FACTORS THAT CONTRIBUTE TO THE EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION AS A CORPORATE GOVERNANCE MECHANISM IN PUBLIC UNIVERSITIES IN KENYA:
(A CASE STUDY OF THE UNIVERSITY OF NAIROBI)

BY
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D61/72926/2009

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF MASTER OF BUSINESS ADMINISTRATION, AT THE UNIVERSITY OF NAIROBI.

SEPTEMBER, 2012
DECLARATION

I declare that this research project is my original work and has not been submitted for examination in any other university.

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ACKNOWLEDGEMENTS

First I thank the Almighty God for the endless mercies and guidance; for the opportunity to undertake this course and for the precious gift of life.

I further wish to express my deepest gratitude to my supervisor Mr. James Nganga for his guidance, patience and unconditional support.

Special thanks to my dear wife Nancy, lovely teenage children Peter and Mary, for their support, encouragement and patience during the entire period of the study.

I do also acknowledge all the respondents for their time and information that enabled me to successfully complete this work.

Last but not least, my sincere appreciation is to all my fellow students for their technical academic support and encouragement.
DEDICATION
To the Almighty God for the strength that enabled me to sustain the struggle

To my dear wife Nancy Wanja Kbuı–Ndırangu, for her support and encouragement

To my children Peter Njoroge Ndırangu and Mary Njoki Ndırangu for the patience and understanding

Last but not least, to my dear father Peter Njoroge Ndırangu for keeping the desire to excel burning inside me.
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ABBREVIATIONS AND ACRONYMS

CAE  Chief Audit Executives
CEO  Chief Executive Officer
CG  Corporate Governance
CIA  Chief Internal Audit
CISA  Certified Information Systems Auditor
CPA  Certified Public Accountant
ECIIA  European Confederation of Institutes of Internal Auditing
EU  European Union
IA  Internal Audit
IIA  Institute of Internal Auditors
PSO  Public Sector Organizations
UON  University of Nairobi
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The purpose of the study was to establish the factors that contribute to the effectiveness of the internal audit function as a corporate governance mechanism in public universities in Kenya. The study set to provide an understanding and appreciation of the factors that are necessary for the Internal Audit Function to be effective, and how best the function could be made to contribute to the promotion of Good Corporate Governance in public institutions in Kenyan. A case study design was adopted, and the UON was chosen for the study. To address this purpose, the study sought to answer the following research question: what is the perception of the internal auditors at the UON on the factors that contribute to the effectiveness of the internal audit function. The target population for the study was all the Internal Audit staff in the internal audit department of the UON. A total of 40 respondents were targeted.

The dependent variable was the Effectiveness of the Internal Audit Function, while the independent variables were: Professional Proficiency of Internal Auditors, Quality of Audit Work, Organizational Independence, Career and Advancement, and Top Management Support. The researcher analyzed the collected data using descriptive statistics and presented the data in terms of percentages, frequency distribution and charts.

The findings from the study were that various factors contribute to the effectiveness of the internal audit function as a corporate governance mechanism in public universities. These factors range from professional proficiency of internal auditors, quality of audit work, organizational independence, career and advancement and top management support. The study findings were similar with those in existing literature reviewed; hence the conclusion that an effective internal audit function contributes to corporate governance to a great extent. The research findings indicated that there was a positive relationship between the variables, and that the effectiveness in internal audit function in public universities can be explained by the identified factors.

The study recommended that there was need to invest in the internal audit function of organizations, as this was bound to contribute to the enhancement of the corporate governance structures. The study suggested that future research should focus on all public universities in Kenya, and that a broad based study on role of Internal Audit on organizational performance in both private and public organizations should also be carried out in future.
CHAPTER ONE
INTRODUCTION

1.1 Background
Effective and efficient management of public sector organizations is an issue of concern in many countries. Melese et al. (2004) argue that public sector organizations (PSO) are increasingly being held more accountable for their performance and are therefore expected to operate efficiently and effectively. The need to focus on improving corporate governance has increased in many developed and developing countries during the past few decades, especially in the wake of economic collapses and financial scandals (Brown & Caylor, 2006).

The proper management of PSO is therefore an issue of concern in developed and developing countries. This then means that PSO have to search for ways to improve on the management of their activities, processes and resources. Notable approaches include the use of performance contracts. Similarly, activity based management practices can increase transparency and efficiency when conducting government activities thereby assisting PSO to achieve their objectives (Melese et al, 2004). It has been widely recognized that the role of the internal auditor is becoming increasingly important in creating good corporate governance (CG) structures (Carcello et al., 2005).

The elements of corporate governance include the audit committee, external auditors, internal auditors, and the Board of Directors. To secure the operations of governance of a strong company, there must be cooperation between the various components of the system of governance (European Confederation of Institutes of Internal Auditing, 2005). Studies indicate that the role of internal audit in governance must take precedence over other internal audit activities. According to Okafor and Ibadin (2009) internal audit exercises a critical role in improving corporate governance in organizations.

1.1.1 Internal Audit Function.
The institute of internal auditors (1999) defines internal auditing (IA) as:

"an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by..."
bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.

Through the extended role of providing value-added assurance and consulting services, the Internal Audit Function has been promoted as one among the cornerstones upon which effective corporate governance is built (IIA Professional Guidance, 2002). Ramamoorthi (2003), in his research on the history and evolution on the Internal Audit Function indicated that, over time, there has been a massive shift in focus to one that promotes and supports effective organizational governance. This was supported by Ruud (2003) who noted that, in today’s business environment, the Internal Audit Function has become a major support function for management, the audit committee, the board of directors, and other stakeholders. The developments in CG have led to a heightened recognition that IA is integral to control mechanisms and is a control mechanisms per se (Gramling et al, 2004).

Stakeholders of organizations are increasingly demanding that boards and executive management apply accepted governance principles, adhere to sound risk management, and demonstrate publicly that they are in control of their organizations. The Internal Audit Function is therefore established to assist management in strengthening accountability structures. The IIA (1999), definition of the Internal Audit Function refers to both assurance and consulting activities directed at the governance, risk management and internal control processes. Consequently, an IA activity that follows this definition is uniquely positioned to support the board and management as an essential component of their governance efforts. Moreover, Carcello et al. (2005) found indications that, due to this enhanced focus on CG, effective oversight and sound internal controls, the importance assigned to IA by management has increased. They further indicate that senior managements’ expectations of the Internal Audit Function have changed in profound ways.

Besides their significant assurance and consulting role in risk management, internal control and corporate governance, IA can also act as a support for management in terms of reviewing operational efficiency, investigating outcomes of financial initiatives, and providing knowledge of business activities (Cooper et al., 1996). IA is sometimes asked to work with senior management in various other (ad hoc) activities of the organization, such as, acquisitions,
mergers and systems development and implementation (Brody & Lowe, 2000). The rationale is that more can be accomplished through reviewing and providing advice up front to management to assist it in setting business objectives (Bou-Raad, 2000).

1.1.2 Corporate Governance.

Corporate governance has been attracting a great deal of public interest in the recent past because of its importance to the economic health of corporations and the society in general. However, the concept of corporate governance is poorly defined because it potentially covers a large number of distinct economic phenomena, and different people have therefore come up with different definitions that basically reflect the special interests in their fields.

The International Finance Corporation (2011) defines corporate governance as: "the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, the board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to the outside capital". (p. 19).

The Global Corporate Governance Forum as cited in the PSICG (2002) notes that: "Corporate governance has become an issue of worldwide importance. The corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally, and is increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest, and governance has, thereby, come to the head of the international agenda". (p. 2.)

CG would therefore be deemed to refer to the processes by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Good Corporate Governance is essential for all successful organizations. The principles of Good Corporate Governance: openness, integrity and accountability are not just optional extras, but fundamental foundations on which effective organizations are built.
CG is a field that has been evolving due to increased demand for transparency and accountability by various stakeholders. Among the earlier developments in this field include the Hampel Committee Report (1998) that outlined rules on CG in a report entitled “Combined Code on Corporate Governance”. In 1999, The Turnbull report entitled “Internal Control: Guidance for Directors on the Combined Code” was published to offer guidance to Directors on how to comply with combined code on CG. The report on the Financial Aspects of Corporate Governance (The Cadbury Report, 1992) identified three fundamental principles of CG; openness, integrity and accountability.

1.1.3 Internal Audit as a Corporate Governance Mechanism.
It has been widely recognized that the role of the internal audit becomes increasingly more important in terms of creating Good Corporate Good structures. It is further recognized that an effective Internal Audit Function enables the board to perform its CG duties. Gramling et al., (2004), notes that the Internal Audit Function is one of the four cornerstones of CG, and the Internal Audit Function has an important role in assisting the board to monitor the effectiveness of its governance. By helping the board in this way IA becomes an essential element of the CG process.

The IAs can also help organizations to meet CG expectations. With regard to business risk management and the role of IA, the European Confederation of Institutes of Internal Auditing (2005), states that Good Corporate Governance expects the board to be responsible for 1) setting up strategies to manage business risks, 2) ensuring the effectiveness of internal controls, and 3) improving company performances. The board is expected to implement effective risk management systems, which should be capable of identifying and detecting business risks. The board must ensure that internal controls are adequate for the level of risk that could occur. The Internal Audit Function is expected to assist management and the board with the risk management implementations (ECIIA, 2005).

The increased importance of the Internal Audit Function in enhancing CG has also been reinforced indirectly through legislations, such as the Sarbanes Oxley Act (2002) in the USA and the Corporate Law Economic Reform Program (CLERP) Act (2004) in Australia. Although this legislation does not specifically address the CG role of the Internal Audit Function, it provides for the expanded accountability requirements of stakeholders, like the board (including the audit
committee) and management. This, in turn, would suggest an expanded role for the Internal Audit Function given that it comprises an integral component of the network of parties having CG responsibilities (Gramling et al., 2004). This expanded role essentially involves the provision of additional services, which are initiated by the board (including the audit committee) and management as a means of ensuring that accountability requirements are met.

The role played by the Internal Audit Function however raises the issues of credibility and integrity, given the close relationship between management and the Function. Mutchler et al. (2001) stressed on the importance of independence by suggesting that, as the responsibilities of Internal Audit Function grow, so does the demand for greater accountability, independence and objectivity. They pointed to the fact that the broadened responsibilities of the Internal Audit Function within the environment of a changing business world, coupled with increasing economic competition and globalization, are creating pressure on the Function, which could also jeopardize its independence.

1.1.4. The University of Nairobi
This study was carried out at the University of Nairobi. The University of Nairobi operates under an Act of Parliament, the UON Act (1985) Cap 210 of the Laws of Kenya. Being a public institution, the University is also subject to the State Corporations Act Cap 446 (1987). It is the oldest and largest University in Kenya, with a current population of about 50,000 students, undertaking diverse programmes in the seven campuses, spread over Nairobi and its environs, and extra mural centers in a number of the major town in Kenya. From a humble beginning in 1956, the University has grown overtime, to the complex entity it now is. It has in the recent past had to contend with an ever changing external environment, dwindling resources against the background of rising demand for higher education, and competition with the increased number of Public Universities for scarce Government resources (UON Strategic Plan, 2008).

The University has also been facing fierce competition from both local and foreign private universities. It therefore has to continue to create superior value to survive this competitive onslaught. The contemporary environment it finds itself in requires a prudent and more businesslike approach in the management of the University affair as well as very high standards of corporate governance, in order to seize the emerging opportunities and mitigate against the threats to its mandate. The University is increasingly being pushed towards greater
accountability and a display of greater sensitivity to the needs of its stakeholders. At the same time as the institution is taking on greater responsibility due to the fast rate of expansion, the level of its financial support from the Government is reducing in real terms. (UON, Strategic Plan, 2008). It is therefore imperative that it makes very bold steps towards enhancing its governance structure, including increasing the capacity and effectiveness of the Internal Audit Function.

The UON has a broad based Council, the supreme governing organ, composed of a fairly balanced number of executive and non-executives members. The appointment of the board is done externally for effectiveness and independence, and its chairman is external to the institution for effective oversight. The institution has an able management board, the University Management Board, headed by the University’s Vice-Chancellors as the CEO. It is charged with the responsibility of putting in place effective systems, policies and processes to ensure that the institution is run well. The University management has also been able to put in place strong internal controls to safeguard the resources of the institution, add value and realize its strategic objectives. The Vice-Chancellor is assisted by four Deputy Vice-Chancellors charged with the management of the dockets of Administration and Finance; Academic Affairs; Student Affairs; and Research, Production and Extension.

The management of the day to day affairs of the institution is placed on the Heads of Departments which include the Finance, Administration and Human Resource management, Transport, and Estates Buildings and Constriction, among others. The Internal Audit Function is placed at this level in the organizational structure, but unlike the other heads, who report to the relevant DVCs, the CIA reports to the CEO, administratively and to the Audit committee of Council professionally. This is meant to ensure that that the Internal Audit Function is independent of management, which it reviews, and can therefore be objective in the approach to its work. The UON audit committee is composed of respectable and accomplished senior member of the Kenyan society, whose appointment is also external to the UON. It is meant to act as a link between the Internal Audit Function and Management and ensure that the Internal Audit Function is well constituted and effective enough to support the CG mechanism. The activities of the UON are subject to a continuous external review by the Kenya National Audit Office, being
1.2 Statement of the Problem

As discussed above, it is the obligation of the management of public universities, the UON included to promote a Good Corporate Governance framework. It has also been noted that an effective Internal Audit Activity would assist management in such efforts. It is however important that the Internal Audit Function gets the relevant support. It is also important that it is provided with the necessary resources and is left to operate within the desired levels of independence and objectivity. This would ensure that there is no undue influence in the Internal Audit Functions’ operations. The existence of an audit committee further enhances, guides and supports the Internal Audit Function if appropriately positioned within the institution, as it serves as a strong link between the Internal Audit Function and management.

Cohen et al. (2002) recognized that management has a strong influence in setting the overall tone for governance. Claybrook (2004) argued that top management has the broadest influence on stakeholders, and, further that management influences operations, as well as the board of directors and even the internal audit function. Drent (2002) asserts in contrast with management, that audit committees greatly value the independence of the internal audit function. It has also been found that an expectations gap arises when audit customers, including senior management, do not recognize the value of the internal audit (IA) function. In order to function effectively, the internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value-adding activity. Failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving organizational objectives. Such recognition and support is not always automatic.

A study by (Karagiorgos et al., 2010) on internal auditing as an effective tool for corporate governance indicated that internal auditing plays a vital role in effective corporate governance. The Institute of Internal Auditors, on their 2006 position paper on the “Role of Auditing in Public Sector Governance”, presented the IIA’s position on the importance of the public sector audit function to effective governance. It defined the key elements needed to maximize the value the public sector audit function provides to all levels of government.
Arena and Azzone (2009) carried out a study on Identifying Organizational Drivers of Internal Audit Effectiveness on Italian companies. Their survey indicated 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. Kimani (2006) observed that many questions were raised by the shareholders of Uchumi Supermarket in Kenya when it was declared insolvent. Among the questions raised was that of where the auditors were when things got that bad. In the case of Uchumi Supermarket, the external auditors were highly accused of failure to alert the public on the financial status of the Supermarket. However, according to the International Standards of Auditing, the role of the external auditor is not to unearth fraud and irregularities in organizations but to carry out their work with skepticism and report any fraud that they encounter in the course of their work. They however rely on information provided by management, of which the internal auditors are part of, and who should through their risk management programmes be aware of irregularities or weaknesses in internal control systems.

The studies above give a clear demonstration of the fact that Internal Audit Function is supposed to be a strong corporate governance mechanism. It is therefore important to understand the factors that influence its effectiveness. From the literature reviewed, no study has been carried out to establish the factors that contribute to the effectiveness of the Internal Audit Function as a corporate governance mechanism in public universities in Kenya, and with particular focus on the UON as a case study. This study therefore aims to fill this gap. The study will seek to answer the following research question: What is the perception of the internal auditors at the UON on the factors that contribute to the effectiveness of the internal audit function?

1.3 Research Objectives
The objective of the study was to establish the perception of the internal auditors at the UON on the factors that contribute to the effectiveness of the internal audit function.

1.4 Significance of the Study
This study will add value to the following groups:

**UON Council**
The study will help identify mechanisms that will enable the UON council to assert meaningful controls in the decision making process. This will be informed by the findings of the study on the
factors that can influence the effectiveness of the Internal Audit Function. The study may also help the board to appreciate the role played by the Internal Audit Function in the organization and understand the challenges they face in carrying out their activities. This will enable them to decide whether their investment in a strong internal audit department is worthwhile.

University Management Board
This study will enhance the board member understanding of the factors that influence the effectiveness of the Internal Audit Function at the UON and its role as a corporate governance mechanism. This will encourage them to ensure that the limiting factors are corrected so that the function could be assisted to meet its mandate as major pillar in governance.

Government Ministries
The results of the study will give an added feedback to the Government of Kenya, Ministries of Education Science and Technology and Finance, as well as the Directorate of Corporations. This will assist the above ministries to assess the public universities in terms of their ability to utilize resources effectively and as a result be in a position to meet their mandate. The government may also utilize the result of this study to develop guidelines for effective monitoring of the activities of the public universities through effective Internal Audit Functions. The findings of this study will therefore shed preliminary light on the effectiveness and functioning of the Internal Audit Function in public universities and other public organizations.

Academia
This study attempts to advance and stimulate more scientific interest in this important profession. The study will be a springboard from which to generate future research on the effectiveness of the Internal Audit Function, and will suggest directions for such studies.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents a review of the literature on the topic under study. The review has drawn materials from several sources that are closely related to the theme and objective of the study. The chapter contains the following major areas: general literature, theoretical framework, empirical studies and chapter summary.

2.1.1 Internal Audit Function
The IIA (1999) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate the effectiveness of risk management, control, and governance process. Independence is established by the organizational and reporting structure, while objectivity is achieved by an appropriate mind-set. Millichap (2002) defines internal auditing as an independent appraisal function established by management of an organization for the review of the internal control systems as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economical, efficient and effective use of resources.

In the course of their work, and in an attempt to discharge their responsibilities, internal auditors often find themselves in an anomalous position. They are supposed to report to senior management within the organization, yet at the same time are expected to objectively review the same management’s conduct and effectiveness. This then creates a dilemma and a situation that could compromise the independence, objectivity and effectiveness of the Internal Audit Function. A satisfactory solution to this problem is for the Internal Audit Function to report primarily to the board and its audit committee, rather than to the senior management.

The internal audit activity evaluates risk exposures relating to the organization’s governance, operations, and information systems, in relation to effectiveness and effectiveness of operations, reliability and integrity of financial operational information, safeguard of assets and compliance with laws, regulations and contracts. Based on the results of risk assessment, the internal auditors
evaluate the adequacy and effectiveness of risk identification and management systems in place. They also assess other aspects in the organization such as the ethical standards, values, performance management and communication of risk and control information, in order to facilitate good corporate governance (IIA Research Foundation, 2004).

Internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. While management is responsible for internal controls, the internal audit activity provides assurance to management and audit committee that internal controls are effective and working as intended. The CIA delineates the scope, authority, and independence for the Internal Audit Function in a written charter that is approved by the audit committee. An effective Internal Audit Function is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations and risk profile. The objectivity, skills and knowledge of the effective Internal Audit Function can significantly add value to an organization’s internal control, risk management and governance process. Similarly, an effective Internal Audit Function can provide assurance to the other stakeholders such as regulators, employees, providers of finance, and shareholders (IIA Research Foundation, 2004).

The internal audit profession is guided by the International Standards for Professional Practice of Internal Auditing (IIA, 2008). According to these standards, the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of the internal auditing, the code of ethics and the auditing standards.

2.1.2 IAF as a Corporate Governance Mechanism in Public Universities.
Higher education is one of the most effective instruments for economic, political, human resources and social development. Ogom (2007) argues that higher education not only enables a state to maintain a competitive advantage but it also stimulates scientific research that results in modernization and social transformation. On this basis, Ogom (2007) further proposes that governments should financially support their institutions of higher education.

Currently, there are seven public universities in Kenya. These are the University of Nairobi, Kenyatta University, Egerton University, Moi University, Jomo Kenyatta University of
Agriculture and Technology, Maseno University and Masinde Muliro University of Science and Technology. The various public universities are established by separate Acts of parliament, and each is run independently.

Public universities in Kenya are funded by the government through the exchequer, where the cost of student’s education is partly paid by the government through the subsidized cost sharing system, and partly by the students. The Structural Adjustment Programmes (SAPS) introduced in the 1990s required the Kenyan government to reduce the funding of higher education, redirect more funding to primary education (Ogom, 2007). They also recommended diversion of more public resources from education to productive sectors. Moreover, the Kenyan Government was pressurized to suspend construction of residential and non-residential buildings in universities, reduce maintenance workforce, introduce cost-sharing tuition, stop paying students allowances, and suspend free student meals and accommodation (Oketch, 2004). The implementation of this decision put financial pressure and governance challenges on Kenyan public universities.

Reduced government funding of public universities has led to knowledge gap or reduced intellectual capital since the country is not able to develop the human resources it requires (Birdsall, 1996). Public universities in Kenya have tried to put in place measures to generate income to augment the limited government allocation. These measures include: Introduction of parallel or part-time degree programmes; Renting out facilities like hostels during holidays and conference halls for social functions; Opening the University of Nairobi mortuary to public use at a fee; Production of crops, milk and beef on university farms; Provision of short-term courses, contract research for industry, and consultancy services; Introduction of diploma and distance education programs; Encouragement of individuals and organizations to contribute towards higher education in Kenya. Nevertheless, the process of generating income by public universities has had some side effects, including the management and accountability of the same incomes.

Public universities in Kenya are faced with a myriad of challenges, the most critical ones being that of a rapid expansion of university education and reduced government funding over time, and this therefore leading to low research capability, students living in poor conditions and failure to maintain high caliber staff due to non-competitive remunerative rewards. This means that there is need for leaders of institutions of higher education to implement broad policy changes since
change is part and parcel of organizational life. Organizations that don’t adapt to change risk the hazards of stagnating or going out of business. In fact, the ability to adapt to a changing environment is a source of competitive advantage.

Improved governance of public universities benefits a wide range of stakeholders that include students and employers. Mwiria et al. (2006) pointed out that governance is the most critically needed area of reform in the management of public universities in Kenya. The authors contended that poor corporate governance practices in Kenyan public universities have contributed to numerous strikes and closures over the past decade. Such strikes and closures led to prolonged time for students to graduate and disrupted academic life. Further, some prospective students and resident staff were forced to opt for the private universities and overseas institutions. Mwiria et al. (2006) opined that some of the governance issues that need to be addressed relate to management structures, student affairs, staff and student associations, appointment of chancellors, and the role of the Commission for Higher Education (CHE).

Underlying the discussion of the effectiveness of Internal Audit Function as a CG mechanism is the important field of knowledge which supports the nature and significance of internal audit and corporate governance practices. This study will be guided and informed by literature reviewed from related sources as well as the following theories: the agency theory and the institutional theory.

2.1.3 Factors Contributing to Effectiveness of Internal Audit Functions

Arena & Azzone (2009) identified three major factors that contribute to the effectiveness of the IAF. These are the characteristics of the internal audit team; the audit processes and activities; and the organizational links. Cohen & Sayag, (2010) identified that the effectiveness of internal auditing is determined by the fit between the audit and six characteristics of the Internal Audit Function, which are: the sector of the Organization, whether private or public; the professional proficiency; the quality of the audit work; the organizational independence; career advancement and top management support. The factors identified by the two set of studies seem to highly overlap. This study will adopt the factors presented by Cohen & Sayag, (2010), in examining the effectiveness of the Internal Audit Function in the discharge of its duties, and thereby promoting
2.1.3.1 Public Sector Organizations

This study is on the factors that influence the effectiveness of IA as a CG mechanism in public universities. The categorization of organizations as public or private sector is based on the goals of the organizations. Private organizations are generally interested in maximizing their profits, while public organizations are focused on improving their services for the welfare of the general public. Studies have identified that Internal Audit Functions in private and public sectors have some differences. Goodwin (2004) noted two main differences. First, PSOs operate in a rigid framework where the organization’s activities must be authorized by legislation. Second, these organizations are service-oriented, and hence attach lower priority to cost factors and issues associated with profitability. Goodwin (2003) found several differences between the public and the private sectors, and recommended further examination of sector differences in IA.

2.1.3.2 Professional Proficiency of the Internal Auditors

Appropriate staffing of an internal audit department and proper management staff is essential to the effective operation of an internal audit activity. An audit department requires professional staff that collectively possesses the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations and the institute, (IIA, 2008). Bou-Raad (2000) argued that auditors must have a high level of education in order to be considered a positive and effective human resource. They further indicate that the diversity of skills required represents a major challenge to professional bodies, institutions and management.

The studies that have looked into this issue have found that the greater the professional qualifications of the internal auditors in a given department, defined by the length of their professional training and educational level, the greater the effectiveness of the department. Nanni (1984) found that auditor experience had a positive effect on evaluations of internal accounting controls.
2.1.3.3 Quality of Audit Work
It has been observed that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Standards for audits and audit-related services are published by the IIA (2008), and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, and in such a manner that internal audit activity will evaluate and contribute to the improvement of risk management, control, and governance using a systematic and disciplined approach.

This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad, 2000). It can thus be argued that greater quality of IA work, understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution, the greater will be the improvement in the audit’s effectiveness.

2.1.3.4 Organizational Independence
The role of IA in organizations is complex. Van Peursem (2004) identifies strong potential for confusion in the relationship between internal auditors and management. Internal auditors are expected to aid managers in doing their jobs and at the same time to independently evaluate management’s effectiveness. Internal auditors are charged with upholding the best interests of their employer, but they may be reluctant to counter management, regardless of the consequences. Bou-Raad (2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operational responsibilities. They must not be involved in decision which they later have to audit.

The IIA, the American Institute of Certified Public Accountants (AICPA) and others like minded institutions have identified organizational independence as crucial to the viability of the Internal Audit Function. Auditors should be sufficiently independent from those they are required to audit, to be able to conduct their work without interference, and, equally important, be seen to do so.
Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and gives employers confidence that they can rely on their results and reports. It is argued that independence is more crucial to the effectiveness of internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work. Courtemanche (1986) identifies four objective and independent auditing factors: access to information or people, objectivity, freedom and responsiveness of the system.

Van Peursem (2005), based his study on interviews with Australian internal auditors, and concluded that independence from management is a dominant feature of successful auditing programs. The auditors who are able to set their own agenda seem to be the most powerful in this respect because the flexibility on their selection of what to audit and when to include assessments of senior managers. Similarly, Clark, Gibbs and Shroeder (1981) found that the independence of the internal audit department and the level of authority to which the internal audit staff report are the two most important criteria influencing the objectivity of their work. It can thus be argued that organizational independence will increase the internal auditor's effectiveness. This independence both lessens the conflict between loyalty to the employer and loyalty to specific managers, and gives auditors a supportive work environment in which they can conduct their tasks objectively and without pressure.

2.1.3.5 Career Advancement
The determinants described so far, especially the professional proficiency of the auditors, the quality of auditing work and the organizational independence of auditing departments, represent instances where the auditor's interests are those of the profession, rather than the employing organization. The following two determinants represent the opposite case, where the interests of the organization take precedence. The first of these involves considerations of career and advancement. Goodwin (2001) argued that, internationally, the practice of staffing the internal audit department with career auditors is becoming less common, with more organizations using the function as a training ground for future management personnel. This practice is designed to help the organization train well-rounded senior managers. Internal auditors perform a wide variety of activities across different departments within the organization. They thus have opportunities to learn how these departments function and how they are managed. Furthermore,
managers who have had experience in internal auditing should have a better understanding of the importance of internal control.

The degrees to which internal auditing can lead to a managerial career in an organization may therefore have an influence on the effectiveness of internal audit function. This is perhaps more true today than in the past, given the trends described by Goodwin (2001). It can be argued that under these conditions, internal auditors who operate in settings with more organizational career opportunities will invest more effort in their work in order to increase their promotion opportunities. Those with fewer opportunities for organizational advancement will invest less effort in their work, resulting in a lower performance level.

2.1.3.6 Top Management Support
Management literature offers ample evidence for the key role of top management support in the success of almost all programs and processes within an organization. It has also been agreed that top management support and commitment to change play a crucial role in organizational renewal, as senior managers can mobilize the critical mass needed to follow through on the support for quality as a key factor in its improvement programs. Top managers' attitudes and behaviour have also been found to be related to quality management practices (Flynn, Schroeder & Sakakibara, 1994).

It is therefore not surprising that managements' acceptance of, and support for, the Internal Audit Function has long been seen as critical to the success of that function (Sawyer 1973). Several studies have demonstrated that support for internal auditing by top management is an important determinant of its effectiveness. Funding is an important measure of such support. IA departments must have the resources needed to hire the right number of high-quality staff, to keep up-to-date in training and development, to acquire and maintain physical resources like computers, and so on.

In a survey of Australian internal auditors, (Leung, Cooper and Robertson, 2004) found that chief audit executives are generally very positive about the performance of IA. They see themselves as a key part of the management team, and believe they can influence decisions; maintain a sufficient level of objectivity, integrity and competence in their jobs; and provide good support for their own staff. More importantly, they view the support of upper management
as a key factor in ensuring the effectiveness of their role. Sarens & De Beelde, (2006) reported on the development of a similar attitude in Belgium, where as a consequence of changes in national and international corporate governance regulations, the internal audit function gets more attention and support from boards and managers.

As discussed above, the relationship between the internal audit staff and the company's management is clearly important in determining the independence, objectivity and therefore the effectiveness of the Internal Auditor Function. Management support for IA is thus important both in the abstract (where managers must see the activity of the audit department as legitimate) and in ensuring that IA departments have the resources needed to do their jobs.

2.2 Theoretical Review

2.2.1 Agency Theory
The essential concern of corporate governance arises from the separation of ownership and control in modern public corporations. This is the essence well articulated by early scholars like (Berle & Means, 1932) and (Jensen & Meckling, 1976). Pursuant to this concept, the responsibility for control is vested in the board and management, the shareholders' agents. The board, which only meets a few times each year, in turn, appoints management (as their agents), headed by the chief executive officer, to manage the organization. While the independent external auditors provide assurance to the shareholders on the quality of the financial statements, the independent internal audit function that provides assurance to the board, via the audit committee. Agency theory, in this context, provides the basis for explaining the independent role and responsibilities assigned to the internal audit function (Adams, 1994).

The interests of shareholders have been strengthened over time, especially through efforts by the government and professional bodies. More specifically, there is increased pressure on management to ensure that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals. The agency theory also advocates for the setting up of rules and incentives to align the behaviour of managers to the desires of owners (Hawley & Williams, 1996). Watts (1988) suggested that internal auditing is a bonding cost borne by agents to satisfy the principals' demands for accountability.
The cost of internal auditing can also be judged to be a monitoring cost which is incurred by principals to protect their economic interests. Agency theory contends that internal auditing, like other intervention mechanisms like financial reporting and external auditing, helps to maintain cost efficient contracting between owners and managers. Adams (1994) illustrated that agency theory helps to explain the existence of internal auditing in companies but can also help to explain an important characteristic of the Internal Audit Function, namely its size. It is assumed that the more information asymmetry, the greater the need for monitoring to reduce this information asymmetry, resulting in a larger internal audit function.

2.2.2 Institutional Theory
This study also draws on institutional theory, which posits that organizational management and control structures tend to conform to social expectations (Di Maggio & Powell, 1983). Based on this reasoning, this study takes the stand that management control structures are put in place to respond to a range of control and compliance requirements. An important component of the management control structure is the Internal Audit Function. It is used by the board (through the audit committee) and management to fulfill the social responsibilities in line with social expectations, as it is expected to strengthen the internal controls and therefore contribute in and support the realization of expected goals. This study draws on both agency and institutional theories to examine the factors that would enhance independence and objectivity of the internal audit function in relationship to the audit committee (as a subcommittee of the board) and management, and thus a realization of its mandate.

2.3 Empirical Review
The Institute of Internal Auditors, on their position paper on the "Role of Auditing in Public Sector Governance (2006), presented the IIA's position on the importance of the public sector audit function to effective governance. It defined the key elements needed to maximize the value the public sector audit function provides to all levels of government. The principles they discussed are relevant to national, regional and local governments, as well as quasi-governmental organizations and international government organizations. They may also apply to other publicly funded entities. The objective of the paper was to encourage readers to reflect on the government audit functions how they can be supported to most effectively fulfill their role in the governance of public sector institutions.
In the "Internal Auditing Research: Where are we going? Editorial", Sarens (2009) discussed certain areas for future research in internal auditing, based upon the concept of internal audit function quality. He raised the question: "when can we talk about an effective Internal Audit Function?" His indication was that in theory, the answer should be: 'when Internal Audit Function quality has a positive impact on the quality of corporate governance'. He argued that Internal Audit Function quality consists of two components that merit further investigation: (1) the characteristics of the IAF as a whole, and (2) the characteristics of the individual internal auditors. He was of the opinion that, future research should investigate "to what extent Internal Audit Function quality is associated with internal control quality and risk management quality", two important aspects of corporate governance. Finally, he stressed the importance of the risk and control culture, when studying the relationship between Internal Audit Function quality and internal control quality or risk management quality.

Arena and Azzone (2009) carried out a study on "Identifying Organizational Drivers of Internal Audit Effectiveness". The study attempted to understand the organizational drivers of internal audit effectiveness in the light of recent changes in the mission of internal auditing and its central role in corporate governance. The data collection was based on a survey of the largest companies in Italy. The survey design was based on questions that could be easily answered by the target-respondents (the Chief Audit Executives) and which would limit possible framing effects. On the basis of data from the Italian companies, the survey indicated that the effectiveness of internal auditing is influenced by: (1) the characteristics of the internal audit team, (2) the audit processes and activities, and (3) the organizational links. Internal audit effectiveness increases in particular when the ratio between the number of internal auditors and employees grows, the CAE is affiliated to the IIAs, the company adopts control risk self-assessment techniques, and the audit committee is involved in the activities of the IAs.

Sarens and Abdolmohammadi (2010) carried out a study on "Monitoring Effects of the Internal Audit Function: Agency Theory versus other Explanatory Variables". This study investigated (1) whether agency variables are associated with the relative size of the internal audit function; (2) whether the Internal Audit Function is complementary to other monitoring mechanisms such as independent board members and an active audit committee; and (3) the impact of the control environment on the relative size of the Internal Audit Function. They use data from a sample of
Belgian firms. They found evidence of a monitoring role for the Internal Audit Function in corporate governance. They also found that, a supportive control environment has a positive impact on the relative size of the Internal Audit Function.

Barac and Staden (2009) carried out a study on the "The Correlation between Perceived Internal Audit Quality and Defined Corporate Governance Soundness" in companies in South Africa. They investigated whether a correlation exists between the perceived quality of an internal audit function and the soundness of its company’s corporate governance structure. Compliance with ten disclosure requirements of the King II report was used to determine a corporate governance score for each participating company. The perceptions of management and audit committee chairs on their companies’ internal audit function quality were used to determine a quality score for each participating internal audit function. These perceptions were based on elements that affect internal audit function quality identified from the literature. The correlation between these scores was then investigated.

Results were based on questionnaires completed by chief audit executives, chief executives and audit committee chairpersons of participating companies. The main finding was that no correlation was found to exist between the defined soundness of the corporate governance structures and the perceived internal audit quality of participating companies. This finding causes doubt about internal audit's role as a corporate governance mechanism in an organization, and indicates that extensive research should be encouraged into the relevance of internal audit as a true corporate governance mechanism.

Paape et al. (2003) carried out a survey, at the behest of the European Confederation of Institutes of Internal Auditors (ECIIA), on the relationship between the Internal Audit Function and CG issues among the top listed companies in the European Union (EU). It was clear from their study that there are surprising and even startling differences in the way internal auditors operate in the EU, even in the largest companies, and their awareness of, and opinions about and their role in CG concerns. They declared that put succinctly, there is plenty of room for evolution in both mind set and daily practice.

Kimani (2006) carried out a study on the Perceived Role of the External Auditor in Corporate Governance. The study contended that it is the responsibility of internal auditors in organizations
to assist management in unearthing irregularities or weaknesses in internal control systems. This was seen to have the likely effect of being able to prevent organization like Uchumi from being declared insolvent. Keya (2010) conducted a research on the role of internal audit in CDF accountability and governance and found out that IA can greatly promote CDF accountability and governance.

2.4 Chapter Summary
Good management aims at ensuring that institutions are run efficiently, responsibly, viably, in an accountable and transparently manner and in compliance with legal framework. Its aim is to protect stakeholder’s rights, and ensure that there is fairness and equitable treatment of all stakeholders. Research on factors that contribute to the effectiveness of the Internal Audit Function as a Good Corporate Governance mechanism would therefore enhance effective management accountability of resources and the running of public institutions in Kenya.

There is no doubt that an Internal Audit Function is a good concept and one that is expected to have major positive impact on promotion of governance in institutions. In addition to advancing the governance mechanisms in institutions for the good of all the stakeholders, the IAF also act as a control in itself and can add value if well managed.

The study will therefore provide an opportunity to highlight an understanding and appreciation of the factors that are necessary for the Internal Audit Function to be effective and how best the function could be made to contribute to the promotion of Good Corporate Governance in public institutions in Kenyan.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter sets out the various stages that will be followed in completing the study. It presents a blue print for the collection, measurement and analysis of data. It is also an overall scheme, plan or structure that will aid the researcher in answering the research questions. The chapter comprises the following sub-topics: research design, target population, the data collection methods, data analysis procedures and model specification.

3.2 Research Design
The case-study method was chosen for this study because it enables the conduct of a detailed analysis of data. A large public sector higher educational institution in Kenya, the UON was chosen for the study. To assist in the external validity of conclusions drawn, it should be noted that there are commonalities in policies, procedures and organizational contexts of most public sector entities in Kenya, as similar internal audit practices are used by public sector institutions in Kenya.

3.3 Target Respondents
The target population for the study was all the internal audit members of staff in the internal audit department at the UON. This included the members of staff at the main campus audit office which serves as the coordinating office; the internal audit offices at the six colleges; as well as those at the Students’ Welfare Authority, the University Health Services and University of Nairobi Enterprises and Services Ltd (UNES). A total of 40 respondents were targeted. The sample was considered adequate based on (Saunders et al., 2003) view that, a sample should at a minimum consist of 30 elements for statistical analysis.

3.4 Data Collection
Primary data was collected using a semi-structured questionnaire developed by adopting some of the factors presented by Cohen and Sayag (2010), in their study examining the effectiveness of the IA Function in the discharge of its duties. The questionnaire was distributed to members of staff in the internal audit department of the UON. The administration of the questionnaires was by the “drop and pick” method that allowed respondents ample time to complete the
questionnaires. The questionnaire consisted of seven sections; A to G. Section A sought to gather general information on the respondents, while Sections B, C, D, E and F focused on the study information. Section G sought to get information on the perception of the internal auditors at the UON on the effectiveness if the IA Function.

3.5 Data Analysis
Data analysis usually involves reducing accumulated data to manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler, 2000). The study used quantitative method of data analysis. To ensure ease of analysis and minimize the margin of error, the questionnaires were coded according to each of the separate variables. The raw quantitative data was keyed into the computer and analyzed using Statistical Package for Social Sciences (SPSS) program. The findings of the study were presented by the use of charts and tables as applicable, in order to convey the visual impressions of the meaning or to clarify information that may otherwise be hidden within the data. Study conclusions were based on the summary of the data analysis.

3.5.1 Model Specification
The model used in this study was given as:

\[ Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon, \]

Where:

\( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 = \) Correlation coefficients
\( Y = \) Effectiveness of the internal audit function
\( X_1 = \) Professional proficiency of internal auditors
\( X_2 = \) Quality of audit work
\( X_3 = \) Organizational independence
\( X_4 = \) Career and advancement
\( X_5 = \) Top management support
The effectiveness of the internal audit function was measured in terms of compliance with policies, rules and regulations; reduced incidences of fraud, improvement in risk management and improvement in control and governance processes. An effectiveness index was calculated by finding the average based on each of the afore-mentioned aspects. The indices for independent variables namely: professional proficiency of internal auditors, quality of audit work, organizational independence, career and advancement and top management support were also determined by finding the averages of the key aspects identified under each of them.

3.5.2 Data Validity and Reliability
Cooper and Schindler (2000) noted that pretesting helps not only to discover errors, but also in training the research team and discovering the respondent’s reactions to the questions. A pilot study was conducted to pretest the questionnaire in order to identify any ambiguous and unclear questions. This helped determine its appropriateness as an instrument in obtaining the desired information before administering it to the entire target group. The pilot study was carried out by administering four questionnaires. After making the relevant amendments to the questionnaire where necessary, in response to the results of the pilot study, it was then administered to all the respondents using a drop-and-pick method.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter presents the analysis of data collected from the administered questionnaires. 40 questionnaires in total were administered, but the researcher managed to obtain 33 completed questionnaires, representing an 82.5% response rate. The questionnaires contained questions that addressed the objectives of the study.

4.2 Data Analysis and Presentation
The collected questionnaires were edited and cleaned for completeness in preparation for coding. Once the questionnaires were coded, they were entered into the Statistical Package for Social Sciences (SPSS) version 17 computer package for analysis. Descriptive statistics such as frequency distribution, percentages and charts were used to analyze data. Quantitative technique was mainly used to analyze the questions because of their close-ended nature.

4.2.1 Gender of Respondents
Majority (50%) of the respondents in this survey was male at 66.7%, while the remaining 33.3% of them were female as shown in figure 4.1 below.

![Figure 4.1 Gender of Respondents](image)
4.2.2 Age of Respondents
48.5% of the respondents in this study were aged between 31-40 years of age, 27.3% of them were aged between 41-50 years of age and the remaining 24.2% of them were aged over 50 years of age. It is clear from the study findings that the majority of the respondents had enough experience in audit work hence that the information provided was credible and reliable and could facilitate effective conclusions. The findings are as shown in figure 4.2 below.

![Age of Respondents](image)

Figure 4.2  Age of Respondents

4.2.3 Designation of Respondent
48.0% of the respondents in this study were audit assistants, followed by senior internal auditors at 25% and closely followed by internal auditors at 24%. The proportion of both the internal auditors and senior internal auditors was 49%. This proportion of senior officers at fairly high positions in the decision making hierarchies of the university is therefore an indicator of their ability to give reasoned opinion on the effectiveness of their function. The findings are as presented in table 4.1 and figure 4.3 below.

<table>
<thead>
<tr>
<th>Designation of Respondent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Audit Assistant</td>
<td>16</td>
<td>48.0</td>
</tr>
<tr>
<td>Health Internal Auditor</td>
<td>1</td>
<td>3.0</td>
</tr>
<tr>
<td>Internal Auditor</td>
<td>8</td>
<td>24.0</td>
</tr>
<tr>
<td>Senior Internal Auditor</td>
<td>9</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>100.0</td>
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Source: Research Data 2012
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</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
4.2.4 Level of education of respondent

Majority (48.5%) of the respondents in this study had attained university level of education, followed by those who had attained certificates in relevant specializations at 18.2%. This indicates the audit departments in public universities comprise of qualified personnel. The findings are as shown in table 4.2 and figure 4.4 below.

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>6</td>
<td>18.2</td>
</tr>
<tr>
<td>Diploma</td>
<td>4</td>
<td>12.1</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>16</td>
<td>48.5</td>
</tr>
<tr>
<td>Graduate</td>
<td>3</td>
<td>9.1</td>
</tr>
<tr>
<td>Non response</td>
<td>4</td>
<td>12.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Research Data 2012
4.2.5 Professional Qualifications
Respondents were further required to indicate their professional qualifications. 97.0% of them categorically indicated that they had attained CPA qualification and then followed by those who had attained CISA qualifications. Only one respondent in this study possessed CIA qualifications. These certifications are necessary as they greatly influence the work of the auditor and improve their effectiveness in the discharge of their mandate. The auditors are required to carry out their role objectively and in compliance with accepted criteria for professional practice, and in such a manner that internal audit activity will evaluate and contribute to the improvement of risk management, control, and governance using a systematic and disciplined approach. This is not only necessary for compliance with legal requirements, but also with the professional dictates.

The findings on professional qualifications indicate that the members of staff at the university of Nairobi internal audit department are lacking in the CIA certification which is necessary for the professional conduct of their duties. This shortcoming is however compensated by the high proportion of members of staff who are qualified accountants and the proportion that are certified system auditors. This then means that the department could still effectively conduct its work,
though there is still need for CIA certification for a larger number of the staff members. The findings are as shown in table 4.3 and figure 4.5 below.

<table>
<thead>
<tr>
<th>Professional Qualification</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPA</td>
<td>32</td>
<td>97.0</td>
</tr>
<tr>
<td>CIA</td>
<td>1</td>
<td>3.0</td>
</tr>
<tr>
<td>CISA</td>
<td>7</td>
<td>21.2</td>
</tr>
</tbody>
</table>

Source: Research Data 2012

Figure 4.5  Professional Qualifications

4.2.6 Length of Service in the Internal Audit Department

27.3% of the respondents indicated that they had worked in the internal audit department for a period of between 6 and 10 years, and then closely followed by those who had each worked for periods of between 11 and 15 year or between 16 and 20 years at 21.2% each. This implies that they had attained the relevant experience to authoritatively comment on the issues raised in the questionnaire. This further indicates that the majority of the employees had been with the institution long enough to appreciate the relevant dynamics that would stifle the effectiveness of their work. The findings are as shown in table 4.4 and figure 4.6 below.
Table 4.4  Length of Service in the Internal Audit Department

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 yrs</td>
<td>3</td>
<td>9.1</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>9</td>
<td>27.3</td>
</tr>
<tr>
<td>11-15 yrs</td>
<td>7</td>
<td>21.2</td>
</tr>
<tr>
<td>16-20 yrs</td>
<td>7</td>
<td>21.2</td>
</tr>
<tr>
<td>21-25 yrs</td>
<td>6</td>
<td>18.2</td>
</tr>
<tr>
<td>26-30 yrs</td>
<td>1</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data 2012

Figure 4.6  Length of Service in the Internal Audit Department

4.2.7 Factors that Contribute to Effective Internal Audit Function

Respondents were further required to indicate the extent to which they agreed with various aspects on factors contributing to the effectiveness of the internal audit function as a corporate governance mechanism in public universities. The factors ranged from professional proficiency of internal auditors, quality of audit work, organizational independence of the internal audit function, career and advancement and top management support.
4.2.7.1 Professional Proficiency of Internal Auditors

Majority (72.7%) of the respondents categorically agreed that the management of the institution facilitated them to participate in training and development so as to maintain their skills and keep up to date in the field. Further the same proportion of the respondents indicated that they possessed appropriate and relevant education in auditing that allowed them to audit all of the organizations systems. This implies that the management of the institution valued professional proficiency of internal auditors to a great extent in enhancing the effectiveness of the internal audit function as corporate governance mechanism in public universities.

As indicated in the literature an audit department should possess the necessary education, training, experience and professional qualifications necessary to conduct the full range of audits required by its mandate. From the findings of the study, the auditors were found to have a high level of education necessary to be considered a positive and effective human resource. These study findings were also consistent with earlier studies that established that the greater the professional qualifications of the internal auditors in a given department, defined by the length of their professional training and educational level, the greater the effectiveness of the department. The findings are as shown in table 4.5 and figure 4.7 below.

<table>
<thead>
<tr>
<th>Table 4.5 Professional Proficiency of Internal Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspect</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Management facilitating IA employees to participate in training and development so as to maintain their skills and keep up to date in the field</td>
</tr>
<tr>
<td>Employees possessing appropriate and relevant education in auditing that allows them to audit all of the organizations systems</td>
</tr>
<tr>
<td>Source: Research Data 2012</td>
</tr>
</tbody>
</table>
Professional Proficiency of Internal Auditors

- Employees possessing appropriate and relevant education in auditing that allows them to audit all of the organization's systems
- Management facilitating IA employees to participate in training and development so as to maintain their skills and keep up to date in the field

![Professional Proficiency of Internal Auditors Graph]

Figure 4.7 Professional Proficiency of Internal Auditors

4.2.7.2 Quality of Audit Work

The quality of audit work is key to the effectiveness of the internal audit function of an organization. 54.5% of the respondents agreed that the chief internal auditor determined the annual audit plan in the institution hence controlling its effectiveness. Another 54.4% of them agreed that the areas audited and reviewed were important to the organization. However, 48.5% of the respondents were of the opinion that IA was able to cover all organizational issues and areas whereas 45.5% of them indicated otherwise. Another 60.6% of the respondents indicated that the responses of auditees on issues raised during audit reviews were submitted in writing and were relevant and comprehensive. Further 69.7% of the respondents indicated that there was regular follow-up by the IA staff to examine actions taken to correct the problems found hence effectiveness in enhancing corporate governance. Finally 57.6% of them agreed that the internal
Auditors also performed other activities such as developing procedures and conducting economic and financial audits which contribute to effective corporate governance.

The study finding indicate that the internal audit department at the university of involve the evaluation of areas in which a high level of judgment is involved, and audit reports therefore have a direct impact on the decisions or the course of action adopted by management. This is consistent with the findings by (Bou-Raad, 2000). The quality of IA work at the university, understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit’s planning and execution, was found to have added to the greater improvement in the audit’s effectiveness. The findings are as shown in table 4.6 and figure 4.8 below.

Table 4.6  Quality of Audit Work

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>Internal auditor determining the annual audit plan</td>
<td>12</td>
<td>36.4</td>
<td>18</td>
<td>54.5</td>
</tr>
<tr>
<td>The areas audited and reviewed are important to the organization</td>
<td>13</td>
<td>39.4</td>
<td>18</td>
<td>54.5</td>
</tr>
<tr>
<td>The IA is able to cover all organizational units and all issues.</td>
<td>2</td>
<td>6.1</td>
<td>16</td>
<td>48.5</td>
</tr>
<tr>
<td>The responses of auditees on issues raised during audit reviews are submitted in writing and are relevant and comprehensive.</td>
<td>3</td>
<td>9.1</td>
<td>20</td>
<td>60.6</td>
</tr>
<tr>
<td>There is regular follow-up by the IA staff to examine actions taken to correct the problems found</td>
<td>3</td>
<td>9.1</td>
<td>23</td>
<td>69.7</td>
</tr>
<tr>
<td>The internal auditor also performs other activities such as developing procedures and conducting economic and financial audits.</td>
<td>4</td>
<td>12.2</td>
<td>19</td>
<td>57.6</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
4.2.7.3 Organizational Independence

Auditors need to act independently of other parties for their contribution to corporate governance to be effective. 57.6% of them indicated that they did not have regular and direct working relations with senior management hence independent, 48.5% of them indicated that the termination of their work required approval of the IA committee or the university management (board or council) hence no third party interference. Majority (48.5%) further indicated that they did not have free access to data and information about the organization, 57.6% of them agreed that they could access all the organizational data pools and 60.6% of them could download and examined the organization data pools. Another 60.6% of the respondents agreed that the IA operated totally independently, could audit any issue it considers in need of auditing, and could access any necessary information even if it was classified.

The findings above indicate to a big extent that the auditors are sufficiently independent from those that they audit, and are able to conduct their work without interference. The findings also indicate that the auditors have an objective approach to their work, which coupled with their organizational independence contributes to the accuracy of their work and gives management confidence that they can rely on their results and reports. This is consistent with the argument
that independence is crucial to the effectiveness of internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work. These findings are as presented in table 4.7 below.

Table 4.7 Organizational Independence

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular and direct working relations with senior management</td>
<td>3</td>
<td>9.1</td>
<td>5</td>
<td>15.2</td>
</tr>
<tr>
<td>Terminating the work of the IA requires the approval of the IA committee, and/or the University Management Board, or UON Council</td>
<td>5</td>
<td>15.2</td>
<td>10</td>
<td>30.3</td>
</tr>
<tr>
<td>The IA staff has free access to records, information and data about the organization, and unrestricted access to its locations and facilities.</td>
<td>5</td>
<td>15.2</td>
<td>11</td>
<td>33.3</td>
</tr>
<tr>
<td>All organizational data pools are accessible to the IA.</td>
<td>10</td>
<td>30.3</td>
<td>19</td>
<td>57.6</td>
</tr>
<tr>
<td>All organizational data pools can be downloaded and examined by the IA.</td>
<td>7</td>
<td>21.2</td>
<td>20</td>
<td>60.6</td>
</tr>
<tr>
<td>Detailed budget proposals and information on staffing are included in the annual work plan of the IA.</td>
<td>4</td>
<td>12.1</td>
<td>20</td>
<td>60.6</td>
</tr>
<tr>
<td>The IA staff rotated regularly so that they all cover a variety of assignments and locations.</td>
<td>5</td>
<td>15.2</td>
<td>7</td>
<td>21.2</td>
</tr>
<tr>
<td>The IA also performs other activities even if they are not defined as its direct responsibility.</td>
<td>1</td>
<td>3.0</td>
<td>10</td>
<td>30.3</td>
</tr>
<tr>
<td>The IA operates totally independently, can audit any issue it considers in need of auditing, and can access any necessary information even if it is classified</td>
<td>3</td>
<td>9.1</td>
<td>20</td>
<td>60.6</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
4.2.7.4 Career and Advancement

Majority of the respondents categorically indicated that the organization had done little on IA staff career advancement at 45.5% and 63.6% each respectively on various aspects of career advancement. The findings of the study indicate that there is a limited degree to which internal auditing can lead to managerial career advancements outside the internal audit department at the university, therefore having limited influence on the effectiveness of internal audit function. This is against the finding in other studies where it was argued that under these conditions, internal auditors who operate in settings with more organizational career opportunities will invest more effort in their work in order to increase their promotion opportunities. Those with fewer opportunities for organizational advancement will therefore invest less effort in their work, resulting in a lower performance levels. These findings are as presented in table 4.8 and figure 4.9 below.

Table 4.8 Career and Advancement

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>IA is one stage in training and preparing employees in the organization.</td>
<td>4 12.1</td>
<td>11 33.3</td>
<td>15 45.5</td>
<td>3 9.1</td>
</tr>
<tr>
<td>IA is one stage in the promotion process of employees in the organization.</td>
<td>1 3.0</td>
<td>9 27.3</td>
<td>21 63.6</td>
<td>2 6.1</td>
</tr>
<tr>
<td>IA is considered a stage in the career development of employees in the organization</td>
<td>1 3.0</td>
<td>8 24.2</td>
<td>21 63.6</td>
<td>3 9.1</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
Figure 4.9  Careers and Advancement

4.2.7.5  Top Management Support

Finally respondents were required to indicate the extent to which top management supported IA at being effective in facilitating corporate governance. Majority (63.6%) of them categorically indicated that top management provided IA with the support expected. 60.6% indicated that the number of employees in IA was not sufficient given the amount of auditing work planned and expected to be done. 48.5% of them indicated that management was sufficiently aware of the needs of IA, as demonstrated by the budget assigned to this department, and 51.5% of them indicated that management provided enough support and encouragement for training and developing the IA staff, another indication that it recognizes the importance of this function.

The findings above are consistent with management literature which offers ample evidence for the key role of top management support in the success of almost all programs and processes within an organization. It has also been agreed that top management support and commitment to change play a crucial role in organizational renewal, as senior managers can mobilize the critical mass needed to follow through on the support for quality as a key factor in its improvement programs. It is therefore not surprising that managements' acceptance of, and support for, the Internal Audit Function has long been seen as critical to the success of that function. Several studies have demonstrated that support for internal auditing by top management is an important
determinant of its effectiveness. Funding is an important measure of such support. IA departments must have the resources needed to hire the right number of high-quality staff, to keep up-to-date in training and development, to acquire and maintain physical resources like computers, and so on.

The findings above show that the relationship between the internal audit staff and the university management is clearly important in determining the independence, objectivity and therefore the effectiveness of the Internal Auditor Function. Management support for IA is thus important both in the abstract (where managers must see the activity of the audit department as legitimate) and in ensuring that IA departments have the resources needed to do their jobs. The findings are as presented in table 4.9 and figure 4.10 below.

**Table 4.9  Top Management Support**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management provides the IA with all the support expected.</td>
<td>2</td>
<td>6.1</td>
<td>21</td>
<td>9</td>
</tr>
<tr>
<td>The number of employees in IA is sufficient given the amount of auditing work planned and expected to be done.</td>
<td>1</td>
<td>3.0</td>
<td>9</td>
<td>27.3</td>
</tr>
<tr>
<td>Management is sufficiently aware of the needs of IA, as demonstrated by the budget assigned to this department.</td>
<td>1</td>
<td>3.0</td>
<td>16</td>
<td>48.5</td>
</tr>
<tr>
<td>Management provides enough support and encouragement for training and developing the IA staff, another indication that it recognizes the importance of this function</td>
<td>1</td>
<td>3.0</td>
<td>17</td>
<td>51.5</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
4.2.7.6 Effectiveness of the Internal Audit Function at the UON
Respondents were further required to indicate the extent to which the internal audit function had influenced various aspects of the institution as indicated on a Likert scale of 1 – 5 as: 1 - Not at all and 5 - To a very great extent. Four major aspects ranging from compliance with policies, rules and regulations, reduced incidences of fraud, improvement in risk management and improvement in control and governance practices were used to measure effectiveness of the internal audit function. Means of between 3.8182 and 4.4848 were registered indicating that the internal audit function at the university had led to increased effectiveness in the aspects identified. Specifically, the internal audit function facilitated compliance with policies, rules and regulations, reduced incidences of fraud, improvement in control and governance processes and improvement in risk management to a great extent in that order. The findings are as shown in table 4.10 below.

Table 4.10 Effectiveness of the Internal Audit Function at the UON

<table>
<thead>
<tr>
<th>Effectiveness of the IA function</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with policies, rules and regulations</td>
<td>4.4848</td>
<td>.61853</td>
</tr>
<tr>
<td>Reduced incidence of fraud</td>
<td>4.3636</td>
<td>.60302</td>
</tr>
<tr>
<td>Improvement in the risk management</td>
<td>3.8182</td>
<td>.52764</td>
</tr>
<tr>
<td>Improvement in control and governance process</td>
<td>4.0303</td>
<td>.68396</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
4.2.2 Regression Analysis between the Effectiveness of the IA Function(Y) and the Independent Variables.

The research study investigated the factors that contributed to the effectiveness of the internal audit function in public universities. The research findings indicated that there was a positive relationship (R= 0.424) between the variables. The study also revealed that 18.0% of the effectiveness in internal audit function in public universities can be explained by the identified factors. From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain the factors that contributed to the effectiveness of the internal audit function in public universities in Kenya. The findings are as shown in the tables 4.11, 4.12 and 4.13 below.

Table 4.11 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.424</td>
<td>.180</td>
<td>.028</td>
<td>.24250</td>
</tr>
</tbody>
</table>

Source: Research Data 2012

Table 4.12 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.105</td>
<td>1</td>
<td>0.105</td>
<td>.033</td>
<td>.033</td>
</tr>
<tr>
<td>Residual</td>
<td>316.692</td>
<td>5</td>
<td>63.338</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>318.797</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data 2012

Table 4.13 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>3.869</td>
<td>.323</td>
<td>11.977</td>
<td>.000</td>
</tr>
<tr>
<td>Professional proficiency of internal audit</td>
<td>-.173</td>
<td>.150</td>
<td>-.305</td>
<td>-1.152</td>
</tr>
<tr>
<td>Quality of audit work</td>
<td>.187</td>
<td>.197</td>
<td>.298</td>
<td>.949</td>
</tr>
<tr>
<td>Organizational independence</td>
<td>.033</td>
<td>.267</td>
<td>.055</td>
<td>.126</td>
</tr>
<tr>
<td>Career and advancement</td>
<td>-.053</td>
<td>.085</td>
<td>-.131</td>
<td>-.620</td>
</tr>
<tr>
<td>Top Management support</td>
<td>.135</td>
<td>.164</td>
<td>.268</td>
<td>.826</td>
</tr>
</tbody>
</table>

Source: Research Data 2012
The results of the regression equation below shows that for a 1-point increase in the independent variables, effectiveness in the internal audit function is predicted to increase by 3.869, given that all the other factors are held constant.

The equation for the regression model is expressed as:

\[ Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon \]

\[ Y = 3.869 - 0.173X_1 + 0.187X_2 + 0.033X_3 - 0.053X_4 + 0.135X_5 \]

**Where:**

\( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 \) = Correlation coefficients

\( Y \) = Effectiveness of the internal audit function

\( X_1 \) = Professional proficiency of internal auditors

\( X_2 \) = Quality of audit work

\( X_3 \) = Organizational independence

\( X_4 \) = Career and advancement

\( X_5 \) = Top management support
CHAPTER FIVE
SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction
This chapter provides a summary of the study, discussions and conclusions. The researcher then presents the major limitations of the study and the recommendations for both the research and for policy and practice.

5.2 Summary
The researcher administered 40 questionnaires in total but managed to get back 33 completed questionnaires representing an 82.5% response rate. The questionnaires contained questions that addressed the objective of the study. The research sought to establish the perception of the internal auditors at the UON on the factors that contributed to the effectiveness of the internal audit function as a corporate governance mechanism.

5.3 Discussions
The research found that the management of the University of Nairobi facilitated employees to participate in training and development so as to maintain their skills and keep up to date in the field. They further indicated that they possessed appropriate and relevant education in auditing that allowed them to audit all of the organizations systems. This implies that the management of the institution valued professional proficiency of internal auditors to a great extent in enhancing the effectiveness of the internal audit function as corporate governance in public universities.

Majority of the respondents agreed that the internal auditor determined the annual audit plan in the institution hence controlling its effectiveness. The areas audited and reviewed were important to the organization. However, a majority of the respondents were of the opinion that IA was able to cover all organizational issues and areas whereas some of them indicated otherwise. The responses of auditees on issues raised during audit reviews were submitted in writing and were relevant and comprehensive. Further respondents indicated that there was regular follow-up by the IA staff to examine actions taken to correct the problems found hence effectiveness in enhancing corporate governance. Finally they agreed that the internal auditors also performed
other activities such as developing procedures and conducting economic and financial audits which contribute to effective corporate governance.

Auditors are expected to operate independently of other parties for their contribution to corporate governance to be effective and as such a majority of the respondents indicated that they did not have regular and direct working relations with senior management hence independent. It was clear from the research findings that the termination of auditors work required approval of the IA committee or the university management (board or council) hence no third party interference. Majority of them further indicated that they did have free access to data and information about the organization. The IA operated totally independently, could audit any issue it considers in need of auditing, and could access any necessary information even if it was classified.

Majority of the respondents categorically indicated that the organization had done little on IA staff career advancement. Finally majority of the respondents indicated that that top management provided IA with the support expected.

Arena and Azzone (2009) identified three major factors that contribute to the effectiveness of the IAF. These are the characteristics of the internal audit team; the audit processes and activities; and the organizational links. Cohen and Sayag (2010) identified that the effectiveness of internal auditing is determined by the fit between the audit and six characteristics of the Internal Audit Function, which are: the sector of the Organization, whether private of public; the professional proficiency; the quality of the audit work; the organizational independence; career advancement and top management support. The factors identified by the two set of studies seem to highly overlap. This study will adopt the factors presented by Cohen and Sayag (2010), in examining the effectiveness of the Internal Audit Function in the discharge of its duties, and thereby promoting Good Corporate Governance at the UON. The study findings were similar with the existing literature hence effective internal audit functions contribute to corporate governance to a great extent.

5.4 Conclusion
From the study findings it can be concluded that various factors contribute to the effectiveness of the internal audit function to a great extent as a corporate governance mechanism in public universities ranging from professional proficiency of internal auditors, quality of audit work,
organizational independence, career and advancement and top management support. This conclusion is supported by the various descriptive and inferential statistics as shown.

5.5 Recommendations
With due regard to the ever increasing desire to have better corporate governance structures in public universities in Kenya, there is need to invest in the internal audit function of the organizations so as to meet these expectations. This should be done in a manner in which all the stakeholders are happy. This ensures that they are incorporative. This therefore calls for embracing proper internal audit practices which are acceptable, accessible, ethically sound, have a positive perceived impact, relevant, appropriate, innovative, efficient, sustainable and replicable.

5.6 Limitations of the study
The researcher encountered quite a number of challenges related to the research and most particularly during the process of data collection. Due to inadequate resources, the researcher conducted this research under constraints of finances and therefore collected data from one University. Some respondents were biased while giving information due to reasons such as privacy and busy schedules at their places of work.

5.7 Suggestions for Future Research
Arising from this study, the following directions for future research in Internal Audit are as follows: First, this study focused on the University of Nairobi and therefore, generalizations cannot adequately extend to other public universities. Future research should therefore focus on all public universities in Kenya. A broad based study on role of Internal Audit on organizational performance in both private and public organizations should also be carried out.
References


APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

REF: REQUEST FOR RESEARCH DATA

I am a postgraduate student at the University of Nairobi, pursuing a course leading to a Master degree in Business Administration (MBA). In a partial fulfillment of the requirements of this course, I am conducting a Management Research Project on “Factors that Contribute to the Effectiveness of the Internal Audit Function as a Corporate Governance Mechanism in Public Universities: A Case Study of the UON”.

To help me achieve this, you have been selected to participate in this study. I therefore kindly request you to fill the attached questionnaire to generate data required for the study. This information will be used purely for academic purpose and your name not be mentioned anywhere in the report. Findings of the study, shall upon request, be availed to you. Your assistance and cooperation will be highly appreciated.

Thank You in Advance.

Yours truly,

Njoroge, Samwel Ndirangu
Reg No. D61 / 72926 / 2009

Researcher Student,
University of Nairobi
APPENDIX II: QUESTIONNAIRE

FACTORS THAT CONTRIBUTE TO THE EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION AS A CORPORATE GOVERNANCE MECHANISM IN PUBLIC UNIVERSITIES IN KENYA: (A CASE STUDY OF THE UNIVERSITY OF NAIROBI)

SECTION A: GENERAL INFORMATION. Please indicate or tick (√) as appropriate.

1. Name (Optional)

2. Gender: Male ( ) Female ( )

3. Age (Years)

<table>
<thead>
<tr>
<th></th>
<th>0-20</th>
<th>21-30</th>
<th>31-40</th>
<th>41-50</th>
<th>Over 50</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Designation-----------------------------

5. Work Station-----------------------------

6. Level Of education

<table>
<thead>
<tr>
<th>Certificate</th>
<th>Diploma</th>
<th>Undergraduate</th>
<th>Graduate (Masters)</th>
<th>Others (Specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Professional Training

<table>
<thead>
<tr>
<th>CPA</th>
<th>CIA</th>
<th>CISA</th>
<th>Others (Specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. Length of service in the Internal Audit Department (UON)

<table>
<thead>
<tr>
<th></th>
<th>0-5</th>
<th>6-10</th>
<th>11-15</th>
<th>16-20</th>
<th>21-25</th>
<th>26-30</th>
<th>Over 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FOR SECTIONS B-G, PLEASE INDICATE THE EXTENT OF YOUR AGREEMENT WITH THE FOLLOWING STATEMENTS AS FOLLOWS.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
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SECTION B: PROFESSIONAL PROFICIENCY OF INTERNAL AUDITORS

1. The UON management Facilitates IA employees to participate in training and development programs in order to maintain their skills and keep up to date in the field.

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2. IA employees have the appropriate and relevant education in auditing that allows them to audit all of the organization’s systems (financial, operational, logistical and computerized)

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SECTION C: QUALITY OF AUDIT WORK

3. The annual audit plan is determined by the internal auditor.

4. The areas audited and reviewed are important to the organization.

5. The IA is able to cover all organizational units and all issues.

6. The responses of auditee on issues raised during audit reviews are submitted in writing and are relevant and comprehensive.

7. There is regular follow-up by the IA staff to examine actions taken to correct the problems found.

8. The internal auditor also performs other activities such as developing procedures and conducting economic and financial audits.

SECTION D: ORGANIZATIONAL INDEPENDENCE

9. I have regular and direct working relations with the head of the IA committee.

10. I have regular and direct working relations with the senior managers and managerial team.

11. Terminating the work of the IA requires the approval of the IA committee, and/or the University Management Board, or UON Council.

12. The IA staff has free access to records, information and data about the organization, and unrestricted access to its locations and facilities.

13. All organizational data pools are accessible to the IA.

14. All organizational data pools can be downloaded and examined by the IA.
15. Detailed budget proposals and information on staffing are included in the annual work plan of the IA.

16. The IA staff rotated regularly so that they all cover a variety of assignments and locations.

17. The IA also performs other activities even if they are not defined as its direct responsibility.

18. The IA takes part in designing systems in the organization and in developing procedures for regulating their operations.

19. The IA operates totally independently, can audit any issue it considers in need of auditing, and can access any necessary information even if it is classified.

SECTION E: CAREER AND ADVANCEMENT

20. IA is one stage in training and preparing employees in the organization.

21. IA is one stage in the promotion process of employees in the organization.

22. IA is considered a stage in the career development of employees in the organization.

SECTION F: TOP MANAGEMENT SUPPORT

23. Top management provides the IA with all the support expected.

24. The number of employees in IA is sufficient given the amount of auditing work planned and expected to be done.

25. Management is sufficiently aware of the needs of IA, as demonstrated by the budget assigned to this department.

26. Management provides enough support and encouragement for training and developing the IA staff, another indication that it recognizes the importance of this function.
27. Rate the extent to which, in your best understanding, the following aspects have been influenced by the Internal Audit Function at UON, as follows:

<table>
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<tr>
<th>Not at All</th>
<th>Very Slightly</th>
<th>Moderate Extent</th>
<th>To Some Extent</th>
<th>To a Great Extent</th>
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<tbody>
<tr>
<td>a. Compliance with policies, rules, and regulations</td>
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<td>b. Reduced incidences of fraud</td>
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<td>c. Improvement in risk management</td>
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<td>d. Improvement in control and governance process</td>
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