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Factors Influencing Performance of Internal Auditors in County Governments in Kenya

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Abstract

Despite all county governments having an internal audit unit, a large number of them are still exposed to risks and therefore achievement of their objectives is hampered. This research project aimed to establish the factors which influence the performance of internal audit units in county governments anchored on four specific objectives: To establish the influence of an independent audit committee on internal auditors' performance, to investigate the influence of to the auditors' competence on performance, to assess the influence of top management support on internal auditors' performance, to evaluate the influence of availability of financial resources on performance of internal audit unit. The research was a survey of auditors across the 47 counties in Kenya. Descriptive statistics determined the relationship between the variables and regression analysis established the extent and the significance of the relationship. The study concluded that audit committee independence, affiliation to professional bodies, top management support and availability of resources had a significant effect on performance of internal auditors in County Governments. The study recommends that top management in the County Governments should adopt effective internal audit practices including independence of audit committee, professional competency, and allocation of adequate financial resources to enhance performance of internal auditors in the County Governments.

Keywords: *Independent audit committee, competence, top management support, financial resources and performance*

1.1 Introduction

The internal auditors have the mandate to participate effectively in the audit committee. An audit committee operates the board committee whereby the board of directors is responsible for financial reporting and disclosures. The company's Act Cap 486 provides that all corporate entities shall have an independent audit committee which acts as an oversight committee to enhance accountability and transparency in the management of company resources. In the public sector, the Public Finance Management Act (2012), gives a guideline on the formation and role of the audit committees in ministry ministries, departments and county governments. In executing their mandate of oversight, the audit committees wholly depend on audit reports from the internal audit unit within the ministry, government department or county government in which that audit committee is situated. County governments should therefore have an effective internal audit unit which is independent in reporting. Effective and independent reporting enables the audit committee to ascertain the level and governance risks in order to advice county management to put in mitigation measures in order to achieve county objectives. For internal auditors to perform their functions well, they have to work in a conducive environment. Key factors such as management support, availability of resources, independence of internal auditor and commitment of management to influence the auditor's performance is critical. (Smith, Normah, Zulkarnan & Ithnahaini, 2001)

1.2 Statement of the Problem

All county governments have an internal audit unit which is presumed to effectively perform the oversight functions and add value to governance system. However, in the recent years, the internal audit effectiveness in providing the oversight roles has been in question. During the financial year 2015/2016, the Auditor General in his audit report on expenditure of public funds in County Governments, reported inefficient allocation of financial resources causing arise in pending bills to kshs 35.84 billion. This being a rise of 40% from the previous year 2014/15. The net effect being that counties not being able to provide services to the citizenry. Further, in his report for the financial year ended June 2017, The Auditor General reported that out of 47 financial reports, 7 had unqualified opinion, 24 had qualified opinion and 16 had adverse opinion. This is an indication that the management of financial resources in county governments is still wanting despite county governments having internal auditors as a governance tool mandated to evaluate risks, provide advisory services and raise red flags on earliest suspicion of financial mismanagement. This research therefore wants to investigate factors influencing the internal auditor's performance in county governments and establish reasons as to why internal auditors in county governments are unable to play their role effectively as a public watchdog.

1.3 Research Objectives

i. To establish the influence of audit committee independence on internal auditors' performance.
ii. To investigate the influence of competence on internal auditors' performance.
iii. To assess the influence of top management support on internal auditors' performance.
iv. To evaluate the influence of availability of financial resources to the performance of an internal auditor.

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1.4 Conceptual Framework

Independent Variables

Independence of Audit Committee

- Administrative actions being taken on audit reports
- Competitive appointment of the audit committee members

Competence of internal auditors

- Payment of annual subscription fees
- Engagement plans and programs conforming to IPPF guidelines

Top Management Support

- Response to audit reports
- Availability of risk registers

Availability of financial resources

- Availability of budget for auditors
- Authority to incur expenditure
- Availability of working tools

Dependent Variable

Internal Auditors Performance

- Number of audit reports planned and completed
- Percentage of audit recommendations implemented
- Percentage reduction in audit queries
- Percentage reduction in organizational risk index

Figure 1: Conceptual Framework

2.0 Literature review

2.1 Empirical Review

Internal auditors performance is a measure of how many planned audit activities the auditor performs and issues reports in a financial year and which address organizations risks and mitigating recommendations(GoK Internal audit manual, 2015).An internal auditor should plan his activities in accordance with the international professional framework by first carrying out a desk review on the risks, carefully evaluating the risks and advising management on internal control weaknesses.(IIA, 2016).Thus the measure of an internal auditors performance would be measured by the number of audit reports planned and completed, percentage of audit recommendations implemented by management, percentage reduction in audit queries from the office of Auditor General and percentage reduction overall risk index of the organization.

An audit committee is an operating committee of the board of directors which is in charge of financial reporting and disclosure. Audit issues raised by the Internal audit unit in the county government are addressed to the Chief Officer [CO] with a copy to the audit committee who deliberates on the issues raised by the auditor and makes a follow up on audit recommendations to ensure that the recommendations are implemented and appropriate administrative action has been undertaken. Therefore, independence of the audit committee is paramount for the effectiveness of internal audit. Members of audit committees are deemed to be independent if they are not involved in the day today activities of the organization, they are not full time employees, they are not suppliers or customers of the organization, are not related to senior executives of the organization, are not members of immediate family of the senior executives and do not have a direct or indirect interest in the organization (Johana & Erasmus, 2017).

Professional bodies are self-regulating and have historically used codes of conduct and ethics to clarify the responsibilities of members to those they serve and to one another. Internal auditors are required to be members of the institute of internal auditors (IIA) and the institute of certified public accountants (ICPAK). These bodies serve multiple purposes including setting standards for the profession, educating members on their professional obligations and taking disciplinary action against members who do not conform to the professional codes of ethics (Jensen &Meckling, 1976). Affiliation to a professional body is therefore an important factor in demining the effectiveness of the auditor in effective reporting.

The support of directors to the auditor's performance is of key importance in ensuring that the internal auditors deliver on his objectives. Top management establishes structures and processes which govern the organization and also carry out risk analysis from time to time. The auditor evaluates the governance systems and the organizations risks in order to provide reasonable assurance that the objectives of the organizations are being achieved. Top management should therefore provide resources such as office accommodation, desks chairs and other working tools to the auditor. In addition, directors should provide a non-hostile environment where the chief audit executive can present his audit findings and freely discuss them without being intimidated (Jensen & Meckling, 1976).

Resources are the driving force for efficiency and effectiveness in any production activity. Resources encompass many factors including budgetary allocation to a department. The internal audit department should have a budgetary allocation to enable it perform audit engagements. Without a budgetary allocation the audit department becomes depended on management and therefore audit objectivity is likely to be compromised (Jensen & Meckling, 1976). Resources also include availability of office working space, desks, chairs, laptops and motor vehicles.

2.2 Research Gap

Ndirangu (2015) carried out a research on the factors that contribute to the effectiveness of the internal audit function as a corporate governance mechanism in public universities. The objective of this study was to establish the perception of internal auditors at the University of Nairobi on the factors the factors that contribute to the effectiveness of internal audit function. The results of this study showed that there were several factors that influence the internal audit functions at the University of Nairobi. These were identified as, professional proficiency of internal auditors, quality of audit work organizational independence and management support. The above researcher failed to address a number of issues. Arena and Azone (2015) argued that personal character, internal audit processes and organizational links as factors which contribute to internal audit effectiveness. Ndirangu (2015) attempted to address the issue of professional proficiency, quality of audit work, organizational independence and management support as the key factors that contribute to internal auditors' effectiveness. However, an effective internal audit in an organization is measured by how well that organization is able to manage and mitigate both financial and governance risks. In county governments, financial misappropriation, theft of public funds, frauds and corruption rank high among governance and financial risks. This therefore raises the issues of audit independence. Other factors that have not been conclusively addressed are by the other researchers are, independence of audit committees, availability of resources to the internal audit function and professional affiliations of individual auditors. This research seeks therefore to fill this gap.

3. 1 Research Methodology

This study employed a descriptive survey research design. The target population consisted of ninety-four (94) internal auditors surveyed from all county governments in Kenya. Primary data was collected using semi structured questionnaire. The data was analyzed using the statistical package for social sciences [SPSS] and a regression model to relate the relationship between dependent and independent variables.

4 0 Research Findings and Discussions

4.1 Regression Analysis

Table 1: Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917a	.840	.822	.01237

The study findings from table 1 indicated the value of adjusted R squared (co-efficient of determination) was 0.840 an implication that there was a variation of 84% on performance of internal auditors resulting from independence of audit committee, competency of internal auditors, top management support, and availability of financial resources at 94% confidence level. This implies that 84% of the influence on performance of internal auditors could effect on independence of internal auditors, internal auditors competency, top management support and availability of financial resources. The study revealed that there is strong significant relationship between performance of internal auditors in County Governments and independence of audit committee, internal auditor competency, top management support and availability of financial resources as indicated with a correlation coefficient of 0.917.

Table 2: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.132	3	3.621	13.457	.035[a]
	Residual	8.431	12	.067		
	Total	12.234	15			

a. Predictors: (Constant), Independence of Audit Committee, Competency of Internal Auditors, Top Management Support and Availability of Financial Resources

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b. Dependent Variable: Performance of Internal Auditors

The ANOVA statistics presented in the table 2 above was used to present the regression model significance. An F-significance value of p = 0.035 was established showing that there is a probability of 3.5% of the regression model presenting a false information. Thus, the model is significant.

Table 3: of Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.355	.158		.246	.010
Independence of audit committee	.360	1.205	.312	1.128	.030
Competency of internal auditors	.432	1.365	.019	1.049	.021
Top management support	.115	.145	.078	.793	.046
Availability of Financial Resources	.088	.187	.082	.470	.033

The study regression equation was as illustrated below; -

Y = 0.355 +0 .360 IAC + 0.432CIA + 0. 115 TMS + 0.088 AFR

IAC-Independence of Audit Committee

CIA-Competency of Internal Auditors

TMS-Top Management Support

AFR-Availability of Financial Resources

The regression equation indicated that independence of audit committee, competency of internal auditors, top management support and availability of financial resources to a constant zero performance of internal auditors in County Governments would hold at 0.355, a unit increase in independence of audit committee could lead to an increase in performance of internal auditors by a factors of 0.360, a unit increase in competency of internal auditors could lead to an increase in performance of internal auditors in County Governments by a factor of 0.432, A unit increase in top management support could lead to an increase in performance of internal auditors by a factor of 0.115 and finally a unit increase in availability of financial resources could lead to an increase in performance of internal auditors in County Governments by a factor of 0.088.

The study established that independence of audit committee, competency of internal auditors, top management support and availability of resources had a significant positive relationship with performance of internal auditors in County Governments. These findings are supported by another study conducted by Wangui (2017) which noted that internal auditing should be enhanced through proper standards being put in place for purposes of increasing transparency and accountability thus improving service delivery in county Governments.

5.1Conclusion

The study established that there is increasing variation in performance of county governments due to changes in independence of audit committee, professional competency among other changes in the internal audit; this indicates that county governments can have any changes especially in the independence of the audit committee, and professional competency. The study found out that there was positive relationship between the performance of the County Governments and audit committee independence, professional bodies affiliated to internal auditing, top management support and availability of resources.

The study concluded that a unit increase in audit committee independence leads to an increase in influence of performance of internal auditors in county Governments, an increase in unit in affiliation to professional bodies leads to an increase in the influence of performance of internal auditors in County Governments, an increase in unit in both top management and availability of resources leads to an increase in influence of performance of internal auditors in County Governments.

6.1 Recommendations

The researcher recommends that there is still need for the internal auditors to keep on updating themselves with the current technology and also improve on their auditing skills. Through sharpening their skills, this will enable them build their professional credibility, respond appropriately to the organization needs, practicing good governance so that efficiency and effectiveness can be achieved in auditing.

The top management should keep on organizing learning programs like workshops which will enable internal auditors to get training frequently and this can be done either internally or externally. This is because internal auditors are required to have sufficient training and proficiency so that they can perform their duties appropriately. The auditors work should be carefully supervised and reviewed.

The leader or head of the audit committee should be responsible to the top management in the organization with sufficient mandate to enhance audit committee independence and ensure concrete audit coverage and appropriate course of action taken on audit suggestions and recommendations. The top management should also allocate sufficient financial resources and embrace information communication technology devices and software's that will promote performance of internal auditors in the County Governments.

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