistent with Chen and Chen (2024), who established that companies prioritizing robust audit practices achieve sustainable performance and growth. Similarly, Hazaea et al. (2020) demonstrated that independence, governance policies, and adherence to principles significantly influence bank performance. Locally, Mungai et al. (2021) and Abdirahman (2021) affirmed that monitoring and enforcing compliance helps auditors identify areas of non-compliance and implement corrective actions. These findings resonate with agency theory, which posits that well designed audit mechanisms enhance financial performance through reduction of agency related inefficiencies (Jensen & Meckling, 1976; Panda & Leepsa, 2020).

Risk management audits ($B = 0.373$, $p = 0.000$) and data privacy audits ($B = 0.361$, $p = 0.000$) both demonstrated significant positive effects on financial performance. Mamari et al. (2022) found that capital adequacy, credit risk, and liquidity risk agents positively impact bank performance, while Apreku-Djan et al. (2022) and Hameed et al. (2020) confirmed similar findings in Ghana and Malaysia respectively. Locally, Simbiri et al. (2023) and Nderitu (2022) supported these results. Regarding data privacy audits, Meghdouri and Bouras (2025) and Kagechu (2023) affirmed that privacy audit practices enhance investor confidence and improve financial performance, consistent with legitimacy theory (Suchman, 1995; Gao & Cao, 2022).

Operational audits demonstrated a statistically significant positive effect on financial performance ($B = 0.261$, $p = 0.003$). Mohammed et al. (2022) found a significant positive link between operational audit practices and financial performance, noting that audits reduce costs and identify inefficient processes. Fuadah et al. (2023) and Novi (2024) further confirmed that operational audits evaluate resource utilization efficiency and align operational activities with strategic objectives. Locally, Wekesa and Malenya (2020) and Muriithi and Muigai (2024) established that operational audits facilitate policy clarifications and resource optimization, consistent with system theory (Bertalanffy, 1968; Fang et al., 2021).

6.1 Conclusions

The study concludes that compliance auditing practices have a significant positive impact on the corporate financial performance of commercial banks in Kenya. Policy audits, risk management audits, data privacy audits, and operational audits all demonstrated statistically significant positive effects on profitability, growth, and cost efficiency. Policy audits emerged as the strongest contributor to financial performance, followed by risk management audits, data privacy audits, and operational audits respectively. These findings affirm that commercial banks that entrench robust compliance auditing practices within their operations are better positioned to achieve sustainable financial performance, regulatory compliance, and long term organizational stability.

7.1 Recommendations

The study recommends that commercial banks strengthen their internal policy audit frameworks by ensuring independence of audit functions and enhancing professional competence of internal auditors. Banks should implement an integrated risk management framework that consolidates credit risk, liquidity risk, and interest rate risk into a unified system, supported by sophisticated risk assessment tools. Additionally, commercial banks should enhance their operational audit practices by conducting regular assessments to identify inefficiencies and align operational activities with strategic objectives. Finally, banks should strengthen their data privacy audit frameworks by continuously enhancing security measures, conducting regular privacy audits, and ensuring compliance with prevailing data protection regulations to safeguard customer trust and institutional integrity.

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