THE RELATIONSHIP BETWEEN AUDIT COMMITTEE EFFECTIVENESS AND FINANCIAL MANAGEMENT IN GOVERNMENT MINISTRIES IN KENYA

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DECLARATION

I hereby declare that this research project is my original work and has not been submitted to any other university for the award of a degree.

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This research project has been submitted with my approval as the University Supervisor.

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DEDICATION

This research project is dedicated to my family who have been by my side through this period that I was writing the report

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First and foremost I thank the Almighty God, for granting me the strength, health and courage to complete this task. A special thank goes to my supervisor Abdullatif Essajee for his guidance and encouragement in the writing and compilation of this case study. To my classmates and friends without whose interest and co-operation I could not have produced this study. I wish to thank them for supporting this initiative and affording me their time and sharing their experiences. Finally I thank my family for instilling in me unquestionable values and morals, thank you for your love, guidance and for always believing in me throughout the year.

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LIST OF ABBREVIATIONS

AC	Audit committee
BRC	Blue Ribbon Committee
CAE	Chief Audit Executive
CEO	Chief Executive Officer
ILA	Institute of Internal Auditors
NASD	National Association of Securities Dealers
NYSE	New York Stock Exchange
OECD	Organization for Economic Co-operation and Development
PFM	Public Financial Management
SPSS	Statistical Package of Social Sciences

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. Therefore the study sought to carry out a research on effectiveness of audit committee 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.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

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 general, the desired effect or goal of the audit committee (AC) is to strengthen the quality of financial information and to maintain or strengthen investor confidence in the quality of financial reporting and financial markets (Blue Ribbon Committee Report, 2009), audit committee can improve the quality of information directly, by overseeing the financial reporting process, and indirectly through the oversight of internal and external auditing. In the end, improved information quality as well as strengthened controls may result in investors being more confident about the quality of financial reporting and the functioning of financial markets (Bedard & Gendron, 2009). By analyzing the perspective of two authors, Berdard and Gendron, the activity of audit committees and dimensions of effectiveness in the public sector, think that in the end those who benefit from the quality of the information and from the recommendations of the authors are the taxpayers.

This study will be based on institutional theory, agency theory and resource dependency 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. 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. 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. This theory is relevant to this study as it tries to explain 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.

1.1.1 Financial Management in the Public Sector

Public financial management, as it is generally understood, includes all components of a country's budget process both upstream and downstream processes. Upstream processes include strategic planning, medium-term expenditure framework and annual budgeting. Downstream processes include revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight (OECD, 2009).According to Hedger and Renzio (2010) reduction in public expenditure is done using government budgets. Government budgets are key areas of public action by which policy objectives are chosen and acted upon and the necessary resources collected, allocated and spent.

Government budgeting systems are also important to donor agencies because of their role in providing fiduciary safeguards, helping to ensure, for example, that foreign aid funds remitted as direct budget support are properly used for their intended purpose. This there implies that reduction in public expenditure can well amount to financial management (Mc Thomas, 2003). Accountability is important to all government activities. The frequency of debt management and the acknowledgement of making the government activities transparent, coupled with the idea of making the public sector property assets accountable, resulted in a growing tendency to introduce accrual accounting for governments. Increased frequency of debt management is also a key element in increasing accountability in the public sector and hence better financial management (Bond & Dent, 2008).

1.1.2 Audit Committees in Kenyan Public Sector

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).In Kenya, 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).

1.1.3 Audit Committees and Financial Management

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.

1.1.4 Kenyan Government Ministries

The government ministries derive their mandate from the Constitution of Kenya, which provides for proper budgetary and expenditure management of government financial resources. As a main function, the Ministries are charged with the responsibility of formulating financial and economic policies. The ministries are responsible for developing and maintaining sound fiscal and monetary policies that facilitate socioeconomic development in all the government sub sectors (Ogoro & Simiyu, 2014). The government ministries coordinate government departments in the preparation of the annual national budget. It is the responsibility of the Ministry to initiate and guide all departments to prepare their ministerial budgets. The purpose of setting up a Government is to gain much more economic benefits and social order.

However, it is argued that the only way to increase economic benefits is to raise the level of productivity and improve management quality. Raising the level of productivity requires governments to tap potential manpower, material and financial resources, making full use of now available resources for production and operation (Guoming, 2007). 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).

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

The study will be guided by the following objectives:

1.3.1 General Objective

The general objective was to examine the relationship between audit committee effectiveness and financial management in public sector taking a survey of government ministries in Kenya.

1.3.2 Specific 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.

1.4 Value of the Study

The study is of use to various stakeholders.

The Government will find the findings and recommendations of this study useful in diagnosing the problems affecting successful implementation of policies related to public sector financial management. Scholars and academicians will benefit from the information as it will contribute to the existing knowledge as well as illustrate the gaps that come along with the study of the audit committee effectiveness and financial management, therefore opening more areas for future studies in the field. The recommendations of this study will help policy makers to design a more progressive and effective policies aimed at ensuring good advancement of financial management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter discusses the theoretical review and frameworks and the empirical studies that explain audit committee effectiveness and its relationship to financial management in the public sector. A conceptual framework is then developed to depict the variables of the study diagrammatically.

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.

2.3 Determinants of Financial Management

Financial management practices are defined as the practices performed by the accounting officer in the areas of fixed asset management, accounting information systems, working capital management, financial reporting analysis and capital structure management (Lang, 2010).There are several determinants of financial management as discussed below;

2.3.1. 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. 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.

2.3.2. 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

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2.3.3. 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.

2.3.4. 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. 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.

2.4. Empirical Review

Various studies have been conducted, both in the local and international context, in relation to the relationship between audit committee effectiveness and financial management.

2.4.1. International Studies

Arena and Azzone (2013) on identifying organizational drivers of internal audit effectiveness in which they used these variables; resources and competencies of an internal audit team, activities and processes performed and organizational role in determining the dependent variable and uses 153 Italian companies and survey method of data collection, found that the effectiveness of internal auditing is influenced by; the characteristics of the internal audit team; the audit processes and activities; and the organizational links.

Cohen, Sayag (2013) on the effectiveness of internal auditing: An empirical examination of its determinants in Israeli Organizations in which they used these variables; Sector – private versus public, professional proficiency of internal auditors, quality of audit work, organizational independence, career and advancement, top management support in determining their relationship with the internal audit effectiveness. They also used questionnaire and mail survey of 292 organizations in their methodology and found that the support of management is almost crucial to the operation and success of internal audit effectiveness. The study also reveals that other determinants of internal audit effectiveness are 24 derived from support of top management such as proficient internal audit staff, developing career, organizational independence for internal audit work are all results of decisions made by top management.

Firsteberg, Malkiel (2014) carried out a study on internal audit committee function and financial performance of a public organization, a case study of the National Social Security Fund (NSSF), Uganda to determine whether the internal audit function impacts the performance of NSSF. The main findings were that internal audit function had a significant positive effect on performance in terms of control environment, risk assessment, control activities, information & communication, monitoring and advisory services.

Bedard, Johnstone (2014) examined auditors' assessments of planning and pricing decisions related to earnings manipulation risk and corporate governance risk, and showed that auditors plans increased effort and billing rates for clients with earnings manipulation risk and that the positive relation between earnings manipulation risk and both effort and billing rates are greater for clients that have heightened corporate governance risk.

Bou-Raad (2015) explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual reports. It involved 60 firms which were listed on Malaysia Bursa in 2003. This study used multiple regression analysis to test the association between internal audit and firm performance and found a significant relationship between experience of internal audit quality and firm performance.

2.4.2. Local Studies

Njeru (2013) in his study sought to establish the independence of internal audit committee and how it relates to corporate governance among commercial banks in Kenya. The study found out that there was indeed a threat to internal audit independence since the Chief Executive Officer (CEO) had powers in most banks to approve the internal audit budget, determine the compensation of the Chief Audit Executive (CAE) as well as hire and fire the CAE.

Mugo (2013) carried out a study to establish the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the Technical Training Institutions in Kenya, all the activities of the Institution are initiated by the top level management, and that the internal audit department is not efficient.

Kibet (2014) in his study a survey on the role of internal audit in promoting good corporate governance in SOEs aimed to explore the role and the use of internal audit function in promoting good corporate governance in public sector enterprises and the challenges faced by the internal auditors in SOEs. The study followed an exploratory research design and the population comprised of all SOEs with government equity of over 50% located in Nairobi. A sample of 43 state corporations was selected by way of geographical location and government shareholding. Data collection was by way of questionnaires and the respondents were the heads of internal audit departments. Data collected was analysed using the SPSS and the output presented in frequency distribution tables, pie and bar charts. The study concluded that internal audit function played a role in corporate governance.

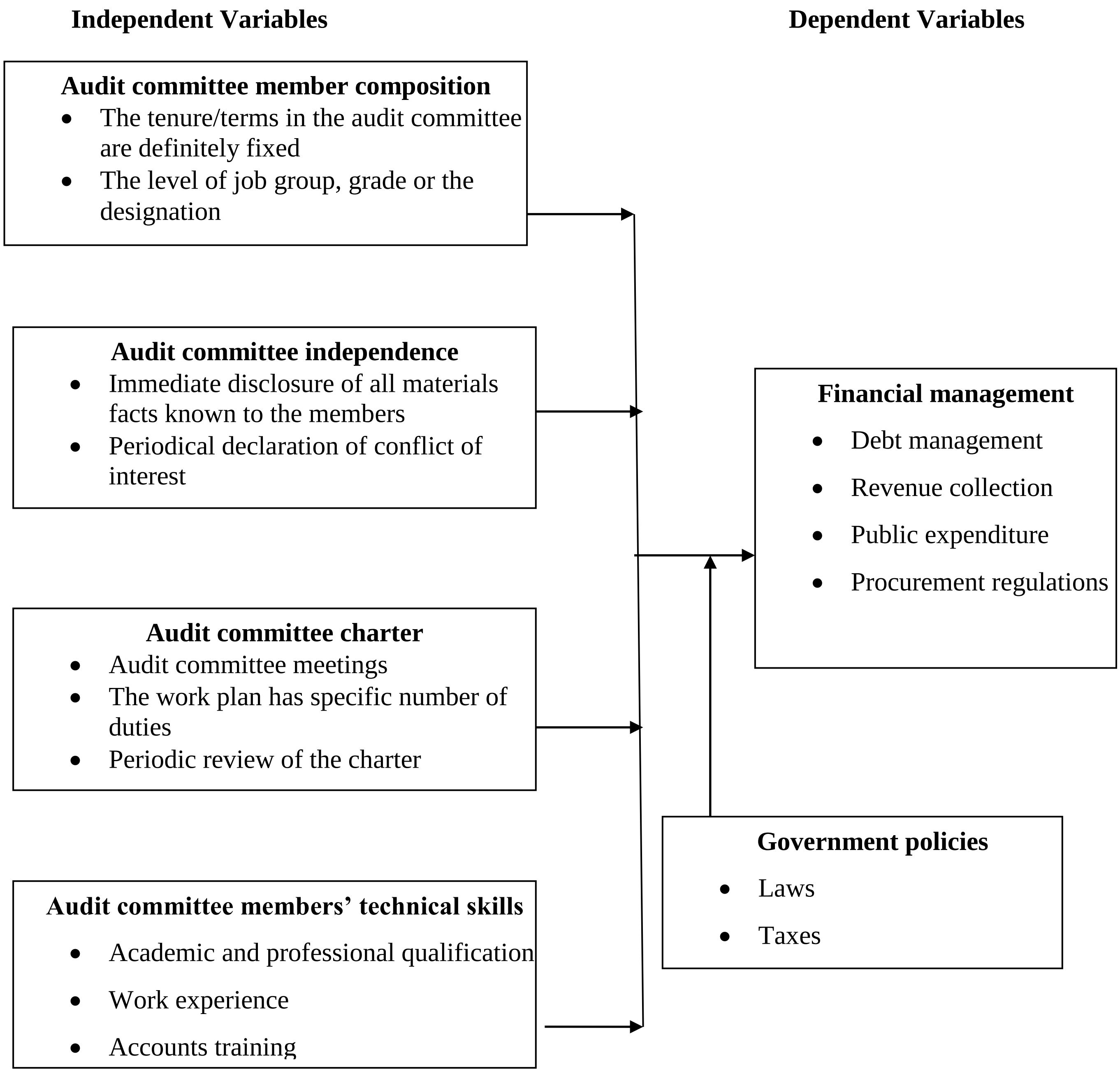
Mutua (2015) carried out a study aimed at establishing the relationship between internal audit and effective management in Embu water and sanitation company limited. Primary data was collected from staffs in the different levels as per the organization structure using a questionnaire and secondary data included cost of internal audit from the payment cash book and salaries journals. The data was analyzed using SPSS tool and the following conclusion was noted: with commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. A fact that ensures proper processes are followed in generating and safeguarding the organizations wealth.

Ndege (2015) sought to examine the effects of corporate governance practices among the audit committee on financial performance of Savings and Credit Cooperatives. The independent variables that were used are: board size, internal audit function and frequency of board meetings. Return on Capital Employed was used as a measure of financial performance. Financial information for the period between year 2006 and 2009 was used. The findings of this study indicate that there is a negative relationship between the size of the board and the financial performance; the average board size being seven.

2.5 Conceptual Framework

The Conceptual Framework gives a depiction on how the variables are related to one another. The variables defined here are the independent (explanatory) and the dependent (response) variable. An independent variable influences and determines the effect of another variable. The independent variables in this study are Audit committee member composition, Audit committee independence, Audit committee charter, and Audit committee members' technical skills. Dependent variable is that factor which is observed and measured to determine the effect of the independent variable. The dependent variable is financial management. Control variables are extraneous factors, possibly affecting the experiment, that are kept constant so as to minimize their effects on the outcome. In this study, the control variable is Government policies.

Figure 2.1: Conceptual Framework



Source: Author (2016)

2.6 Summary of the Literature Review

The aim of an audit committee is to improve organizational governance, regardless of whether the organization is in the private or the public sector. As a subcommittee of the governing body, an audit committee aims to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources (Goodwin, 2004). Various studies Baxter & Cotter, (2009); Nimer, (2012); Lisic, (2011); Rashidah & Mohamed (2006) have found that audit committee effectiveness has a direct relationship to financial management.

Though there were positive results and improved performance in the public financial management system in Kenya as a result of the effectiveness of audit committees, there has been mixed findings on the same in relation to the determinants of audit committee effectiveness. The studies also indicated that there is a relationship between the variables. This research aims at establishing the relationship between audit committee effectiveness and its relationship to financial management in the Kenyan public sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used to prepare for the study, collect data and analyze. The specific areas included are the research design, population, sampling technique, sample size, data collection method, research instruments, pilot testing instruments, data collection procedures and data analysis.

3.2 Research Design

Research design can be described as the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control of variance (Coopers & Schindler, 2006).It is a procedure that provides answers to issues such as techniques to use to gather data, the kind of sampling strategies and tools to be used and how time and cost constrain will be dealt with (Cooper & Schindler, 2006). The study utilized a descriptive research design. Descriptive survey designs are used in preliminary and exploratory studies, to allow researchers to gather information, summarize, presents data and interpret it for the purpose of clarification (Creswell, 2003).

3.3 Target Population

In a research study, a population has been defined as the total collections of element about which inferences are made and refers to all possible cases which are of interest for a study Sekaran, (2010). A population therefore entails all the cases or individuals that fit specifically for being sources of the data required addressing the research problem. The target population is defined as that population to which a researcher wants to generalize the results of the study. Researchers draw samples from an accessible population, which represents a manageable population. The respondents included; the chairman, secretary, and the director from every audit committee in each ministry (appendix I). Therefore each audit committee from every ministry contributed 3 respondents making a target population of 60 members.

Table 3.1.Target Population

Category	**Target population**	**Percentage**
Chairman	20	33.33
Secretary	20	33.33
Director	20	33.34
Total	**60**	**100**

Source: Author (2016)

3.4 Sample and Sampling Technique

Simple random sampling technique was used to determine the sample size. This method was preferred because all the respondents in the audit committee are given equal chance of selection and this minimizes/reduces biasness (Kothari, 2004). The sample of 30 respondents was generated by sampling 50% of the respondents in each committee. Hair, Bush, Ortinau (2000) posit that a sample of more than 10% is a true representative of the population.

Table 3.2. Sample Size

Category	**Target Population**	**Sample Ratio**	**Sample Size**
Chairman	20	0.5	10
Secretary	20	0.5	10
Director	20	0.5	10
Total	**60**	**0.5**	**30**

Source: Author (2016)

3.5 Data Collection Methods

Primary data was used in this study. Primary data was collected using questionnaires. A likert scaled questionnaire was designed for effective collection of primary data from the target respondents. According to Mugenda and Mugenda (2003) questionnaires have the advantage of time conservation, convenience, as well as anonymity. Hair, Bush, Ortinau (2000) identified questionnaires as the main instruments used in generating data in a survey. Structured questions were therefore used in an effort to conserve time and money and to facilitate an easier analysis as they are in immediate usable form. These questionnaires were self-administered.

3.6 Pilot Testing

Pilot study has been described by various authors as an exercise that ensures that errors are restricted at a very little cost. Kothari (2004) describes a pilot survey as a replica and a rehearsal of the main survey. Blumberg, Cooper, & Schindler (2014) states that the importance of field pilot cannot be over emphasized; you will always find that there are questions that people fail to understand or interpret in different ways, places in the questionnaire where they are not sure where to go next, and questions that turn out simply not to elicit useful information. The subjects participating in the pilot study were not be included in the final study to avoid survey fatigue.

3.6.1 Validity

According to Mugenda and Mugenda (2003) validity is the accuracy and meaningfulness of inferences, which are based on the research results. In other words validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Validity exists if the data measure what they are supposed to measure. Validity indicates that the research instrument is testing what it should (Cronbach, 1951). The questionnaire was pre-tested to ensure it was not faulty and that it was understood by the participants. The questionnaire was piloted for validity proof by discussing with two randomly selected respondents. The comments from the respondents were reviewed and incorporated to enhance the validity of the questionnaire.

3.6.2 Reliability

Reliability is the consistency of a set of measurement items (Cronbach, 1951). Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. In short, it is the repeatability of your measurement. A measure is considered reliable if a person's score on the same test given twice is similar. It is important to remember that reliability is not measured, it is estimated (Cronbach, 1951). Reliability does not, however, imply validity because while a scale may be measuring something consistently, it may not necessarily be what it is supposed to be measuring. The researcher used the most common internal consistency measure known as Cronbach's Alpha (a) which was generated by SPSS. It indicates the extent to which a set of test items can be treated as measuring a single latent variable (Cronbach, 1951). The recommended value of 0.7 was used as a cut-off of reliabilities. Fifteen questionnaires were administered to randomly selected respondents and then analyzed using SPSS software for determining reliability. The respondents participating in the pilot study werenot included in the final study to avoid response bias.

3.7 Data Analysis and Presentation

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.

3.7.1 Analytical Model

According to Mugwe (2010) and Muthinji (2009), a multiple regression analysis in the analysis of primary data was used to establish a causal effect relating to independence variables to the dependent variable. 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:

$Y = a + \beta_1X_1+\beta_2X_2 + \beta_3X_3+\beta_4X_4+ i$

Where;

Y= Financial Management

a = constant

X_1= Audit Committee Membership Composition

X_2= Audit Committee Independence

X_3= Audit Committee Charter

X_4=Audit Committee Members' Technical Skills

β_1, β_2, β_3, and β_4 = beta coefficients

i= error term

3.7.2 Test of Significance

The results of the regression analysis were interpreted based on the R2, ANOVA, and significance of F statistics and the significance of beta values from the coefficients of the X variables. Results were said to be statistically significant within the 0.05 level, which meant that the significance value must be smaller than 0.05. Significance was tested at 5% level.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter entails analysis and findings of the study as set in the research objectives and methodology. The study findings are presented on the relationship between audit committee effectiveness and financial management in government ministries in Kenya.

4.2. Response Rate

The data collection instruments; questionnaires were sent to 30respondents. Out of the total,25 were sent back fully completed making a response rate of 83%. This was in line with Mugenda and Mugenda (2003) who suggested that for generalization, a response rate of 50% is adequate for analysis reporting, 60% is good, and a response rate of 70% and above is excellent. This response rate was accredited to the data collection procedure, where the researcher in person administered questionnaires, reminded the respondents to fill in the questionnaires, and picked the filled questionnaires later on.

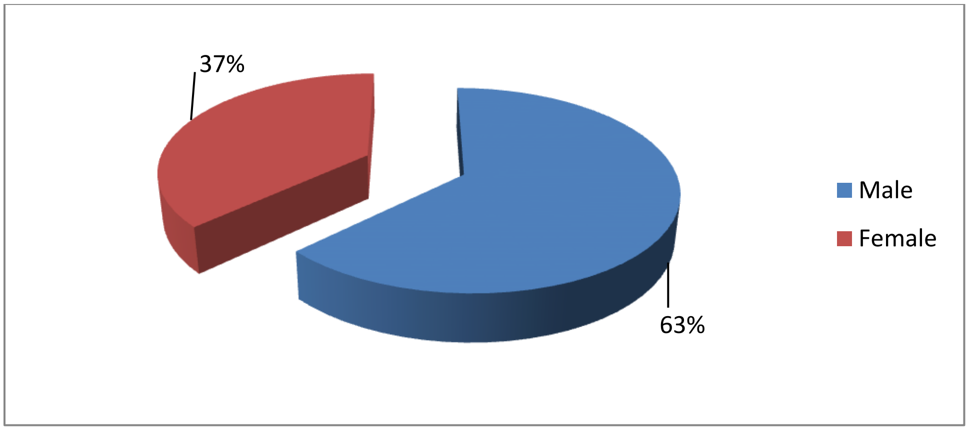
4.3. Demographic Information

The study sought to ascertain the background information of the respondents involved in the study. The background information points at the respondents' suitability in answering the questions.

4.3.1 Gender of the Respondents

The respondents were requested to indicate their gender. The findings were as shown in the figure 4.1 below.

Figure 4.1: Gender of the Respondent



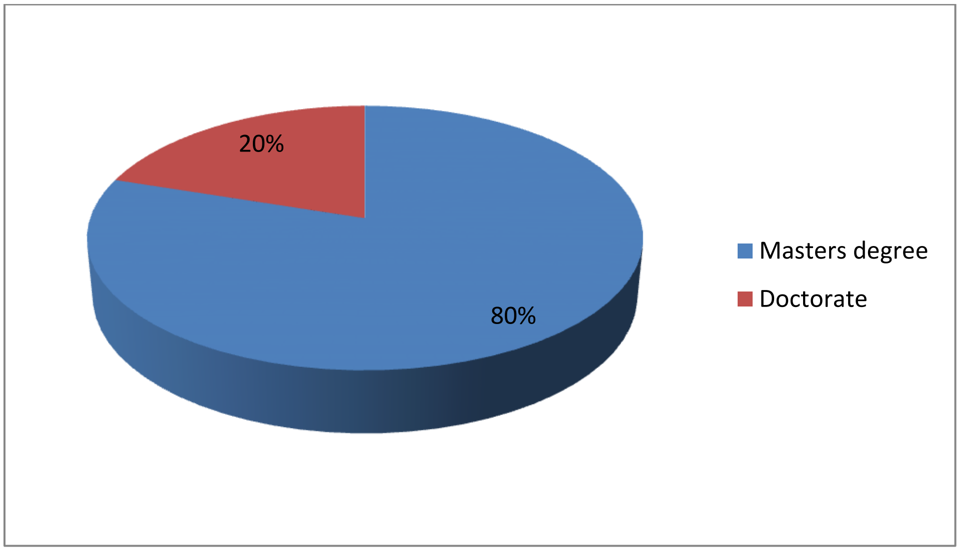
Source: Author (2016)

From the findings above 63% of the respondents were male while 37% were females. This depicts that majority of the respondents were males.

4.3.2. Level of Education

The respondents were requested to indicate to indicate their highest attained level of education. The findings were shown in the figure below;

Figure 4.2. Level of Education



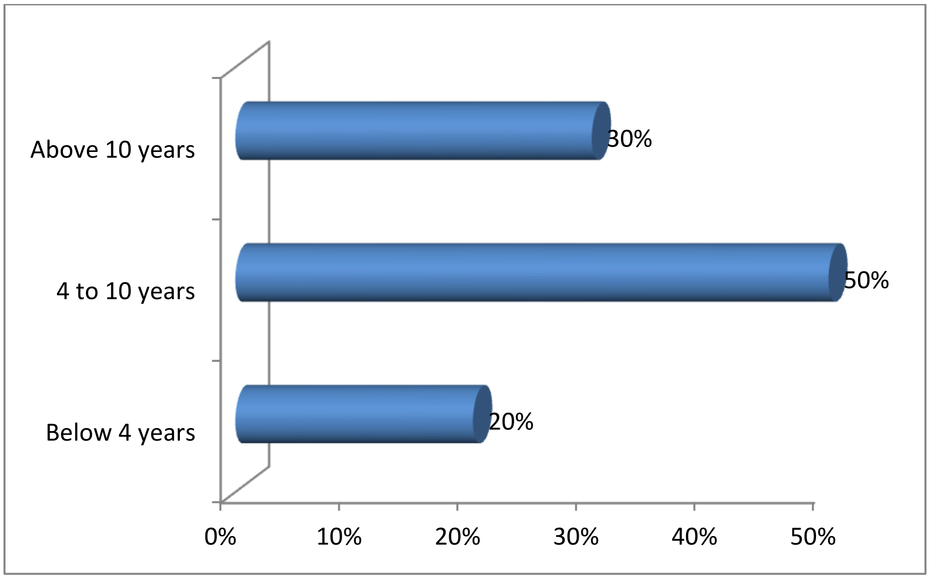
Source: Author (2016)

From the findings majority (80%) of the respondents had masters level of education, while 20% had doctorate. This depicts that the audit committee members had adequate knowledge to handle issues to do with auditing and financial management.

4.3.3.Work Experience

The respondents were requested to indicate their work experience. The findings are shown in the figure below;

Figure 4.3. Work Experience



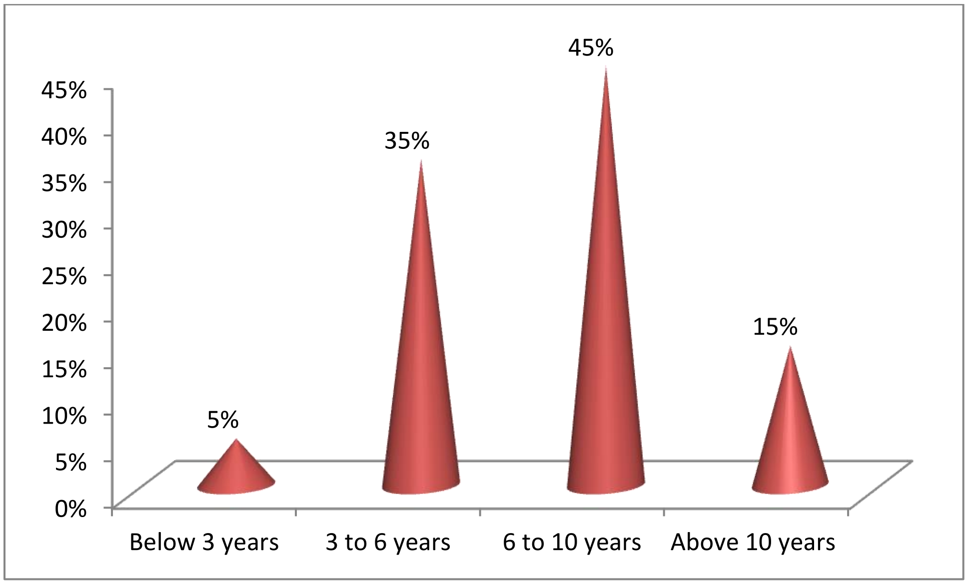
Source: Author (2016)

From the findings majority (50%) had a work experience of between 4-10 years, 30% indicated above 10 years, while 20% indicated below 4 years. This depicts that most of the audit committee members had adequate experience in auditing.

4.3.4. Duration of Working in the Institution

This sought to establish for how long the respondents had worked in the institution. The findings are as shown below;

Figure 4.4. Duration of Working in the Institution



Source: Author (2016)

From the findings most (45%) had worked in the institution for 6 to 10 years, 35% indicated 3 to 6 years, 15% indicated above 10 years, while 5% indicated below 3 years. This depicts that most of the audit committee members had worked for a longer duration hence were well aware of the auditing and financial management functions.

4.4. Audit Committee Effectiveness and Financial Management in Government Ministries in Kenya

This section presents findings on the relationship between audit committee effectiveness and financial management in government ministries in Kenya. The findings are shown in subsequent headings.

4.4.1. 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 4.3. 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

Source: Author (2016)

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.

4.4.2. 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 below.

Table 4.4. 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

Source: Author (2016)

Form 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.

4.4.3. 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 below.

Table 4.5. 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

Source: Author (2016)

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.

4.4.4. 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.

4.4.4.1. Extent of Agreement on Audit Committee Members' Technical Skills

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 shown below.

Table 4.6. 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

Source: Author (2016)

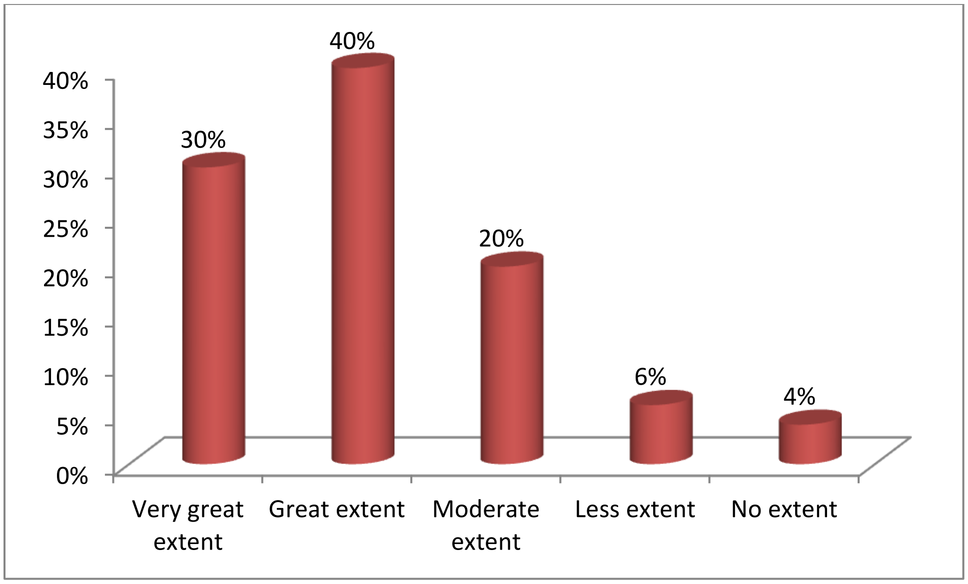
From the findings the respondents strongly agreed that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function (80%), and that prior extensive work experience in other areas / sectors of the members is checked and proven (mean=75%).

This depicts that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function.

4.4.4.2. 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 4.5. Extent of Competence of Audit Committee Staff



Source: Author (2016)

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.

4.5. 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.

4.5.1. Extent of Agreement on Statement Regarding Financial Management

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 below.

Table 4.7. 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 leading to higher effectiveness in the audit committee on financial management	0%	0%	24%	76%	0%	**80%**	4.01	0.4162

Source: Author (2016)

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.

4.5.2. 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 below.

Table 4.8. 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

Source: Author (2016)

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.

4.6. Inferential Statistics

The study further applied multiple regressions to determine the relationship between audit committee effectiveness and financial management in government ministries in Kenya.

4.6.1 Regression Analysis

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).

4.6.1.1 Model Summary

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

Table 4.9. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estima
1	.921[a]	.849	.845	.04131

Source: Author (2016)

Dependent Variable: Financial Management

Predictors: (Constant), audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills.

Table 4.9 illustrates the strength of the relationship between financial managementand independent variables. From the determination coefficients, it can be noted that there is a strong relationship between dependent and independent variables given an R^2 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.

4.6.2.2 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 4.10. ANOVA of the Regression

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

Source: Author (2016)

Dependent Variable: Financial Management

Predictors: (Constant), audit committee membership composition, audit committee independence, audit committee charter, and audit committee members' technical skills.

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.

4.6.1.3. Coefficient of Correlation

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

Table 4.11. Coefficient of Correlation

	Un-standardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	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
a. Dependent Variable: Financial Management					

Source: Author (2016)

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 4.11, 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.

4.7. 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. The characteristics include competency and financial expertise for the audit committee as proxy for evaluating the effectiveness of these committees in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter presents summary of study findings, conclusion and recommendations on the relationship between audit committee effectiveness and financial management in public sector taking a survey of government ministries in Kenya.

5.2 Summary of Findings

This section presents the summary of findings.

5.2.1. Audit Committee Membership Composition

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.

5.2.2. Audit Committee Independence

The study 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.

5.2.3. Audit Committee Charter

In addition the study found that audit committee meetings are held at least 4 times in a year in specified intervals increasing financial performance of the various ministries.

5.2.4. Audit Committee Members' Technical Skills

The study found that there are monthly accounts training organized for the audit committee members increasing their understanding of their audit function. The study also established that to a great extent the staff members of the audit committee were competent in carrying out their role.

5.2.5. Financial Management

The study established 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. The study found 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 also 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.

5.3. 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.

5.4. Recommendations

The study made the following recommendations:

1. 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.
2. 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.
3. 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
4. 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.
5. 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.

5.5. Limitations of the Study

The main limitation of study was inability to include more government institutions. The study would have covered more institutions across all public sectors so as to provide a more broad based analysis.

However, resource constraints placed this limitation. The study also faces challenges of time resources limiting the study from collecting information for the study particularly where the respondent delay in filling the questionnaire and travelling for collection the filled questionnaire.

The respondents were found to be uncooperative because of the sensitivity of the information required for the study. The researcher explained to the respondents that the information they provided was to be held confidentially and was only for academic purpose only.

5.6. Recommendation for Further Study

The study investigated the relationship between audit committee effectiveness and financial management in government ministries in Kenya. This study recommends that a further study should be carried out to investigate the factors that influence the effectiveness of audit committee in public institutions focusing on crown corporations.

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APPENDICES

APPENDIX I: LETTER TO RESPONDENTS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 20/09/2016

TO WHOM IT MAY CONCERN

The bearer of this letter VERONICA JEPKEMEI RUTO

Registration No. D61/77292/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
20 SEP 2016
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: LIST OF KENYAN GOVERNMENT MINISTRIES

1. Ministry of Interior and Coordination of National Government.
2. Ministry of Devolution and Planning.
3. The National Treasury.
4. Ministry of Defence.
5. Ministry of Foreign Affairs & International Trade.
6. Ministry of Education.
7. Ministry of Health.
8. Ministry of Transport and Infrastructure.
9. Ministry of Information, Communications and Technology.
10. Ministry of Environment, Water and Natural Resource.
11. Ministry of Land, Housing and Urban Development.
12. Ministry of Sports, Culture and the Arts.
13. Ministry of Labour, Social Security and Services.
14. Ministry of Energy and Petroleum.
15. Ministry of Agriculture, Livestock and Fisheries.
16. Ministry of Industrialization and Enterprise Development.
17. Ministry of Commerce, Tourism and East Africa Region.
18. Ministry of Mining.
19. Ministry of Public Service, Youth & Gender affairs.
20. Ministry of Water & Irrigation.

(Source: GoK, 2016)

APPENDIX III: QUESTIONNAIRE

SECTION A: DEMOGRAPHIC DATA (Please tick as appropriate)

1. Please indicate your gender

   Male [ ] Female [ ]

2. Please indicate your highest attained level of education

   College Certificate [ ]

   Diploma [ ]

   Undergraduate degree [ ]

   Master's degree [ ]

   Doctorate [ ]

3. Please indicate your work experience

   Below 4 years

   4 to 10 years [ ]

   Above 10 years [ ]

4. How long have you worked in this institution

   Below 3 years [ ]

   3 to 6 years [ ]

   6 to 10 years [ ]

   Above 10 years [ ]

SECTION B: AUDIT COMMITTEE EFFECTIVENESS AND ITS RELATIONSHIP TO FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR

This subsection is concerned with assessing the independent variables and their relationship to financial management public sector.

SECTION BL: Audit Committee Membership Composition and Financial Management

5. Please mark (x) in the box which best describes the extent to which you agree with each of the following statements. Rate your response on a scale of 1 to 5; (1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5=Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
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 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.					
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					

Section B2: Audit Committee Independence and Financial Management

6. Please mark (x) in the box which best describes the extent to which you agree with each of the following statements. Rate your response on a scale of 1 to 5; (1= Very Small Extent; 2= Small Extent; 3= Neutral; 4= large Extent; 5= Very Large Extent)

Statement	**1**	2	**3**	**4**	**5**
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					
A written declaration of conflict of interest through the chair by members is done periodically by the minister of respective ministry					
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					
There is periodical declaration of conflict of interest which is done regularly either annually, quarterly or semiannually depending on the government calendar					
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					

Section B3: Audit Committee Charter and Financial Management

7. Please mark (x) in the box which best describes the extent to which you agree with each of the following statements. Rate your response on a scale of 1 to 5; **(1=** Very Small Extent; **2**= Small Extent; **3=** Neutral; **4**= large Extent; **5**= Very Large Extent**)**

Statement	**1**	**2**	**3**	**4**	**5**
Audit committee meetings are held at least 4 times in a years in specified intervals increasing financial performance of the various ministries					
The work plan has specific number of activities outlined against cost/ budget by the ministry					
The quorum of the audit committee meetings is when there are 3 out of 6 members with the chairman included					
The number of each audit committee member's activities, duties and responsibilities is clearly spelt out in the scope by the ministry					

Section B4: Audit Committee Members' Technical Skills and Financial Management

8. Please mark (x) in the box which best describes the extent to which you agree with each of the following statements. Rate your response on a scale of 1 to 5; **(1=** Strongly Disagree; **2=** Disagree; **3=** Neutral; **4=** Agree; 5= Strongly Agree).

Statement	**1**	**2**	**3**	**4**	**5**
Prior extensive work experience in other areas / sectors of the members is checked and proven					
There are monthly accounts training organized for the audit committee members increasing their understanding of their audit function					

9. To what extent do you think staff in audit committee is competent in carrying out their role?

Very great extent [ ]

Great Extent [ ]

Moderately Extent [ ]

Less Extent [ ]

No Extent [ ]

Section B5: Financial Management

10. Please mark (x) in the box which best describes the extent to which you agree with each of the following statements. Rate your response on a scale of 1 to 5; (1= Very Small Extent; 2= Small Extent; 3= Neutral; 4= large Extent; 5= Very Large Extent)

Statement	**1**	**2**	**3**	**4**	**5**
There has been a significant increase in revenues collection as a result of audit committee effectiveness in the recent past within the ministry					
There has been reduction/mitigation of fraud in the ministry and this has been as a result of audit committee effectiveness					
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.					

11. To what extent do the following factors affect the effective financial management by audit committee in your ministry? (Where 1-Not at all, 2-Less extent, 3-Moderate Extent, 4 –Great extent and 5 -Very Great extent)

Statement	**1**	**2**	**3**	**4**	**5**
Competency of auditors determines the quality of the audit work performed in your ministry					
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					
Low educated and less competent staff affects competency and knowledge on auditing techniques					
Lack of competency and knowledge on auditing techniques is another major problem encountered by internal audit function in the public sector organizations					