DETERMINANTS OF ADOPTION OF RISK BASED AUDIT IN PUBLIC SECTOR IN KENYA
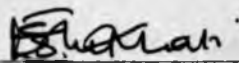
BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, DEPARTMENT OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2012

DECLARATION

This research project is my original work and has not been presented to any other institution or university.

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D61/61857/2010

This research project has been submitted for examination with our approval as the university supervisors.

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ACKNOWLEDGEMENT

I would like to acknowledge the following persons whose contributions facilitated the completion of this project.

First, I thank the Almighty God for the gift of life and for giving me the skills, knowledge and energy to be able to complete this paper and the postgraduate degree of Master of Business Administration.

Second, I give special thanks to my supervisor Dr. Sifunjo Kisaka, for providing unlimited, invaluable and active guidance throughout the study. His immense command and knowledge of the subject matter enabled me to shape this research project to the product it is now.

Third, I thank all the respondents in the ministries and state coperations in Kenya who agreed to take part in this study. Also, my gratitude go to the Minstry of Finance for financing my MBA programe and hence made this research and course a success.

Finally, I owe my gratitude to a great pool of people who in one way or another contributed towards completion of this project. To all of you, I say a big THANK YOU!

DEDICATION

This research project is dedicated to my beloved mother Michelle, husband Patrick and sons Elvis, Nicholas, David and Dona.

ABSTRACT

The main objective of this study was to establish the determinants of adoption of risk based audit in public sector in Kenya. For many years, auditing was confined to assisting organizations to safeguard assets and check established control procedures with the main focus being monitoring and control. Internal auditors on the other hand are tolerated, and have not been deemed essential in organizational control. The emergence of new business risks has compelled many organizations to formulate strategies and to elevate the status of internal auditing. Although a shift of internal audit from system based to risk based has been embraced widely with the developed countries taking the lead, prior internal audit research has explored objectivity issues. .

The research design that was used in this study was both cross sectional and descriptive survey method aimed at establishing the determinants of adoption of risk based audit approach in the public sector in Kenya. The data was collected using a self-administered questionnaire. Data was collected from 60 respondents which constitute a responce rate of 89.5% which was sufficiently representative of the target populutaion.

The study found out that risk based audit is seen to be a complex process which tends to extend over a number of years for its successful implementation and it therefore calls for careful design, sequencing and implementation. Findings showed that Risk based audit enhances transparency, accountability and responsiveness to public expenditure policy priorities and it virtually cover all aspects of public financial management.

The study concludes that Risk based audit was determined by the role of internal audit function, top management commitment, training, policy framework and communication. However there were some other vital determinants that were not part of the study as confirmed by the fishers fitness test.The results of the test depicted the regression model as not significant for the study because F was found to be .815 with a significance level of .544.

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ACRONYMS

ADF-	African Development Fund
AFSR-	Assessing Financial Sector Reforms
BRA-	Busines Risk Audit
EFMAP-	Enhanced Financial Management Action Plan
ERSWEC-	Economic Recovery Strategy, Wealth and Employment Creation
FMA -	Financial Management Anchor
GOK -	Government of Kenya
IA -	Intmal Audit
IAD -	Internal Audit Department
IMF -	International Monetary Fund
OECD -	Organizatio for Economic co-operation Development
PFM -	Public Financial Management
PFMR -	Public Financial Management Reform
RBA -	Risk Based Audit

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Risk based audit (RBA) is a term derived from the Institute of International Audit (IIA) research foundation based in the Unites States of America (USA). In 1999, the board of directors of IIA voted to approve a new definition of internal auditing and a new professional practice framework (PPF). The board through deliberation came to a conclusion that a significant gap existed between available guidance and current practise of internal auditing, and that a new framework was needed to carry the profession into the 21st century. Ideally, RBA is a paradigm shift from traditional approach of pre-auditing or transactional audit to systems audit and finally to RBA. In pre-audit, management abdicated their responsibilities to internal auditors; there were no audit reports and no review of systems by management. On the other hand, systems audit was passive and reactive control based audit with no involvement of management in audit planning. Therefore, for internal audit to be effective and efficient, RBA was introduced.

The Risk Based Audit is superior to traditional audit approaches for two reasons. First, it focuses on risks, the underlying causes of financial surprises, not just the accounting records. Second, the Risk Based Audit shifts the focus from inspecting the quality of the financial information that is recorded in the financial statements to building quality into the financial reporting process and adding value to the Bank's operations (Gibson, 2003).

The Risk Based Audit, which focuses on both recorded and unrecorded risk, improves financial statement assurance and the financial statement reporting process. The Risk Based Audit focuses on business risk and the processes for controlling these risks. The higher the risk area, the more audit time and client controls are required. Besides focusing on the level of risk, the risk-based method helps to evaluate and build value into the financial reporting process and the clients company. In order to do this, the auditor must have an up to date insight of the clients business and activities. This knowledge is gained through the way the client operates their business, management, internal and external environments. The knowledge gathered can help to design the audit program that

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includes the most effective and efficient combination of tests responsive to each client's unique circumstances. For this reason, the risk-based approach is then superior to traditional auditing methods (Gibson, 2003).

Risk-based auditing derives largely from models that assume that inherent risk (IR) and control risk (CR) are distinct concepts and that IR arises from attributes of the audit environment that are completely independent of attributes that determine the level of control risk. Operationalizing the distinction between IR and CR has however, proved troublesome. There appears to be little consensus regarding attributes that may identify IR and there is little published evidence regarding how IR is considered by practitioners. Also, it is not yet clear neither does it make good logical sense to try to separate IR and CR in the manner demanded by standard setters (DeFond, Francis and Wong, 2000).

1.1.1 Determinants of Risk Based Audit

Risk-based audit approach is the method the auditor follows to determine the audit procedures to be performed; that is, based on risk; or the indication that there is a greater likelihood that the transactions or classes of transactions, accounts or balances, and/or disclosures is misstated, to enable the auditor to achieve the audit objective. The evaluation and consideration of the risk-based audit approach is a normal consequence of striving for improvement and the development of the services that the auditing profession provides.

In developing the risk-based audit approach there are certain complexities surrounding an audit that should be considered. The major complexities in performing the audit are: firstly, the expectation gap; secondly, the uncertainties surrounding the responsibilities of the auditor; thirdly, the provision of reasonable assurance; and fourthly, the practical implementation of the standards (Gibson, 2003).

The risk-based audit approach is an essential component in the performance of an audit and part of the audit profession's defense against legal liability. This improved the standing of the audit profession, as the audit was legalized (Rapa and Kauffman, 2005).

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1.1.2 Kenya Public Sector

The public sector is defined by Flynn (2000) as being made up of the local governments,civil service and other statutory agencies created by the government. Lynch (1992) draws the difference between the public and private sector institutions by observing that the major difference has been by the lack in the government owned institutions the objective to deliver profit.

The Kenya public sector, sometimes referred to as the state sector, is a part of the state that deals with either the production, delivery and allocation of goods and services by and for the government or its citizens, whether national, regional or local/municipal. There are approximately 125 state corporations in Kenya today which are divided into eight broad functional categories based on the mandate and core functions; the eight categories are: Financial Corporations, Commercial/ manufacturing Corporations, Regulatory Corporations, Public universities, Training and research Corporations, Service Corporations, Regional development authorities, Tertiary education and Training Corporations (Republic of Kenya 2010). The total number of State Corporations may have changed owing to time lapse and creation of new ones. State corporations have proved to be mindful of their most important resource, the human resource. In the Kenyan context, however, state corporations operate on a pre-determined set of guidelines that govern recruitment and remuneration of staff, and even their own overall general operations of running the parastatal. There is need to give general operating guidelines for state corporations but we need to leave managers of each corporation a free hand to run the same.

State corporations were set up to empower Kenyans economically and Kenyan institutions that were earlier run by the colonialists (Republic of Kenya 2007). They were and still are the platform in which the government is involved in commercial activity. State corporations have proved to be mindful of their most important resource, the human resource. In the Kenyan context, however, state corporations operate on a pre-determined set of guidelines that govern recruitment and remuneration of staff, and even their own overall general operations of running the Parastatal.

The role and scope of the public sector and state corporations are often the biggest distinction regarding the economic positions of socialists, liberals and libertarian political influences strategic implementation the public sector. In general, socialists favor a large state sector consisting of state projects and enterprises, at least in the commanding heights or fundamental sectors of the economy (although some socialists favor a large cooperative sector instead). Social democrats tend to favor a medium-sized public sector that is limited to the provision of universal programs and public services(Republic of Kenya 2007).

1.2 Problem Statement

For many years, auditing was confined to assisting organizations to safeguard assets and check established control procedures with the main focus being monitoring and control. Internal auditors on the other hand are tolerated, and have not been deemed essential in organizational control (Spira and Page, 2003). The emergence of new business risks has compelled many organizations to formulate strategies and to elevate the status of internal auditing (Szpirglas, 2006). Thus, risk-based internal auditing has emerged as an important contributor to effective risk management. Although a shift of internal audit from system based to risk based has been embrased widely with the developed countries taking the lead , prior internal audit research has explored objectivity issues (Brody and Lowe, 2000; Church and Schneider, 1992), the relationships between internal and external auditors and the trend of outsourcing internal audit activities. Some recent studies have also explored the relationship between internal audit and the audit committee (Goodwin, 2003).

Locally, studies focusing on auditing have also been carried out. Chola (2000) studied the status of computer auditing in Kenya. Kariuki (2002) carried out a survey of the use of assessment centers in multinational auditing firms in Nairobi. Kibara (2007) in his study 'a survey of Auditor's risk management practices in banking industry in Kenya' established internal auditor's perception of their distinct role in banks wide Enterprise Resource Management Process and whether there was any conflict between IA and risk management departments being established to take over ERM processes.The study

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established that most banks were drafting ERM process strategies.Kibet (2008) in his study 'a Survey on the role of internal Audit in Promoting Good Corporate Governance in State Owned Enterprises' explored the role and challenge of Internal Audit in promoting good governance and established that IA function played a key role in corporate governance. Leona (2010) carried out a study on 'the roles and challenges of internal auditing in the banking industry in Kenya. The study sought to establishe as to whether Internal Audit should be among the people to blame when organizations are at the point of collapsing and established that the general role of IA is to provide assurance to management and the audit committee.The research established that challenges facing IA were to a large extend such as realligning skills to address new requirements and implement the Professional Practice Framework.

Local and international studies cited above focus mainly on the changing role of audit in ensuring improved performance in organizations.Further,the emergence and dissemination of new audit techniques and methodologies have not received the attention in academic research that is merited by their significance hence creating a knowledge gap. It is in this light that the researcher aims to answer the the question: what factors determine adoption of risk based audit in public sector in Kenya?

1.3 Research Objectives

To establish the determinants of adoption of risk based audit in public sector in Kenya.

1.4 Significance of the study

The study will provide critical information to various stakeholders in the public sector in Kenya.

To Senior Management in Public Sector in Kenya

The study is invaluable to the senior management in ministries that it will provide an insight into the various determinants of adoption of risk based audit in public sector in Kenya, and specifically risk-based audit and hence formulate mitigating measures.

To the Government

The study is useful in policy formulation regarding regulatory requirements of ministries through findings of risk based audit reports. It will act as a reference point of the role of theaudit function in attainment of transparency and accountability.

To academicians

The study will provide a useful basis upon which further studies on risk-based audit in the public sector could be conducted. This research will make a contribution to the academic literature on the field of auditing in Kenya where very little is known about its structure and application.

The findings of the study will provide some insights to developing contries that benchmark with kenya on the challenges in roll out of RBA and hence formulate timely and appropriate interventions to mitigate the risks.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter provides literature review from related studies.section 2.2 provides a theoratical review of this study. Section 2.3 provides a review of emperical studies on financial sector. Section 2.4 This ection outlines the determinants of adoption of risk based audit in public sector that include; the role of internal audit,top management involvement,training policy framework and communication process. Section 2.5 provides a summary of this chapter.

2.2 Theoratical review

Three theories are relevant in risk based auditing .They include the auditing theory,the Risk-based internal audit theory and agency theory .These theories are discussed bellow:

2.2.1 The Theory of Auditing

The audit approach or audit methodology followed by an auditor is a component of the theory of auditing or the axiomatic method of auditing. This is explained by Mautz and Sharaf (1961) as follows: This scheme of auditing knowledge might be pictured in the form of a pie-shaped chart.The entire chart represents knowledge, all knowledge. At the center is a hard core of the most fundamental types of knowledge, metaphysics, logic, and mathematics.Touching this core and drawing strength from it is the groundwork level of auditing knowledge, its philosophical foundation. Included in this level of knowledge is the definition or purpose of the field and the fundamental nature of its knowledge and methodology. Its postulates, the basics for inferring concepts, must relate to and be harmonious with this purpose and recognise the possibilities and limitations of its development and evaluation of risk-based audit approaches methodology. Every field must have just such a foundation and it must never permit itself to become separated from the elemental disciplines from which it draws strength. The field of auditing grows outwards from its philosophical foundations, it enters the area of conceptual structure. Then come the precepts (concepts) and the area of practice and practical applications and

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then showing the adjacent fields of knowledge. This theory indicates the changing role of audit and anticipates more changes in furure.

2.2.2 Risk-Based Internal Audit Theory

Risk-based audit theory argues that clients specific experience increases an auditor's ability to assess future client risks accurately. However, prior research in psychology suggests that individuals tend to overweigh experience when faced with current risk cues that conflict with experience. This design examines the consequences of prior, positive client-specific experience and efficiency pressure, represented by costly risk cues, on the ability to generate an effective risk assessment. The results indicate that individuals bias toward prior experience. Efficiency results suggest that higher cue costs result in suboptimal risk cue selection, but do not negatively influence risk assessment effectiveness. Risk audit theory argues auditor evaluations during the audit become more effective with client-specific experience (Bell et al. 1997; Bell et al. 2005; Bell and Solomon 2002). Rather, there is a risk that auditors will rely on historical client-specific experience, which is backward-looking in nature, in addition to gaining this increased client-specific knowledge.

The risk-based internal audit of the theory is applied to the internal control system and risk management, requiring all departments should establish a risk management awareness, identify the risk control points, risk take appropriate measures to control, and recorded a variety of risk control, creating risk-based internal audit of the important sources of data (Doolin and Lawrence, 1997).

According to this theory, responsibility of identifying and managing risks belongs to management, while one of the key roles of internal audit is to provide assurance that those risks have been properly managed (Alexander, 1991). Professional internal audit activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organisation's own risk management framework. This involves looking at the way managers identify, assess, respond to and report risks, as well as how well managers monitor how responses to risks are working.

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2.2.3 Agency Theory

Agency theory is a theory that explains the relationship between principals, such as a shareholders, and agents, such as a company's executives. In this relationship the principal delegates or hires an agent to perform work. The theory attempts to deal with two specific problems: first, that the goals of the principal and agent are not in conflict (agency problem), and second, that the principal and agent reconcile different tolerances for risk. Simple agency model suggests that, as a result of information asymmetries and self interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic behaviour. Agents are likely to have different motives to principals. They may be influenced by factors such as financial rewards, labour market opportunities, and relationships with other parties that are not directly relevant to principals (Mautz and Sharaf, 1961).

Shareholders delegate so much power to make decisions on their behalf to the company's directors, their interests and those of the directors may conflict. Hence shareholders may feel they have to take additional action to protect their interests: independent audit helps to reduce the 'agency costs' inherent in this situation. A second feature of audit is that it helps to redress the problem of information asymmetries, in other words the lack of inside information that shareholders may have on what is going on inside their companies. By appointing an auditor who is thought to be competent and independent, the directors indicate their willingness to be open about their record of stewardship of their company's affairs. Agency theory is involved in resolving problems that can occur in an agency relationship;a goal or desire of the principal and the inability of the principal to verify facts.

2.3 Emperical Review

Humphrey ,et .al. (2003) found that business risk approach still faces criticism expressed about their added value, technical methods and the scope and role that the auditor plays. He argued that even though the business risk audit approach became dominant over the last few years, yet their status and identity remains striking. The role of non-executive

directors and lack of confidence in the ability of auditors to achieve the objectives which they are supposed to deliver offer a big challenge to the audit profession. The value of audit in society has been questioned in recent years. A series of high-profile corporate failures has led to a growing debate on the effective role of audit. Inquiries into the recent banking crisis have sought to understand what role auditors have played in the demise of systemically important financial institutions. The value of audit is once again under the spotlight- this time firmly on an agenda of wider stakeholder interest including banks themselves, businesses, employees, regulators, as well as investors.

Abdullah and Al-Araj (2011), in their study, traditional audit verses business risk audit done in Jordan with a view to establish the audit approaches currently being used by auditors in Jordan established ; absence of adequate training concerning application of RBA, inability to evaluate business risk objectively, absence of professional efficiency possessed by auditors along with the absence of professional standards governing RBA approach, misconception that BRA is a consultancy rather than an audit approach, lack of clarity regarding business risk as having an effect on implementation and recommended training in relevant areas.

2.4 Determinants of Adoption of Risk Based Audit in Public Sector

Over the past three decades, criticism about government performance has surfaced across the world from all points of political spectrum. Critics have alleged that governments are inefficient, ineffective, too costly, overly bureaucratic, overburdened by unnecessary rules ,unresponsive to public wants and needs ,secretive, undemocratic, invasive into private rights of citizens, self –serving and failing in the provision of either quality of services deserved by the taxpaying public (Callender and Mathews, 2000).

There were two main pressures driving public financial management in developed countries starting in the 1970s and 1980s: first to cut spending and reduce fiscal deficits, and second to facilitate performance improvement through greater efficiency, effectiveness, and quality of public services. The dual imperatives of controlling spending and deficits while improving performance are recurring themes in these

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countries. Jones and Thomson (1999) indicates that fiscal stress has also plagued many governments and has increased the cry for less expensive government, for greater efficiency ,and for increased responsiveness. High profile members of the business community, financial institutions ,the media, management consultants ,academic scholars and the general public all have pressured politicians and managers to reform (Pusey, 1991) .

In Kenya the public financial management is the result of a period of diagnostic analysis and wide consultation within government and other stake holders including development partners. The need for reform of the public finance system was emphasized in the Economic Recovery Strategy for Wealth and employment creation , as a key element to achieve :fiscal sustainability and balance in economy ,restructuring and reallocations for growth and poverty alleviation and improved public sector performance, efficiency and effectiveness in the public sector, leading to improved service delivery and results for Kenyans (ERSWEC2003-2007).

2.4.1 Role of Internal Audit Function

To many people, the role of internal audit function at remains a mystery that should be demystified. This is evident from the history and existence of internal audit function. In Kenya, internal audit system has been in operation in government prior to independence. It was discontinued because of the Economic Commission Report of 1962 and reintroduced in 1984 when it became apparent that its absence had contributed greatly to laxity in the management of public resources, compliance with relevant laws, regulations, procedures and lack of an effective internal control system. In 1995,the internal audit was renamed Audit Inspectorate, here auditors were detached from management and clustered in units from where they would conduct audit inspectorate, an approach that was found to be ineffective and expensive to government. In 1997 the IA function was restructured and decentralized to become an integral part of management. Today the function has shifted its role to assessing and advising on risk management, control and governance processes. This change in names and function is often misunderstood and caused confusion in the role and function of the internal auditor.

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As a result of changes in organizational needs, technology and complexity of organizations' activities and systems, the nature of services sought from the internal auditors has been transforming over the years from an emphasis on traditional/compliance audit where independence has been the core paradigm, to a value-adding role where partnering with management is accorded greater significance (Abdolmohammadi et al., 2006).

In India ,even after 30 year's departmentalization of accounts and setting up of internal audit units in every ministry, the role and responsibility of internal auditing is still hazy and yet to gain due importance in the financial management in government organizations. The audit is still viewed with contempt, suspicion and considered at all levels as unavoidable evil. The status of internal audit at best in India was described as Dog at the command of the senior management. Unless the mindset of senior management and staff at all levels change, and the internal audit is given its due status as a supportive management tool, its findings, contributions are regarded and supported by senior management; it will be difficult for the internal audit to make any substantive contribution in the financial management or risk management of any organization (Kumar, 2012).

The strategy to modernize internal audit methodologies has successfully shifted the operations of the internal audit departments in public sector from a predominantly post-audit policing activity, to a risk based approach focusing on the contribution to wider organizational goals.This shift has resulted in a more effective and strategic focus in its operations; adoption of internal audit standards and best practices as promulgated by the Institute of Internal Auditors (IIA) and enhancement of governance through establishment of ministerial audit and risk management committees. RBA provides a system for the setting of priorities when there are competing demands on limited resources. As a fundamental step towards an outward looking,proactive, accountable, and innovative public service, all heads of public institutions are required with effect from February,2009 to develop and implement a risk management framework. A risk

management framework will enable management to focus in a comprehensive and holistic basis on risks faced by their respective institutions (PFMR,2012).

2.4.2 Commitment of Top Management

To transform internal audit,the overriding prerequisite for success is a strong, active leadership support and improved governance structures.The agreement and active involvement of the head of internal audit,senior management,audit staff,accounting officers and senior operational manageemt must be secured in a climate that fosters independent,but valued evaluation of the effectiveness of risk management,control and governance processess (Van Gansberghe, 2005).

To understand the importance of commitment of managemment through employee performance study, Eisenstat (1993) conducted a study among 3,044 white-collar employees of the Western Australian Public Service to study the correlation of employee attitudes towards functional flexibility. It was hypothesized that employees would favor functional flexibility if they have lower levels of perceived job characteristics, perceived reward equity, organizational commitment and affective well being as well as a higher degree of educational attainment. Nutt (1995) points out that subtle changes taking place in the attitudes of employees towards working, their employers, and their lives are requiring companies to change their personnel management techniques accordingly to motivate their employees and instill them with commitment. Employees want to work for companies they can be proud of, which exhibit values and viewpoints similar to their own, and are concerned about long-term goals. The author states that there are certain phases in commitment-building. They include the scientific phase where management motivates workers using the carrot and stick method, the human relations phase where firms treat employees with fairness and kindness, and a phase emphasizing principles, where managers make better use of their employees' creativity and imagination,applicable in RBA implimentation.

Top management are involved in the design of information systems for the organization whereby they influence the environmental variables most likely to receive attention in the organization (Sandelands, 1994).They are also required to provide accurate and timely

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feedback concerning the organization's performance and the performance of individual business units within the organization, which the auditor uses to provide assurance on.

2.4.3 Training

A broad definition of training includes any attempt, within or outside the organisation, to increase job-related knowledge and skills of either managers or employees (Kitching and Blackburn, 2002). Although this definition captures important parameters, the Skills Assessment Report (2002) also emphasises specifically the need to distinguish between formal and informal training approaches. Kimwele (2011) notes that,in the public sector there is general shortage of skilled labour, and efforts to improve skills in government are often frustrated by migration of labour to the private sector for higher pay when workers have aquired sufficient skills. In corporate sector, risk management and risk based internal audit is considered as a highly skilled art or craft while it is an emerging discipline in government organizations in public sector and need sufficient training to hone employee skills in the subject.

Abdullah and Al-Araj (2011), in their study, traditional audit verses business risk audit done in Jordan with a view to establish the audit approaches currently being used by auditors in Jordan established ; absence of adequate training concerning application of RBA,inability to evaluate business risk objectively,absence of professional efficiency possesed by auditors along with the absence of professional standards governing RBA approach,misconception that BRA is a consultancy rather than an audit approach,lack of clarity regarding business risk as having an effect on implimentation and recomended training in relevant areas.

Mihret and Woldeyohannis (2007) carried out their study on value added role of internal audit. Interview of evidence indicated that as a result of high-staff turnover, the average tenure of auditors is low. Auditors leave the department via transfers to other departments in the corporation.On the other hand, transfers into the internal audit department are not significant. This results in more new recruits in the department, which adversely impacts

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the value-adding potential of internal audit. In addition, the number of staff is not sufficient, given the large size and complexity of the corporation's operations.

Effort to ensure provision of appropriate training, such as for certification as internal auditors, is not undertaken in a planned and continuous manner. There is no mechanism to ensure participation of auditors in training on the corporation's design of new systems, improvement of existing ones, and introduction of new services. This denotes that internal audit's value-adding role through involvement in development and revision of systems is limited(Lindow and Race, 2002). Since the nature of the business is complex and dynamic, providing continuous and focused training would be essential to attain value-adding internal audit results.

2.4.4 Policy Framework
The reform of public sector management has become a "global" trend since the beginning of the 1980s (Pollitt and Bouckaert, 2004), but "local" (i.e. country-level) responses have produced highly differentiated trajectories and results. There seems to be a certain distance between the contents of what was prescribed by a spate of reform laws and the actual diffusion of the corresponding management tools; and there seems to be an even larger distance between the mere presence and the actual utilization of the management tools.

The culture of governance as far as audit reforms are concerned is highly legalistic. Sources of policy advice in audit have been partly enlarged, from almost exclusively internal to a mix of internal and external sources. Some features like the quasi-federal structure or the low horizontal coordination, as it has been argued (Pollitt and Bouckaert, 2004) point clearly in the direction of hindering radical and wide reforms, while other factors like the majoritarian conventions of governance.

When seeking to reform IA, it must first be included in the government's reform agenda. Internal Audit must assess how it fits into key reforms, and situate itself as part of the change. An identification of key reformers makes it possible to lobby them for IA reform,

while raising awareness of the important contribution of IA. If policy process of reforms is hurriedly made without taking sufficient time to analyze implication of certain policy in the national context such reforms may not be effective.

2.4.5 Communication Process

Communication aspects should be emphasized in the adoption of risk based audit process. Even though studies point out that communication is a key success factor within risk based audit adoption communicating with employees concerning issues related to the RBA is frequently delayed.In this context, many organizations are faced with the challenge of lack of institution of a two-way-communication program that permits and solicits questions from employees about issues regarding the formulated strategy. In addition to inability lack of communication causes more harm as the employees are not informed about new requirements, tasks and activities to be performed by the affected employees, and, furthermore, cover the reason behind changed circumstances. It is essential both during and after an organizational change to communicate information about organizational developments to all levels in a timely fashion. The way in which a strategy is presented to employees is of great influence to their acceptance of it. To deal with this critical situation, an integrated communications plan must be developed. Such a plan is an effective vehicle for focusing the employees' attention on the value of the selected strategy to be implemented (Rapa and Kauffman, 2005).

Lares-Mankki (1994) examined effects of top management's practices on employee commitment, job satisfaction, and role uncertainty by surveying 862 insurance company workers. Five management practices were analysed: creating and sharing an organizational goal, acting as a role model, encouraging creativeness, providing support for employees, and allowing employee participation in making job-related decisions. The results indicated that there was a strong relationship between top management's actions and employees' attitudes and perceptions when involved in new strategy.

Rapa and Kauffman, 2005 established that one of the reasons why strategy implementation processes frequently result in difficult and complex problems or even fail

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in total is the vagueness of the assignment of responsibilities. In addition, these responsibilities are diffused through numerous organizational units resulting in unclear individual responsibilities in the process. To avoid power struggles between departments and within hierarchies, one should create a plan with clear assignments of responsibilities regarding detailed implementation activities. This is a preventive way of proceeding which results in clear responsibilities and therefore avoid potential problems (Rapa and Kauffman, 2005).

2.5 Summary

Over the past three decades, criticism about government performance have surfaced across the world from all points of political spectrum .Critics have alleged that governments are inefficient, ineffective ,too costly, overly bureaucratic ,overburdened by unnecessary rules, unresponsive to public wants and needs ,secretive ,undemocratic ,invasive into private rights of citizens ,self–serving and failing in the provision of either quality of services deserved by the taxpaying public (Callender and Mathews, 2000). Auditing was previously confined to assisting organizations to safeguard assets and check established control procedures with the main focus being monitoring and control. While internal auditors are tolerated, they have not been deemed essential in organizational control making the role of the auditor a mirage (Spira and Page, 2003).

Emphasis is made on the role of auditors in good governance practise with little attention on factors that determine successful implementation of risk based audit appraoch.Proper coordination and involvement of top management determines the success or failure of imlementation of RBA. The reasons why strategy implementation processes frequently result in difficult and complex problems – or even fail in total – is the vagueness of the assignment of responsibilities. In addition, these responsibilities are diffused through numerous organizational units (Rapa and Kauffman, 2005) resulting in unclear individual responsibilities in the process.In the public sector there is general shortage of skilled labour,and efforts to improve skills in government are often frustrated by migration of labour to the private sector foor higher pay when workers have aquired sufficient skills.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides various sections of research methodology.Section 3.2 provides the research design which the researcher used Section 3.3 provides the target population of study while section 3.4ui identifies the sampling design and the sample size identified for the research purpose.Section 3.5 captures data collection method. It details the research instrument and data collection method to be used. Section 3.6 Data analysis and 3.7 Data validity and reliability.

3.2 Research Design

The research design that was used in this study was both cross sectional and descriptive survey method aimed at establishing the determinants of adoption of risk based audit approach in the public sector in Kenya. These methods were preferred because they allowed for prudent comparison of the research findings. A descriptive research collected data from members of the population and helped the research get the existing descriptive phenomena by asking individuals about their perception,attitudes behaviour or values. A descriptive study describes characteristics associated with the subject of study. A cross sectional and descriptive survey attempts to describe or define a subject often by creating a profile of a group of problems, people or events through the collection of data and tabulation of the frequencies on research variables or their interaction.

3.3 Target Population

Hair, (2003) defines population as an identifiable total group or aggregation of elements (people) that are of interest to a researcher and pertinent to the specified information problem. This includes defining the population from which our sample is drawn. The target population of this study consists of all the 125 government agencies and 43 ministries as per the table below.

Table 3.1 Target Population

Category of Population	Population size
Government Ministries	43
Financial Corporations	15
Commercial/Manufacturing Corporations	31
Regulatory Corporations	26
Public Universities	6
Training and Research Corporations	11
Service Corporations	25
Regional Development Authorities	6
Tertiary Education and Training Corporations	5
Total	**168**

3.4 Sampling Design and Sample Size

A sample is a subsection of population that was chosen in such a way that their characteristics reflect those of a group from which they were·chosen (Henn, Weinstein and Ford, 2006). Purposive sampling was applied and resulted in selection of one respondent who include; head of internal audit, head of accounts unit, chief finance officer, an administrator and any technical head of department. This is because it is senior management that own risk management processes in public sector organizations .They are also involved in both audit planning as well as in implementation of audit findings. The senior managers selected are in a position to respond effectively and provide relevant information for this study.

The study used stratified random sampling technique to select a sample of 67 organizations from a population of 125 government agencies and 43 ministries. The eight functional categories of state corporation as categorized by state corporation advisory committee was treated as strata after which simple random sampling was done proportionate to the number of corporations in each stratum. The goal of stratified random sampling was to achieve the desired representation from various sub-groups in the population. Mugenda and Mugenda (2003), states that a sample of 30% is considered

representative for a population that is less than 500 . So if the population is less or equal to 30% it is appropriate to carry out census study. The sample size was justified at 40% since it minimized the duplicity and redundancy of the data to be obtained and the size was large enough to ensure collection of comprehensive data. The table below shows sampling that was done on respective functional categories.

Table 3.2. Sample Population

Category of population	Population size	Sample size (40% of Population)
Government Ministries	43	17
Financial Corporations	15	6
Commercial/Manufacturing Corporations	31	12
Regulatory Corporations	26	11
Public Universities	6	2
Training and Research Corporations	11	5
Service Corporations	25	10
Regional Development Authorities	6	2
Tertiary Education and Training Corporations	5	2
Total	**168**	**67**

3.5 Data Collection

The study collected primary data to obtain information on the determinants of adoption of risk based audit in the public sector in Kenya .Where necessary, the study collected and made use of secondary data as generated by the the public sector in Kenya.

3.5.1 Research Instrument

The study utilized a questionnaire to collect primary data. The questionnaire design comprised of two sections. The first section (A) included personal information designed to determine fundamental issues including the demographic characteristics of the respondents, while the section B was devoted to determinants of adoption of risk based audit in public sector in Kenya .

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The research instrument consisted of both open ended and closed ended questions. The structured questions was used in an effort to conserve time and money as well as to facilitate in easier analysis as they were in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information.

3.5.2 Data Collection Method

The data was collected using a self-administered questionnaire. Nevertheless, where it proved difficult for the respondents to complete the questionnaire immediately, the researcher left it with the respondents and came to pick them up later.

Each questionnaire was coded and only the researcher was able to know which person responded. The coding technique was only used for the purpose of matching returned, completed questionnaires with those delivered to the respondents. Secondary data sources was employed through the use of previous documents or materials to supplement the data received from questionnaires.

3.6 Data Analysis

The process of data analysis involved several stages; the completed questionnaires were edited for completeness and consistency, checked for errors and omissions and then coded. A content analysis and descriptive analysis was employed. Data was coded and thereafter analyzed using Statistical Package for Social Sciences (SPSS) program and presented using tables and pie charts to give a clear picture of the research findings at a glance. The data was analysed by use of, inferential statistics, correlation and multiple regression.

Regression analysis expresses the relationship between the predictor variable(s) and the dependent variable(s) and assumes that there is a relationship between these variables. In this study RBA was the dependent variable while the role of internal audit function, commitment of top management, training, policy framework and communication were the independent variables.

The model specification is as follows

$$Y = \alpha + Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + + \beta_5 x_5 \, \epsilon$$

Where;

Y= Risk Based Audit

X_1= Role of audit functions

X_2= Commitment of top management

X_3= Training

X_4= Policy Framework

X_5= Communication Process

ε= error term

β_0 =coefficient

α= constant

3.7 Data Validity and Reliability

A research has high validity if the sudy only contains what one wants to study. Validiy is sub-devided into three subgroups:consruct,internal and external validity.Construct validity refers to data collection procedure.The primary data collection was directed towards senior management representatives in organizations implementing RBA.

Internal validity was achieved through linkage between theory and empirical research.External validity was be achieved through the application of the domain of study being generalized. Data reliability refers to the extent to which the data collection techniques or analysis procedures yield consistent findings (saunders et al, 2009). Data was analysed and interpreted based on theoratical framework and reseach was related to empirical evidence. The degree of accuracy and reliability of data greatly depends on the approach and methods employed during data collection.To ensure accuracy and reliability of data, sufficient time was allocated to respondents.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chaper presents the data analysis and interperetation of the results. Section 4.2 provides the Summary Statistics which includes personal data and analysis of key responses responses, Section 4.3 provides the estimated model, section 4.4 presents discussion of the findings and section 4.5 provises the summary of this chapter.

4.2 Summary Statistics

4.2.1 Gender.

The respondents were asked to disclose their gender. Figure 4.1 below shows the study finding.

Figure 4.1:Gender
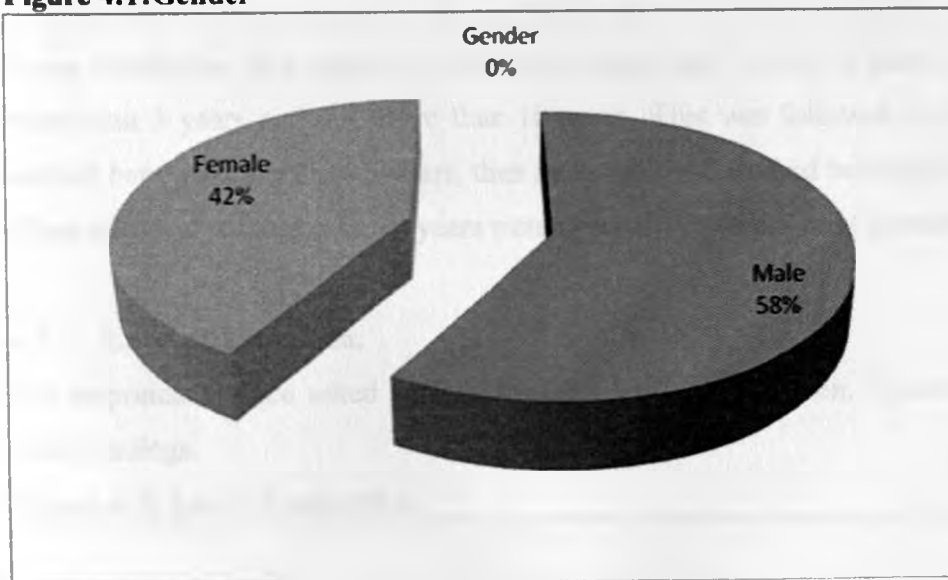
The respondents were asked to disclose their gender and it was noted that the male respondents were higher (58%) than that of their female conterpart(42%) .

4.2.2 Length of Service in the Organization

The respondents were asked to indicate the number of years worked in their organizations. Figure 4.2 below show the results of the study.

Figure 4.2:Length of service in the Organization
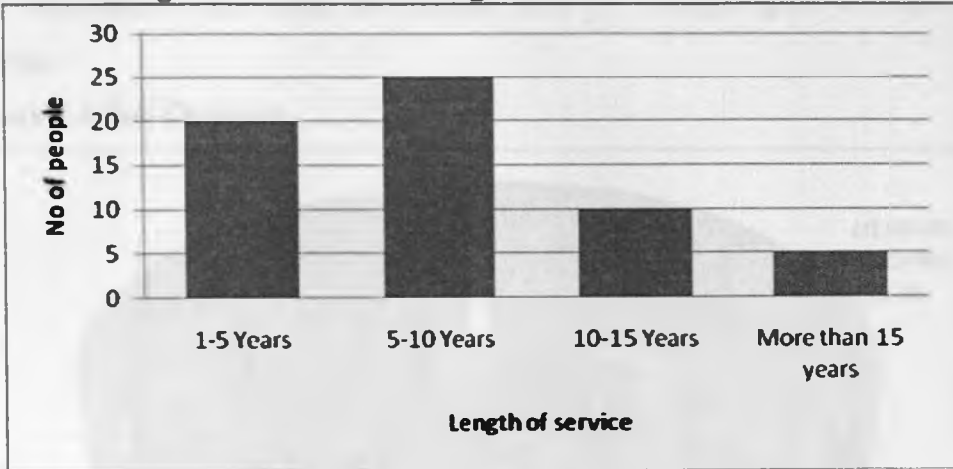
It was established that majority of the respondents had worked in their orgnisations for more than 5 years and not more than 10 years. This was followed by those who had worked between 1 year and 5 years, then those who had worked betweenn 10 to 15 years. Those who had worked over 15 years were observed to be the least in number.

4.2.3 Level of Education.

The respondents were asked to indicate their level of education. Figure 4.3 shows the study findings.

Figure 4.3: Level of education.
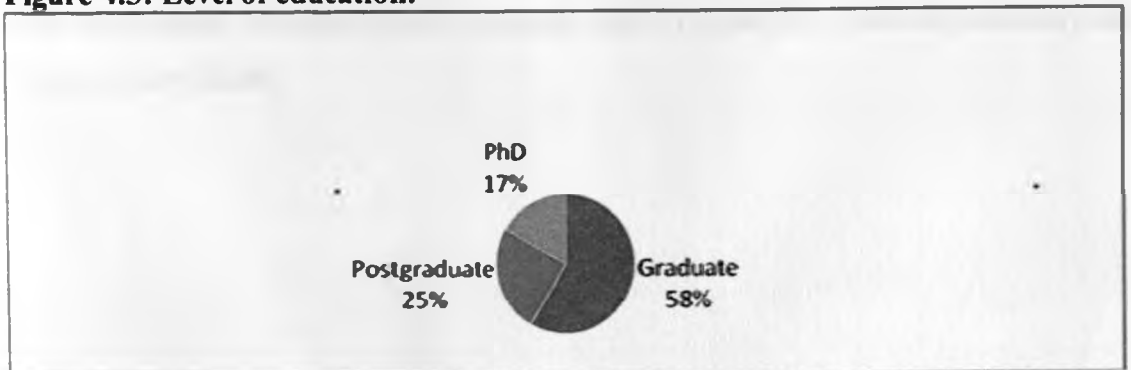
The study findings indicated that most of the respondents·were graduates with 58% followed by post graduates at 25% while those with Phd were 17%.

4.2.4 Job Category

The respondents were asked to indicate their job groups.Figure 4.4 show the study findings.

Figure 4.4:Job Category
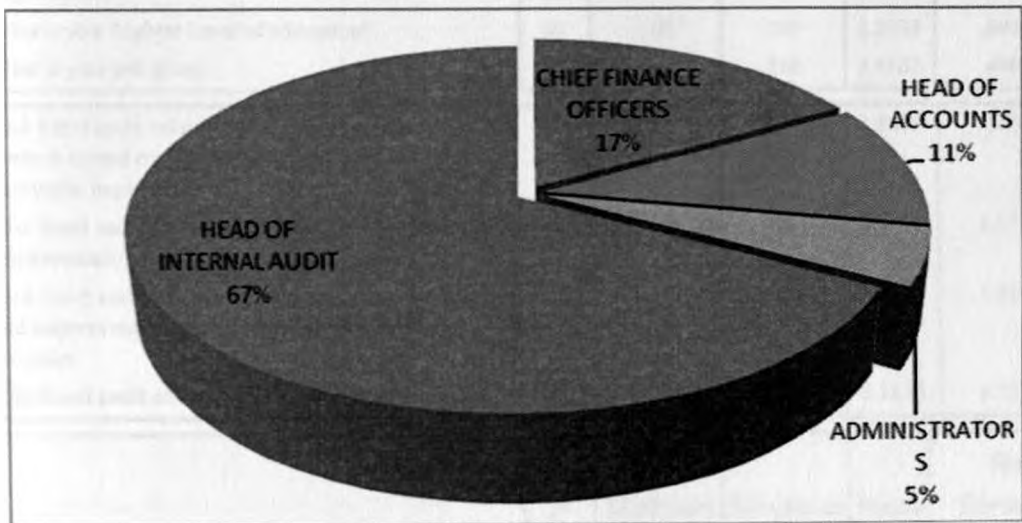
Senior management was involed in establishing job category.This is because they own the risk managemnt process and are involved both in audit planning as well as implementation of audit findings. 67% of the respondents were heads of internal audit function in public sector organizations, while the chief finace officers were 17%, the other respondents included head of accounts with 11% and 5% from administrators and other technical heads.

4.2.5 Descriptive statistics

The study sought to establish relevant statistics including the mean,standard deviation and variance .A summary of the data is as below;

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Varian
Gender	60	1.00	2.00	1.4833	.50394	.254
Organization	59	1.00	4.00	2.6102	.91004	.828
What number of years have you worked in your Organization?	60	1.00	4.00	2.9167	.82937	.688
What is your highest Level of education?	60	1.00	3.00	2.2333	.69786	.487
What is your job group	60	1.00	2.00	1.6167	.49030	.240
Risk based audit reform is a complex process which tends to extend over a number of years for its successful implementation.	60	1.00	2.00	1.8833	.32373	.105
Risk based audit call for careful design, sequencing and implementation.	60	1.00	5.00	2.4833	1.17158	1.37.
Risk based audit enhances transparency, accountability and responsiveness to public expenditure policy priorities.	60	1.00	4.00	2.1000	1.21711	1.48
Risk based audit covers virtually all aspects	60	1.00	5.00	2.1833	1.37152	1.88

	N	Minimum	Maximum	Mean	Std. Deviation	Varian
To what extent does training affects adoption of RBA	60	1.00	5.00	3.8000	1.62397	2.63
Do you agree/disagree that trainng ensures RBA approach is adopted with of ease	60	1.00	5.00	2.8000	1.41181	1.99
Do you agree/disagree that training instils knowledge to staffs	60	1.00	5.00	2.8000	1.41181	1.99
Do you agree/disagree that training leads to efficient and accurate reporting	60	1.00	5.00	3.5167	1.32117	1.74
To what extent does policy framework affect the adoption of RBA	60	1.00	5.00	1.2167	.69115	.478
To what extent does communication process affects the adoption of RBA	60	1.00	4.00	2.1000	1.21711	1.48
Do you agree/disagree that poor communication influence the adoption of RBA	60	1.00	5.00	4.0167	1.15702	1.33

	N	Minimum	Maximum	Mean	Std. Deviation	Varian
To what extent does your perception of the role of internal audit affects the adoption of RBA	60	1.00	3.00	1.3167	.50394	.254
Do you agree tha Internal Audit usually ensure that proper audit procedure are followed	60	1.00	4.00	1.7000	1.03006	1.06
Do you agree that top management should ensure availabilty of resources for the I. A function for the success of adoption of RBA	60	1.00	5.00	1.9333	1.20545	1.45.
To what extent does top management commitment affects the adoption of RBA?	60	1.00	5.00	2.8000	1.41181	1.99.
Do you agree that top management committed is key to ensure adoption of RBA	60	1.00	5.00	1.9833	1.24181	1.54.
Do you agree that top management should ensure availabilty of resources for the adoption of RBA	60	1.00	2.00	1.2667	.44595	.199

The table above provides processed data of the sixty respondents that responded to this study.The mean result provided above is composite of the various responses of individuals .The standard deviation and the variance were used to measure how spread out the responses were and how far the set of responses in individual questions were set.

From the study findings shown in the table above, majority of the respondents agreed to the statement that adoption of risk based audit approach called for careful design, sequencing and implementation (m= 4.833), risk based audit reform is a complex process which tends to extend over a number of years for its successful implementation (m=4.0224) and risk based audit enhances transparency, accountability and responsiveness to public expenditure policy priorities (m=1.8833). Responents were asked whether training affected the extent it affected adoption of RBA.The response provided resulted in a mean of 3.8000.a standard deviation of 1.62397 and a variance of 2.637.

Table 4.2: Regression 'R' and Coefficient of Determination 'R2' Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.265[a]	.070	-.016	.619

Predictors: (Constant)

The study sought to establish the relationship between the dependent variable (RBA) and the independent variables; role of IA function,top management commitment,training, policy framework and communication process as provided for in the regression model used in this study.From the analysis provided for in the table above 'R' depicted a positive but weak relationship of 26.5% variation in RBA.

Coefficient of Determination 'R2' was used to measure the extent of variability or change with which independent variables accounted for the value of the dependent variable (RBA). It was found that the independent factors ie Role of the Internal Audit function,commitment of top management, training,policy framework and communicationp process ,only accounted for 7% of the change in adoption of Risk Based Audit in Public Sector in Kenya.It therefore means that 93% of other factors which are not part of the regression model used in the study weare responsible and account for the change in RBA.

Table 4.3 Test of Significance of the Model

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.559	5	.312	.815	.544[a]
	Residual	20.669	54	.383		
	Total	22.228	59			

Source: Researcher 2012

Predictors: (Constant)

A test of significance was done using ANOVA.Using the fishers test, significance of a model is attained when its result ,F critical tends towards zero(0).In this study F was .815 with a significance level of .544. The above results show that the regression model was not significant.

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Table 4.4 Correlation Analysis

Correlation		Do you agree/disagree that trainng ensures RBA approach is adopted with of ease	Do you agree/disagree that training instil knowledge to staffs	Do you agree/disagree that training leads to efficiency and accuracy in reporting and auditing	Training	To what extent does policy framework affect the adoption of RBA	To what extent does communication process affects the adoption of RBA	Do you agree/disagree that poor communication influence the adoption of RBA
Do you agree/disagree that trainng ensures RBA approach is adopted with of ease	Pearson Correlation	1	1.000**	.420**	.942**	.010	-.215	-.195
	Sig. (2-tailed)		.000	.001	.000	.937	.099	.135
	N	60	60	60	60	60	60	60
Do you agree/disagree that training instil knowledge to staffs	Pearson Correlation	1.000**	1	.420**	.942**	.010	-.215	-.195
	Sig. (2-tailed)	.000		.001	000	.937	.099	.135
	N	60	60	60	60	60	60	60
Do you agree/disagree that training leads to efficiency and accuracy in reporting and auditing	Pearson Correlation	.420**	.420**	1	.699**	-.496**	-.117	-.039
	Sig. (2-tailed)	.001	.001		.000	.000	.373	.767
	N	60	60	60	60	60	60	60
Training	Pearson Correlation	.942**	.942**	.699**	1	-.175	-.212	-.168
	Sig. (2-tailed)	.000	.000	.000		.182	.103	.199
	N	60	60	60	60	60	60	60
To what extent does policy framework affect the adoption of RBA	Pearson Correlation	.010	.010	-.496**	-.175	1	.034	.101
	Sig. (2-tailed)	.937	.937	.000	.182		.795	.441
	N	60	60	60	60	60	60	60
To what extent does communication process affects the adoption of RBA	Pearson Correlation	-.215	-.215	-.117	-.212	.034	1	.252
	Sig. (2-tailed)	.099	.099	.373	.103	.795		.053
	N	60	60	60	60	60	60	60
Do you agree/disagree that poor communication influence the adoption of RBA	Pearson Correlation	-.195	-.195	-.039	-.168	.101	.252	1
	Sig. (2-tailed)	.135	.135	.767	.199	.441	.053	
	N	60	60	60	60	60	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

Source: survey data (2012)

The table above provides results that indicate the level of correlation between variables.

Correlation coefficient describes the degree of relationship between variables.It ranges

from -1 to +1, with -1 indicating a perfect negative correlation, +1 indicating a perfect

positive correlation, and 0 indicating no correlation at all. The Correlation matrix is used to determine the extent to which changes in the value of an attribute is associated with changes in another attribute . The data for a correlation analysis consists of two (bivariate) input columns . Each column contains values for one of the attributes of interest. When a value is greater than 0.5 then the variable is said to be correlated and when values are less than -0.5 then the values for are not correlated. Collinearity is the term used to explain the dependence of one variable to other. The table 4.4 shows that there is high positive correlation of Risk Based Audit against the role of the internal audit function, top management commitment,training ,policy frame work and communication process.

4.3 Estimated Model

Table 4.5 Regression model

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.973	.487		4.051	.000
	Internal Audit Function	-.090	.084	-.148	-1.073	.288
	Top Management Commitment	-.080	.125	-.089	-.635	.528
	Training	.030	.070	.058	.428	.670
	To what extent does policy framework affect the adoption of RBA	.014	.119	.015	.114	.910
	Do you agree/disagree that poor communication influence the adoption of RBA	.093	.071	.176	1.315	.194

Dependent Varia *Source: Researcher 2012*
Predictors: (Constant), Role of I.A Function, Top Mgt Commitment, Training, Policy Framework,Communication process
Dependent Variable: Risk Based Audit : Composite RBA

The relationship between RBA and the independent variables is as follows:

$$Y=1.973-0.148X_1-0.089X_2+0.058X_3+0.015X_4+0.0176X_5+0.487$$

Thus RBA $=1.973-0.148X_1-0.089X_2+0.058X_3+0.015X_4+0.0176X_5+0.487$

4.4 Discussion

Respondents encountered challenges and often misunderstood how auditors performed some of the audit procedures during implementation of audit engagements. These included: penetrating into organization's affairs, engaging in management surveillance and detecting illegal acts and/or fraud. There was high expectation from users of audit reports which when not addressed by audit findings created disatisfaction. Widespread criticism and litigation against auditors indicate that there is a gap between society's expectations of auditors and auditor's performance as perceived by the organizations.

To enhance adoption of RBA, respondents recommended for strengthening of the monitoring of auditors' performance, improving on quality control in audit firms, enhancing education of auditing practitioners, introducing new auditing standards, and educating the society about the audit function and work of the auditor. Most respondents talked of educating the users as one of the approaches to raise the understanding level in users and to reduce the differences in perceptions. Overally the core solution lies in increasing the level of auditor independence and auditor responsibilities with more punitive measures to reduce corporate reporting scandals thereby paving the way for increased audit quality.

Commitmentof top manangement was viewed to be paramount throughout the organization for effective implementation of RBA. Employees at all levels of an organization are only committed to a system that was not driven, supported, and believed-in by top management but by all.Respondents recommended internalising the principles of strategic risk management to allow all employees to become more effective .

Poor training can lead to lack of commitment to proper work procedures, poor supervision and demoralized officers. It can mean that the level of service being given in the organization is not up to the standard and hence changes are necessary. Managers at every organizational level are responsible for making sure that the employees have the skills needed to perform the work required. Accomplishing this managerial duty involves providing effective training to team members about company polices and procedures and industry standards, as well as recognizing the need for skill-based training and making sure that it is available to employees who need it.

Respondents said that evidence that information transmission from the bottom to the top was not upto standard, with employees and even managers fearing to articulate what is expected and contribution to RBA.The managemnt teams often have limited understanding of communication dynamics within their organisations.This can result to a climate of mutual suspicion rather than trust, with energies focused more on resolving internal struggles. They suggested that the key to building a world-class communication system lies in managers having an accurate picture of how well they and everyone else are actually communicating through training.

The coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) $R2$ equals 0.070, that is, Role of I.A Function, Top Mgt Commitment, Training, Policy Framework and Communication process .A great number of factors of 93 percent were unexplained. The F- value of 0.815 (more than 0.05) implies that the model of Risk Based Audit is not significant at the 95% confidence level

The summary of the basic logic of ANOVA in the study provides a discussion , purpose and analysis of the variance. The purpose of the analysis of the variance is to test the difference in means for groups or variables for statistical significance. This was accomplished through analyzing the variance, which was done by partitioning the total variance into a component that were due to true random error and components that were due to differences between means.

The ANOVA results indicate that the independent variables do not significantly (F=.815, p=0.544) explain the variance in the relationship. In this context, as has been presented in the table above, the dependent variable is the level of acceptance of Risk Based Audit while the independent or the predictors are role of internal audit function, top management commitment, training, policy framework and the communication process

4.5 Summary

There was a high positive correlation between Role of I.A Function, Top Mgt Commitment, Training, Policy Framework,Communication process. Effective internal communication was found to be a vital pre-requisite for the functioning of all organisations yet most organisations had not adopted it effectively.

Top management should ensure availability of resources for adoption of RBA as this will ensure attainment of objective by auditors. Training is also essential since it affects the adoption of RBA.Effective training ensures RBA approach is adopted with ease, instills knowledge in staff and leads to efficiency and accuracy in reporting and auditing. Policy framework affects adoption of RBA moderately.

The role of I.A function, top mgt commitment, taining, policy framework and communication process were not the only factors that determine the success of adoption of RBA as provided in the analysis as 93% remained unexplained.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings as discussed, conclusion and recommendations.Section 5.2 provides the summary of the study, section 5.3 provides conclusion, section 5.4 presents limitations of the study and finally section 5.5 provides recommendations for further research.

5.2 Summary of the Study

The main objective of the study was to establish the determinants of adoption of risk based audit in public sector in Kenya. The study focused on five determinants:-Role of Intenal Audit Function, Top Management Commitment,Training, Policy Framework and Communication process.

Risk based audit was found to be a complex process which tended to extend over a number of years for its successful implementation and it therefore calls for careful design, sequencing and implementation. Findings showed that Risk based audit enhances transparency, accountability and responsiveness to public expenditure policy priorities and it virtually covered all aspects of public financial management. Perception on the role of internal audit function was seen to affect the adoption of RBA to a great extentThe Internal Audit fuction wad exepecte to ensure that proper audit procedures were followed.

For RBA to be adopted successfully, top management had a great role to play as they had to ensure that resources were available for the internal audit function. They affect adoption of RBA to a very great extent. Their support was essential as they are the drivers of the RBA process. This commitment had to be illustrated through actions so that they should believe in it and act as role models for others in the organization to follow and support it. They should ensure availability of resources as this would make the auditors work easier and hasten implimentation it in good time.

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Training was found to be essential since it affects the adoption of risk based audit greatly. Training ensures RBA approach is adopted with of ease, instills knowledge to staffs and training leads to efficiency and accuracy in reporting and auditing. Poor training can lead to lack of commitment to proper work procedures, poor supervision and demoralized job holders. It can mean that the level of service being given in the organization is not up to the standard and changes are necessary.

Policy framework affects the adoption of risk based audit moderately. Framework was aimed to provide the right balance between required control steps and the amount of professional judgment that auditors can exercise. The framework should enhance various forms of review to assess product or process quality; identification and documentation of lessons learned; development of an inventory of improvement initiatives; practice improvement studies to propose reinforcements to approaches; formal documentation of standards and expected practices; and development activities to build staff awareness of new standards and expectations. These activities apply equally to all elements of the adoption of RBA.

Communication had great effect on adoption of risk based audit. It was seen that poor communication did not influence the adoption of RBA and the communication process was not well executed in the public sector resulting to misunderstandings and frustrations by auditors and which if not addressed could lead to a more complex process hence resulting to unsuccessful adoption of RBA.

5.3 Conclusion

The study concludes that Risk based audit was a complex process that takes a long period for its successful implementationI.It calls for careful design, sequencing and implementation. Risk based audit enhances transparency, accountability and responsiveness to public expenditure policy priorities and it virtually cover all aspects of public financial management.

Training ensures RBA approach is adopted with ease, instills knowledge to staffs and leads to efficiency and accuracy in reporting and auditing processes.A polocy framework provides the right balance between required control steps and the amount of professional judgment that auditors exercise and good communication influences the adoption of RBA.

In adoption of RBA, all the determinants ; top management commitment, training, policy framework and communication, are essential and affect RBA at a level that can averagely be said to be low based on the results provided in the study. There has to be every aspect of each of them put together with other factors not mentioned in the report to ensure an effective and efficient adoption of RBA approach. Overally the regression model was found not to be suitable for this study meaning that there are other factors that determine the effective implementation of RBA.

5.4 Limitations of the Study

The main limitation of the study was that the research was conducted on only one sector in respect of the determinants of adoption of RBA in the public sector in Kenya. The study should have covered private sector to come up with a conclusion which would have given more objectivity to these findings.The current research is limited due to the number of respondents involved in the survey who were senior members of staff .Audit affects all and should have considered other members of organizations.

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5.5 Recommendations for Further Research

The purpose of this study was to establish the determinants of adoption of risk based audit in public sector in Kenya. For it to be successfully implemented it calls for careful design, sequencing and implementation the process. To enhance adoption of RBA the following should be done: strengthening the monitoring of auditors' performance, improved the quality control by audit firms, enhance training of audit practitioners, introduce updated audit standards, and educate users about the audit function and the function the auditor.

Solution lies in increase in the level of the auditor's independence and responsibilities with punitive measures with a view to reduce corporate reporting scandals thereby paving the way for increased audit quality and hence reduce the audit expectation gap by users of audit reports. Further studies of the impact of RBA on public finance management system in the public sector in Kenya will help financial managers to effectively deal with risk management in the public sector in Kenya.

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UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

DATE 27/7/2012

TO WHOM IT MAY **CONCERN**

The bearer of this letter ... SERAH   ESHIKHATI KUTTA

Registration No... D61/61857/2010

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.

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

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APPENDIX II: QUESTIONNAIRE

This questionnaire is to collect data for purely academic purposes. All information will be treated with strict confidence. Do not put any name or identification on this questionnaire. *Answer all questions as indicated by either filling in the blank or ticking the option that applies.*

SECTION A: PERSONAL INFORMATION

1. Gender

Male   [ ]

Female   [ ]

2. Organization …………..

3. What number of years have you worked in the ministry?

   1-5 years [___]   5- 10 years [___]   10-15 years [___]   more than 15 years [___]

4. What is your highest Level of education?

Primary [___]   Secondary [___]   PhD [___]   Other [___]

Graduate [___]   Postgraduate [___]

5. What is your job group---

SECTION 'B': DETERMINANTS OF ADOPTION OF RISK BASED AUDIT IN PUBLIC SECTOR IN KENYA

PART A; RISK BASED AUDIT

6. What is your level of agreement with the following statements that relate to risk based audit reform?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Risk based audit reform is a complex process which tends to extend over a number of years for its successful implementation.					
Risk based audit call for careful design, sequencing and implementation.					

Risk based audit enhances transparency, accountability and responsiveness to public expenditure policy priorities.					
Risk based audit covers virtually all aspects of public financial management					

Part B: Role of Internal Audit Function

7. To what extent does your perception of the role of internal audit affect the adoption of RBA?

No extent at all	[ ]	Great extent	[ ]
Little extent	[ ]	Very great extent	[ ]
Moderate extent	[ ]		

8. What is your level of agreement with the following statements that relate to the effect of the role of internal audit in the adoption of RBA?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Internal Audit usually ensure that proper audit procedure are followed					
Top management should ensure availabilty of resources for the Interal Audit function for the success of adoption of RBA					

9. What are some of the challenges encountered as a result of misunderstood role of internal audit function in the adoption of RBA?

....

....

10. In your opinion what do you suggest need to be done with regard to the role of internal audit function in your organization to enhance the adoption of RBA?

....

....

Part C:Top Management Commitment

11. To what extent does top management commitment affect the adoption of RBA?

No extent at all   [   ]   Great extent   [   ]

Little extent   [   ]   Very great extent   [   ]

Moderate extent   [   ]

12. What is your level of agreement with the following statements that relate to the effect of top management commitment in the adoption of RBA?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Top management committed is key to ensure adoption of RBA					
Top management should ensure availabilty of resources for the adoption of RBA					

13. What are some of the challenges and their implication that you encountered as a result of lack of top management commitment in the adoption of RBA?

....

....

14. In your opinion what do you suggest need to be done with regard to top management commitment in your organization to enhance the adoption of RBA?

....

....

Part D: Training

15. To what extent does training affect the adoption of RBA?

No extent at all   [   ]   Great extent   [   ]

Little extent   [   ]   Very great extent   [   ]

Moderate extent   [   ]

16. What is your level of agreement with the following statements that relate to the effect of training in the adoption of RBA?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Trainng ensures RBA approach is adopted with of ease					
Training instil knowledge to staffs					
Training leads to efficiency and accuracy in reporting and auditing					

17. What are some of the implication of inadequate training of staffs in the adoption of RBA?

....

....

18. In your opinion what do you suggest need to be done with regard to training to enhance the adoption of RBA?

....

....

Part E: Policy Framework

19.To what extent does policy framework affect the adoption of RBA?

No extent at all   [   ]   Great extent   [   ]

Moderate extent   [   ]   Very great extent   [   ]

Little extent   [   ]

20. What are some of the policy framework challenges encountered in the adoption of RBA?

....

....

21 In your opinion what do you suggest need to be done with regard to the policy framework in your organization to enhance the adoption of RBA?

....

....

Part F: Communication process

22. To what extent does communication process affect the adoption of RBA?

No extent at all   [ ]   Great extent   [ ]

Little extent   [ ]   Very great extent   [ ]

 Moderate extent   [ ]

23. What is your level of agreement with the following statements that relate to the effect of communication process in the adoption of RBA?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Poor communication influence the adoption of RBA					
The communication procees in my organization is well executed					

25. What are the implications of poor communication process in the adoption of RBA?

....

....

26. In your opinion what do you suggest need to be done with regard to the way communication is carried out in your organization to enhance the adoption of RBA?

....

....

THANK YOU

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APPENDIX III: PUBLIC SECTOR

FUNCTIONAL CATEGORIZATION OF STATE CORPORATIONS

FINANCIAL CORPORATIONS STATE CORPORATION

Agricultural Finance Corporation
Consolidated Bank
Deposit Protection Fund Board
Industrial and Commercial Development Corporation
Industrial Development Bank
Kenya Industrial Estates
Kenya National Assurance Co. (2001)
Kenya Post Office Savings Bank
Kenya Re-Insurance Corporation
Kenya Revenue Authority
Kenya Roads Board
Kenya Tourist Development Corporation
National Bank of Kenya
National Hospital Insurance Fund
National Social Security Fund

REGULATORY CORPORATIONS STATE CORPORATION

Capital Markets Authority
Catering Training and Tourism Dev. Levy Trustees
Coffee Board of Kenya
Commission for Higher Education
Communications Commission of Kenya
Council for Legal Education
Electricity Regulatory Board
Export Processing Zones Authority
Export Promotion Council
Horticultural Crops Development Authority
Investment Promotion Center
Kenya Civil Aviation Authority
Kenya Bureau of Standards
Kenya Dairy Board
Kenya Industrial Property Institute
Kenya Plant Health Inspectorate Services
Kenya Sisal Board

PUBLIC UNIVERSITIES STATE CORPORATION

Egerton University
Jomo Kenyatta University of Agriculture and Technology
Kenyatta University
Maseno University
Moi University
University of Nairobi

SERVICE CORPORATIONS STATE CORPORATION

Agricultural Development Corporation
Bomas of Kenya
Central Water Services Board
Coast Water Services Board
Higher Education Loans Board
Kenya Accountants and Secretaries National Examination Board
Kenya Ferry Services
Kenya National Examination Council
Kenya National Library Services
Kenya Tourist Board
Kenya Wildlife Service
Kenyatta National Hospital
Lake Victoria North Water Services Board
Lake Victoria South Water Services Board
Local Authorities Provident Fund
Moi Teaching and Referral Hospital
Nairobi Water Services Board
National Aids Control Council
National Council for Law Reporting
National Sports Stadia Management Board
Northern Water Services Board
Rift Valley Water Services Board
Teachers Service Commission
Water Resources Management Authority
Water Services Trust Fund

COMMERCIAL/MANUFACTURING CORPORATIONS

East African Portland Cement Company
Kenya Airports Authority
Kenya Electricity Generating Company
Kenya Ports Authority
Kenya Pipeline Company
Kenya Power and Lighting
Company
Kenya Railways Corporation
Postal Corporation of Kenya
Telkom Kenya Limited

APPLICABLE STATE CORPORATIONS

Agro-Chemicals and Food Company
Chemelil Sugar Company
Kenya Seed Company Limited
Kenya Wine Agencies
National Housing Corporation
National Cereals and Produce Board
National Oil Corporation of Kenya
Nzoia Sugar Company
Pyrethrum Board of Kenya
South Nyanza Sugar Company
University of Nairobi Enterprises and Services Limited

APPLICABLE STATE CORPORATIONS

Gilgil Telecommunications Industries
Jomo Kenyatta Foundation
Kenya Broadcasting Corporation
Kenyatta International Conference Center
Kenya Literature Bureau
Kenya Medical Supplies Agency
Kenya Ordinance Factories Corporation
Kenya Safari Lodges and Hotels
National Water Conservation and Pipeline Corporation
Numerical Machining Complex
School Equipment Production Unit

REGULATORY CORPORATIONS

Capital Markets Authority
Communications Commission of Kenya
Commission for Higher Education
Electricity Regulatory Board
Retirement Benefit Authority
Coffee Board of Kenya
Council for Legal Education
Export Promotion Council
Export Processing Zones Authority
Investment Promotion Center
Kenya Plant Health Inspectorate Services
Kenya Bureau of Standards
Kenya Civil Aviation Authority

Kenya Sugar Board
National Environment Management Authority
1Tea Board of Kenya

SERVICE CORPORATIONS
Catering Training and Tourism Dev. Levy Trustees
Horticultural Crops Development Authority
Kenya Dairy Board
Kenya Industrial Property Institute
Kenya Sisal Board
Maritime Authority
NGO Co-ordination Bureau
National Tea Zones Development Authority
National Irrigation Board
Water Services Regulatory Board
Cooperative College of Kenya
Kenya College of Communications Technology
Kenya Medical Training College
Kenya Utalii College
Kenya Water Institute
Coast Development Authority
Ewaso Ng'iro North Development Authority
.Ewaso Ng'iro South Development Authority
Kerio Valley Development Authority
Lake Basin Development Authority
Tana and Athi Rivers Development Authority