

**THE EFFECT OF RISK-BASED AUDIT ON FINANCIAL PERFORMANCE IN
MICROFINANCE INSTITUTIONS IN KENYA**

Submitted By:

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D61/36556/2020

**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF
NAIROBI**

2021

DECLARATION

The study project is my unique work and has not been presented for a degree in any other institution of higher education.


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The proposal has been submitted for examinations with my approval as the university supervisor.

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ACKNOWLEDGEMENT

This would have not been made possible with the invaluable contribution of my parents and siblings who stood by me throughout this duration. I want to thank my Supervisor, Dr. Kennedy Okiro and I am deeply obliged to for his exemplary guidance, support and encouragement that enabled me to start and finish my project within record time.

DEDICATION

This work is dedicated to my parents Fahima Sheikh Mohamed, Muhammed Ali Loo, my wonderful sister Saada Muhammed Loo, my brothers Dr. Hussein Muhammed Loo, Dr. Aliyy Muhammed Loo, Rawiyah Aboud and lastly Myra Khan who have inspired and perpetually encouraged me to pursue further education.

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LIST OF ABBREVIATION AND ACRONYMS

AMFI	Association of Micro-Finance Institutions
Anova	Analysis of variance
CBK	Central Bank of Kenya
DTMFIs	Deposit Taking Micro-Finance Institutions
EBITDA	Earnings before Interest and Tax
GDP	Gross Domestic Product
IIA	Institute of International Audit
MFI	Micro-Finance Institutions
RBA	Risk Based Audit
SPSS	Statistical Package of Social Sciences
TCE	Transaction Cost Economics
USA	United States of America

ABSTRACT

The financial crisis in Micro credit institutions is to a great degree creditable to extreme risk-taking by monetary institutes. Provided that commercial authority is fundamentally a tool for addressing agency complications as well monitoring threat in the financial entities, Deposit Taking MFIs emphasized the role of effective risk based auditing practices in managing risks (AMFI, 2015). Hence, this exploration intended to define the power of RBA on fiscal recital of MFI's in Kenya. The main purpose of this research is in order to help understand more the influence of RBA on the economic enactment among the MFI's in Kenya. The use of descriptive research design was used in analysing information in a much more defined and clear manner. The population of the exploration in this case are all 13 licensed MFI's in Kenya. The secondary information for each micro finance to be gathered include return on equity, which was sourced, from the Annual Central Bank Supervisory Report while inflation rate and GDP rate was sourced from CBK Website. The information obtained was quantitative in nature. The investigation utilized secondary data sources of a one-year period of year 2020. Primary data was gathered through a structured questionnaire. Data, which was obtained, was analysed through correlation as well as regression statistics, which is responsible for determining the relationship between the variables. In the regression analysis it was shown that 74% of the variation in return on equity can be explained by a model that is fitted with risk based audit, inflation and annual GDP as predictor variables. This also implied that 26% of the variation in return on equity was explained by either error or other variables that were not investigated by the study. The study suggests that the management of the MFI's should embrace measures that promote risk based audit in the firms. This can be done through establishment of better internal audit programmes and ensuring that the financial institutions have qualified and trained staff that can implement the measures. The management should also ensure establishment of an effective risk evaluation strategy to ensure that the institutions are able to operate proficiently in the market. The research recommends that the government through the central bank should uphold measures and policies to make certain successful operation of the markets. It is in such an environment that the annual GDP growth can be realized and inflation rate kept in check to ensure optimal operation of financial institutions.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Previous decades have necessitated the developments of governance to control threats that has become acknowledged as an important aspect of internal audit. Establishments have accumulatively burdened companies to determine all the corporate threats they encounter and to illuminate how they control them. The actions involved in controlling hazards have been acknowledged as a major plus crucial part in upholding a rigorous scheme of interior regulation. While the obligation for recognizing as well as dealing with threats is for the administration, one of the major purposes of interior audit is to offer reassurance that such threats have been appropriately accomplished (Institute of International Audit (IIA), 2015). This has in hand led to an intense change in the emphasis of interior audit over time, commencing at systems based auditing to procedure plus auditing as well as the contemporary prominence is on RBA (Bickett, 2017). IIA describes Risk Based Audit (RBA) as a tactic that associates in-house auditing to an establishment's overall hazard managing structure. RBA permits internal audit to offer reassurance to the directors that threat controlling procedures are handling risks efficiently, in connection to the level of risk. RBA alleviates manifestation of dangers by augmenting eminence monetary reporting, diminishing losses and ultimately cultivating bank fiscal enactment (Al-Qudah, 2021).

The exploration was affixed on three theories risk-based audit theory, the agency theory plus transaction cost theory. Limperg (1932) formulated the risk-based audit theory. The theory stipulates that specific experience with clients enhances the ability of an auditor to

evaluate future risks of clients (Bowlin, 2011). The theory is pertinent to the exploration because it is based on risk-based auditing for the performance of financial institutions. Microfinance finance institutions in Kenya have internal auditing procedures that focus on business risks. The institutions thus require the recording of these business risks to enhance the documentation of their financial performance. The agency theory was formulated by Mitnick and Ross (1975). The philosophy assumes that agents have greater amounts of information, which impacts the ability of principals to monitor the performance of their interests and whether the agents are correctly addressing them. The model is applicable to the inquiry considering it focused on the association amid internal organization auditors and the management. The auditors are the agents who have been entrusted with the responsibility of assessing business risks of the organization by the top management, who are the principals. The Transaction Cost Economics (TCE) by Williamson (1996) helps in bringing out how one can improve the performance in an organization through the process of minimizing the costs in the business. The TCE is a philosophy of corporate competence as it focuses on how an organization should structure and govern a complex organization to minimize waste. Organizational efficiency involves finding the reasonably improved corporate organization, the substitute that best equals the main features of an operation.

Microfinance industry in Kenya has experienced an increase in numbers of deposit taking microfinance institutions (MFIs). The procedure in which informal MFIs change into official or controlled monetary establishments, which are denoted to as Deposit Taking Microfinance Institutions, influences the formal market of microfinance. This often necessitates renewed resources from external financiers, monitoring endorsement by native

banking establishments as well as upgraded authority coupled with interior controls. The alteration method permits DTMFIs to assemble customer credits as an extra basis of re-finance as well as present supplementary non-credit produces and improve on performance (Rehman, Moazzam & Ansari, 2020). Moreover, with the revolutionk2 as well as development of their assets, MFIs increase on governance and accountability due to increase exposure to risks and need for controls as improved accessibility of funds and financial management as well as produce variation which consents them to extend their outreach as well as serve additional consumers. The financial crisis in Micro credit institutions is to a great degree accreditable to extreme risk-taking by monetary institutes. Provided that commercial authority is fundamentally a tool for addressing agency complications as well monitoring threat in the financial entities, Deposit Taking MFIs emphasized the role of effective risk based auditing practices in managing risks (AMFI, 2015). Hence, this exploration intended to define the power of risk based audit on fiscal recital of MFI's in Kenya.

1.1.1 Risk Based Audit

RBA is a word resulting from the IIA exploration base in the United States of America. IIA (2015) which defines risk based audit as an audit function that focuses on addressing management's highest priority risk. It permits internal auditors to reply to managerial threats on time while offering insights to administration to aid in resolving issues. Risk based audit is a methodology to audit that examines audits threats, sets materiality verges founded up on audit hazard exploration as well as cultivating audit plans that allots a greater section of audit assets (Bickett, 2017). Risk based audit is a review function that focuses on analyzing and managing risks. It focuses on how companies achieve their goals and

objectives during this process (Al-Qudah, 2021). The modest means to contemplate on risk-based audit abstractly is to review the issues that actually carry significance to your entities. The board through thoughtful consideration deduced that a noteworthy gap existed between accessible management and contemporary exercise of in-house auditing, as well as new framework required to convey the occupation into the 21st century (IIA, 2015). Supremely, RBA is an advancement from the preauditing type of audit to the system audit and lastly to RBA.

Risk based audit was measured through threat controlling, yearly threat based planning, internal audit ideals, plus internal auditing dimensions. Griffiths (2016) argue that risk assessment involves identification, assessing and controlling to an organizations earnings. Consequently, interior auditing's threat administration alignment has set the review purpose enlarged reliability transversely the entity's as well as superior recognition by management (Bickett, 2017). Annual risk centered planning involves auditors identifying and assessing the danger that they require to determine. If a piece is revealk2ed, assessors need to deliberate the background plus exhibition of the element and at that time choose whether it influences the true as well as reasonable opinion of the corporation financial records. Internal reviewing principles involves embracing the philosophies of good supremacy pellucidity plus responsibility, impartiality plus fairness, competence and efficiency, reverence for the rule of law and great principles of moral performance epitomize the foundation upon which to shape effective risk management. Internal auditing capacity should have sufficient resources. Al-Qudah (2021) discovery that administrations

with interior audit controls are more probable than those deprived of interior reviewing to identify as well as self-report incidences of scam.

1.1.2 Financial Performance

Cho, Chung & Young (2016) defines firm performance as a contribution of diverse systems such as employees, organization units, and processes to meet the company's goals. Weinstein (2017) defines firm performance as a degree of stakeholder satisfaction. All three definitions have something in common: they relate to efficiency and effectiveness to meet a set goal. Wang and Sarkis (2017) defined FP as the financial wellbeing of a firm in a given duration.

Cho, Chung & Young (2016) described the measures of financial performance to include profitability, market value, and growth performances. Profitability performance, as indicated by Weinstein (2017), can be determined using metrics like net profits, profit from assets, net revenue, return on investments, and financial value-added, and margins. The revenue boundary is obtained by allotting the net income by the annual transactions and multiplying the result by 100 (Wang & Sarkis, 2017). An advanced income margin depicts that the business enjoys a greater efficiency in generating profits. Return on assets is obtained by apportioning the net revenue by the entire possessions and multiplying the result by 100 (Wang & Sarkis, 2017). In this case, too, a higher figure means more efficiency in generating profits. According to Weinstein (2017) other indicators of profitability performance apart from return on assets and profit margins are, return on investments, economic value-added, EBITDA margin, and ROE.

1.1.3 Risk Based Audit and Financial Performance

Existing literature reveal positive association amid risks based audit plus fiscal enactment. The experiential finding by Al-Tamimi (2015) underlined that UAE commercial institutions are competent in risk based auditing. Drzik (2015) initiated the administration of bank operation in relation to RBA survey showed that great commercial institutes in the US had prepared considerable advancement in their fiscal enactment. Widespread risk based reviewing impact operational fiscal reporting undertakings and manipulating revenue and loss allocation in the foundation of reserves particularly asset account holders as elucidated by Sundararajan (2017). He concluded that the solicitation of risk-based audit predominantly for credit plus general banking hazards is central for Banks.

Kirogo, Ngahu & Wagoki (2014) study findings revealed that risk based auditing via threat valuation certainly impact the fiscal performance of insurance firms in Nakuru Town. Kabare (2014) recognized a constructive and significant association amid risk-based audits and the monetary performance of national establishments. Geke et al. (2017) found a substantial constructive connection between risk-based auditing plus the fiscal enactment of the designated public-owned sugar corporations in Kenya.

1.1.4 Micro-Finance Institutions (MFI's)

Microfinance firms are institutions organized to provide monetary services to people with low income (Mwangi, 2014). Such organizations tend to provide their members not only with loans but also provide their clients with insurances as well as the opportunity to save among other services. In Kenya, the functions and operations of Microfinance institutions are provided for in the Microfinance act of 2006. The act was later postulated in May 2008

to license, regulate and to supervise the existence of Microfinance firms (Muhammad, 2015). Through the Act, such firms were able to gather their customers' deposits to provide their members with access to loan facilities and earn their income from credit interests. The Act gives the charges the CBK which in hand takes charge of regulating and supervising the operation of the Microfinance firms (Mwangi, 2014). The licensed deposit taking MFIs receives public reserves and donates to poverty mitigation while in acquiescence with the essential fiscal segment protection and reliability.

Similarly, Association of Micro-Finance Institutions (AMFI) is a registered institution under the Societies Act that serves to lend funds to the Microfinance institutions. The institution is a member-based and works to increase the abilities of Microfinance firms to provide low-income earners with credit facilities. The institution came up as a means of engaging the government as well as pushing for the development of better policies, improving experiences, and access to information. As a result, the Microfinance industries would extend its networks beyond the local jurisdiction to include global actors. According to AMFI (2019), the institution then contained more than 62 registered firms that are providing financial services and products to over 6 million middle and low-income families.

According to Rehman, Moazzam & Ansari (2020), the country experienced a massive increase in the previous decade in the Microfinance industry. The growth followed the increase in the application of the new advanced technologies, the highly dynamic nature of customers' needs as well as the high competition. Microfinance institutions had, therefore,

no option but to improve their systems by applying more competent approaches to improve their efficiencies as well as to reduce their costs. Consequently, the industry attained financial liberation; creating a suitable atmosphere for carrying out the Microfinance business activities freely and fairly (Muhammad, 2015). As a result, there has been a significant improvement to access to financial services to the low-earning families in Kenya; who would otherwise not have accessed the services before.

1.2 Research Problem

Risk-based audit enables in-house review to offer guarantee to the board that threat controlling practices are handling threats efficiently, in association with the risk appetite (Al-Tamimi, 2015). While using this kind of auditing approach it was found that there were quite a few projecting company disappointments in the United States as well as Europe (i.e. Enron Ltd and Worldcom Ltd), designated the significance of a competent and efficient audit methodology. Reliability predicament that shadowed these disappointments demonstrates that the reviewing occupation must remain to advance and appraise its approaches and tactics. The only defense accountants have against the irritation (or frustration) of shareholders in cases of commercial catastrophes is adequate, suitable review data that demonstrates their virtuousness. This was an audit proof to show that there was a consequence of a well-planned as well as a well-executed audit. This audit methodology, which will decrease the obstructions of the stakeholders (Sundararajan, 2017).

Kenyan banking sector, characterized by commercial banks, Saccos and MFIs, has seen rapid development over the recent past. Microfinance institutions (MFIs) globally have

been recognized as serious organizations to states mission for resolutions to the expansion task (AMFI, 2019). Competition within the Microfinance sector has also increased following the introduction of advanced technologies, and the highly dynamic customer needs. The high competition is making it necessary for firms to audit risks. Although many other sectors in the banking industry are performing well, most small and medium-sized Microfinance institutions are not benefiting from growth observed.

Past exploration on risk based audit on fiscal enactment both at global and local level. Oluwafemi et al. (2013) conducted a study to evaluate banks' management in terms of their risks and their performances in Nigeria. Ayagre (2014) conducted an inquiry to assess the adoption of risk-based in-house reviewing in Ghanaian companies in Ghana. Hazaea et al. (2020) conducted an inquiry to assess the influence of in-house audit eminence on the economic enactment of Yemeni Commercial Banks. Al-Qudah (2021) conducted an inquiry to evaluate the influence of a risk-based audit methodology on decreasing random hazards on Jordan Banks. Local studies include: Kirogo, Ngahu & Wagoki (2014) reviewed the effectiveness of the RBA on monetary recital: of insurance corporations in Nakuru town, Kenya. Kabare (2014) conducted an exploration to evaluate the outcome of RBA in relation to the fiscal enactment of Commercial State Establishments in Kenya. Nyarombe, Musau & Kawai (2015) researched on the power of RBA method on the execution of interior regulatory schemes: a case of Uasin Gishu County. Geke et al. (2017) steered an inquiry to investigate the power of R actions on the monetary recital of selected public-owned sugar companies in Kenya. The studies reviewed presented us with contextual gap since study has been done on MFIs. Therefore, the enquiry pursued to close

the crack by responding the subsequent query: what was the influence of risk based audit on financial recital among MFIs in Kenya?

1.3 Research Objectives

The main objective of the enquiry was in order to define the influence of risk based audit on economic enactment of the MFIs in Kenya.

1.4 Value of Study

The investigation would be of worth to the managing and employees of innumerable Micro Finance Institutions in Kenya. Generally this will help the MFI's to understand the impact of risk based audit on MFIs' fiscal enactment. A positive effect would inspire administration to implement the risk based audit practices.

The outcomes of the inquiry would also be of value to the government and policymakers, that would help formulate policies that would improve the execution of risk based audit in Kenya. Therefore, the conclusions of the exploration would help the government through its agencies to make appropriate policies towards promoting and regulating MFI policies.

This inquiry would develop a foundation for additional research in the area of risk managing among academics. The study would also provide scholars with more literature on the topic of risk based audit management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The segment covered in subsequent sections include: theoretic evaluation, elements of monetary recital, Empirical assessment (Risk-Based Audit plus Financial Performance), plus the conceptual framework.

2.2 Theoretical Review

The philosophies that directed this enquiry comprise the risk-based audit philosophy, the agency theory plus transaction cost theory.

2.2.1 Risk-Based Audit Theory

Limperg (1920) formulated the risk-based audit theory. The theory stipulated that specific experience with clients enhances the ability of an auditor to evaluate future risks of clients (Bowlin, 2011). The risk-based audit theory is focused on business risk and procedures for managing and controlling the risks. The theory considers recorded and unrecorded risks; it also enhances financial statements as well as the recording procedure of these fiscal declarations. The risk-based audit theory also presented itself as an improvement of the traditional pre-auditing approach to a more effective and efficient system of auditing where management is involved in audit planning.

The risk-based audit theory has its limitations and has thus been subjected to criticism due to the inefficiencies. One of its limitations is that; the theory gives an unrealistic impression of accuracy, and it is difficult to quantify the inherent risk (Abidin, 2017). The theory is also limited since it does not consider the internal auditor's errors in assessment of the risk and evaluation of the results. To address the limitation of the approach, the theory has been

modified into a risk-based audit model (Coetzee, 2010). The risk-based audit model is more advantageous since it enables the timely response of internal auditors to organizational risks and provides the know-how on problem-solving for corporate management.

The philosophy is applicable to the inquiry considering it is based on risk-based auditing for the performance of financial institutions. Microfinance finance institutions in Kenya have internal auditing procedures that focus on business risks. The institutions thus require the recording of these business risks to enhance the documentation of their financial performance. Risk-based auditing is also vital for the financial performance of microfinance institutions since it enables them to forecast future risks and come up with ways of controlling them (Kirogo, Ngahu, & Wagoki, 2014).

2.2.2 Agency Theory

This was formulated by Mitnick and Ross (1973). The model stipulated that an agent and principal interests are never aligned and thus aids in understanding the relationship between principles and agents (Shapiro, 2005). The approach is based on the relationship among parties whereby one party exerts some decision-making authority on another. In this theory, the principles give decision-making authority to an agent who is expected to be responsible for maximization of the investment of a principal for the payment of a fee. The theory assumes that agents have greater amounts of information, which impacts the ability of principals to monitor the performance of their interests and whether the agents are correctly addressing them.

The agency theory, however, has been subjected to criticism due to its limitations. The self-interest or opportunism of the agents can be disadvantageous; for instance, the agent may only act in partiality to the principals' interests or may not work following the principal's interests at all (Heath, 2009). The agency might also misuse the given authority to its advantage. Another challenge is information asymmetry which comes about when the main and proxy have differing levels of data, with the principal having less information than the agent. To cater to the limitation of self-interest in the agency theory, norms of fairness and reciprocity have been incorporated (Bosse & Phillips, 2016). The modification promotes and enhances social welfare through initiations of justice in the principal-agency relationship and positive exchange.

The theory is applicable to the investigation since it focused on the association amid internal organization auditors plus the management. The auditors are the agents who have been entrusted with the responsibility of assessing business risks of the organization by the top management, who are the principals. The auditors have more information regarding the assessment of microfinance institutions' business risks compared to the top management. The top management thus assigns the auditors that role with the expectation that it was efficiently performed.

2.2.3 Transaction Cost Economics Theory

The Transaction Cost Economics (TCE) is a theory which was formulated into existence by Williamson (1996), this theory helps in bringing out the understandings of the elements of costs when carrying out a business in a vast or a wider perspective. One of the methods in which this theory conceptualizes is activities and operations that which happen internally

through assessing and monitoring. The goal of TCE is to elucidate diverse methods of business founded on the alterations in business prices. In top of that, TCE tries to find and alleviate vowed threats, Williamson, (1996) and connects the conceivable threats to behavioral conventions.

The TCE attempts (Williamson, 1999) helps in bringing out the understandings of the elements of costs when carrying out a business in a vast or a wider perspective. TCE offers a foundation for recounting a transactional association amid entities, in which every entity anticipates to get another thing from the other entity (Rindfleisch, 2020). This can be an association inside the institute, but also amid establishments. The selection of device is contingent on a proportional scrutiny of the transaction costs features such as asset specificity, improbability plus rate of recurrence, Williamson (1996).

The TCE is a model of managerial efficacy as it focuses on how an organization should structure and govern a complex organization to minimize waste. Organizational efficiency involves recognizing the reasonably better administrative preparation, the substitute that best fits the main structures of a business deal. A multifaceted, hazardous and recurrent deal may be very costly to control via a buyer-supplier agreement; adopting the deal using vertical presents a sparingly extra effective method (Williamson, 2010).

One of the elements that is used in the TCE in cost minimization is what is known as the RBA. Unreliability designates the expectedness in the setting and view on conceivable conflicts to which transactions are matter. Improbability also takes an interactive

constituent, through probable nondisclosure, influence of data. Frequency signifies the reappearance of transactions. Contingent on these features, TCE investigates the utmost financial, worth conserving authority configuration to permeate direction, thus to alleviate struggles and comprehend joint improvement, Williamson, (2002). Within an entity there is additional managerial regulation to administrate transactions than in a market. Also, in an entity the arguments around imperfect agreements will initially be resolved in the enterprise, whereas in the marketplace some disagreements necessitate to be taken to court.

2.3 Determinants of financial performance

2.3.1 Risk Based Audit

Risk based audit involves directing audit capitals to those zones of the monetary declarations that may cover misstatements (either by mistake or oversight) as a result of the threats confronted by the corporate. Risk-based auditing suggests that accountants capitalize more or less capitals as reporting threats upsurge or reduction. The influence of risk-based audit has been established to alleviate the manifestation of threats by improving eminence fiscal reporting, reducing losses, and finally cultivating bank monetary enactment (Bickett, 2017).

Given the importance of threat controlling in financials running, the competence of a firm's threat based managing is predictable to considerably constructively impact its monetary performance. Drzik (2015) determined that Bank Administration RBA audit Survey revealed that big commercial institutes in the United States had completed considerable advancement in their monetary enactment. Inclusive RBA impact real economic reporting

undertakings as well as manipulating proceeds and loss distribution in the outlet of treasuries particularly investment account receptacles as enlightened by Al-Qudah (2021).

2.3.2 Inflation Rate

Inflation refers to the surge of prices on the commodities in the market due to the accumulation of excess money in the economy. Inflation affects the economy since the goods are accrued more value and hence became very expensive, making the money to be inadequate. Despite the size of the firm inflation, effects will impinge on the performance of both big and small establishment. For management risk, the firm opt to allocate the resources that will be able to work as shock absorbers for the inflation (Labonte, 2017).

Mohamud & Ali (2016) researched on the impact of inflation on the entity enactment in Bangladesh. The investigation ascertained that performance of the firm is negatively affected by inflation. This is because it interferes with the budget set aside for investments and for this reasons, it is important that the firm should set aside resources which will enable them to deal with inflation occurrence. The financial performance is affected by inflation, it was noted among most small sized firms.

2.3.3 GDP Rate

Cho, Chung and Young (2019) refers to the GDP as the worth of the end product shaped by either the citizens or the people who are working in the borders of the country. The ability to repay loans is influenced by the state of an economy concerning the level and quantum of economic activity. An increase in the government debt-to-GDP ratio drives the government to reduce debt by cutting back on spending. For GDP to increase, the government should increase the tax-income which is a means of reducing the debt.

GDP is an indicator of economic growth in terms of output and production. One of the major factors that influence GDP is consumer expenditure (Kirogo, Ngahu & Wagoki, 2014). Thus, this demonstrates that economic growth and higher disposable income are correlated. Higher disposable income reflects improved living standards among tax payers or consumers. Therefore, we can conclude that GDP growth leads to improved living standards. Improved living standards in that case would mean that businesses are in a position to generate higher revenues.

2.3.4 Size of the Firm

The main assumption in industrial economics that no enterprise can receive an above-average yield for an extensive timeline in a competitive environment (Cho, Chung & Young, 2019). In any competitive industry, firms are considered superior to smaller firms. This assumption is based on the fact that firm has a market share, businesses have the chance to yield further. On top of that, corporations have the ability to grasp the chance to work in the grounds that need great resources proportions since they have capitals, and this state offers them the chance to work in extra lucrative avenues with slight rivalry.

Charumathi (2017) investigated the determinants of financial performance for the Indian life insurance corporations. The outcomes delivered proof of an affirmative as well as noteworthy connection between scope, liquidity, and fiscal performance. The outcomes develop an unclear indulgence of the effect of enterprise scope on effectiveness plus an upsurge in the concern to such a matter.

2.4 Empirical Literature Review

Oluwafemi et al. (2013) took part in a study to evaluate banks' threat controlling and fiscal enactment in Nigeria. The target population of the enquiry was ten profitable banks in Nigeria which also formed the study sample. Secondary data was collected based on fiscal declarations and progressive annual accounts of the banks over four years. The study's findings established the presence of a momentous constructive affiliation between risk management and bank performance. The study, however, had a research gap since it did not illustrate how risk-based auditing influenced the financial performance of banks.

Ayagre (2014) conducted a study to assess the execution of risk-based in-house auditing in Ghanaian corporations. The target population for the study comprised private and public companies in Ghana. The sample drawn for the survey was eighty internal auditors to whom questions were administered gathering information. Conclusions revealed that risk-based internal auditing aided organizations in placing their focus on priority areas with high risks. The study, however, did not show how risk-based auditing impacted the performance of Ghanaian corporations.

Hazaea et al. (2020) conducted an exploration to appraise the influence of internal quality of audit on the fiscal presentation of Commercial Banks in Yemeni. The target population comprised ten Yemeni commercial banks from which a sample of 50 auditors was obtained for the study. The auditors were assigned questionnaires for the collection of information for the research. The study's findings revealed that quality governance and the

independence of internal auditors significantly impacted the monetary enactment of banks. The investigation, however, had an inquiries gap since it did not indicate how auditing of organizational business risks contributed to the enhanced version of commercial banks.

Al-Qudah (2021) conducted an exploration to evaluate the influence of a risk-based audit method on decreasing random threats on Jordan Banks. The target population for the inquiry was: control departments, economic and accounting employees of twenty-five Jordanian banks. A purposive sample of 300 respondents to whom questionnaires were administered was drawn from seventeen Jordanian banks sampled for the exploration. The regression model was deployed for data analysis in the inquiry. The enquiry's results revealed that the risk-based audit approach significantly impacted business risks by minimizing unsystematic risks, and thus, banking performance was improved.

Kirogo, Ngahu & Wagoki (2014) reviewed the outcome of RBA on monetary recital: of insurance entities in Nakuru town, Kenya. Descriptive survey was utilized on a populace that encompassed of 52 administration personnel in 27 insurance entities in Nakuru town. The exploration outcomes reveal that RBA via threat review certainly swayed the economic enactment of insurance entities in Nakuru Town. The exploration endorses that administration of insurance enterprises in Nakuru Town ought to implement operational RBA actions like threat review to improve operative and competent monetary enactment.

Kabare (2014) conducted an enquiry to evaluate how RBA has an influence on the fiscal enactment of Commercial National Establishments in Kenya. The target populace for the exploration was ten Kenyan Commercial State Corporations listed under Nairobi Securities Exchange and practiced risk-based auditing. The multiple linear regression model was deployed in examining data collected for the study. The study's findings revealed a positive and significant association amid risk-based audits and the fiscal enactment of national establishments. Risk-based audit thus positively impacted the monetary recital of the Commercial State Corporations in Kenya.

Nyarombe, Musau & Kawai (2015) researched on the methodology of using the RBA in relation to the application of internal controls: a case of Uasin Gishu County. The objective of undertaking this study was to institute the RBA Methodology utilized in employing in-house regulation measures in government subdivisions in Uasin Gishu County, to scrutinize the extent in which RBA has swayed the execution of in-house control measures in government sections. Descriptive and analytical design was adopted for the investigation. A census study was conducted on Target populace of 136 Authority to Incur Expenditure (A.I.E) Holders. The exploration discoveries showed that RBA Approach are utilized in the County Government departments, the approaches assumed are; utilization of threat register, description of RBAA in the Audit Charter, creation of yearly audit strategy, reporting to the boards on subdivision threat disclosures, as well as apportionment of assets to in-house audit actions.

Geke et al. (2017) piloted an exploration to examine the impact of RBA practices on the economic enactment of some of the public-owned sugar companies in Kenya. The exploration's target population was Management teams and Department Heads of the established sugar firms who were well informed on the organizational internal auditors and organizational risks. A model of 50 participants was drawn from the object populace. The study's findings revealed a noteworthy affirmative correlation amid risk-based auditing and the economic enactment of the designated public-owned sugar entities in Kenya.

2.5 Conceptual Framework

The enquiry analyzed the outcome of RBA on the fiscal recital of microfinance institutions in Kenya. The inquiry concentrated on RBA being the independent variable and subdivided into three elements which include risk management, annual risk-based ~~audit~~ plus in-house auditing recruitment or capacity. As captured in the literature review, the dependent variable is focus on how well the companies are doing in which expectations include: Financial performance, i.e., profitability or Return on Equity (R.O.E.). External conditions (GDP rate and Inflation rate) are considered moderating variables, as displayed in **Figure 1** underneath.

Independent Variable

Dependent Variable

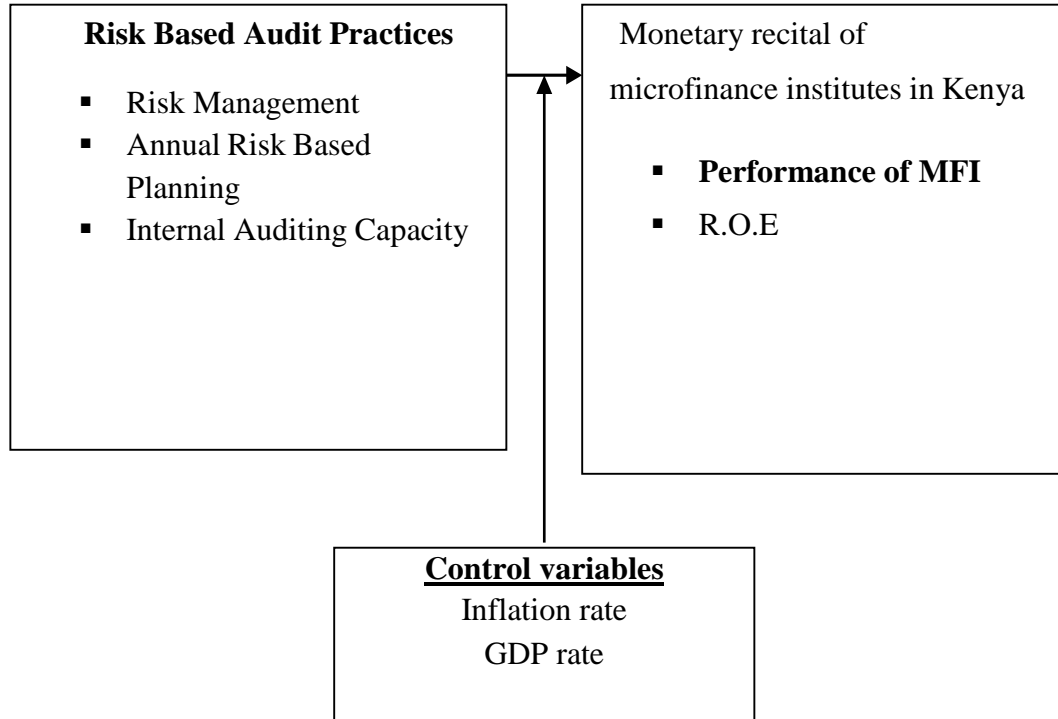


Figure 1: Conceptual framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this section of research, it has put its focus on the purpose of conducting this specific study amid risk based audit plus fiscal recital in the licenced microfinance institutions in Kenya. This study incorporated the following segments in this section, firstly, the inquiry design, secondly, the study population, thirdly, statistics gathered, diagnostic tests and lastly statistics examination.

3.2 Research Design

Creswell (2013) defines exploration methodology as a procedure adopted by the researcher, whereby they use different research instruments for data collection in terms of analysing the data. This is done with the main reason of resolving the study problem. Descriptive research design will be used in carrying out information that will be gathered. As per Mugenda and Mugenda (1999) this is a technique that uses the descriptive gathering and tools in examining the information for the purpose of putting out a comprehensive investigation of the study (Creswell, 2013).

Through adopting descriptive research design, accuracy is going to be maintained, clarity in describing the data is going to be enhanced, the study ensured that a large amount of data is analysed and finally, it ensures that in depth research is carried out efficiently.

3.3 Population of the Study

Kothari (1990) defined this as conventional of people or items that is selected by the researcher which are linked to the investigation topic. The researcher looked at the population of the study, since it is the main component utilized for solving the examination problem. The population of the exploration in this case are all 13 licensed microfinance institutions in Kenya.

3.4 Data Collection

Investigation gathered both primary and secondary data whereby the latter information for each micro finance to be gathered include return on equity, which was sourced, from the Annual Central Bank Supervisory Report while inflation rate and GDP rate was sourced from CBK Website. The information obtained was quantitative in nature. The investigation utilized secondary data sources of a one-year period of year 2020. Primary data was gathered through a structured questionnaire.

3.5 Diagnostic Tests

The data that has been collected underwent the diagnostic tests to assess the conformity with more than one regression version assumptions. This ensured that the outcome is valid. The research study tested normality, multicollinearity, heteroscedasticity, serial correlation, random or fixed outcomes and panel unit root diagnostic exams. Normality test was directed to test information portrays normal distribution. When statistics is not normally spread, it may not show the right association amid the variable under study. The study was utilized Shapiro-Wilk test to normality. The test is utmost proper for example 50 or below. Data distribution is normal as per Shapiro-Wilk test if its worth is superior to the P-Value at 0.05.

3.6 Data Analysis

Data, which was obtained, was analysed through correlation as well as regression statistics, which is responsible for ascertain the relationship between the variables. Also, SPSS was used in ensuring that the models are developed.

3.6.1 Analytical Model

Multiple regression was used in order to determine the association between risk based audit and financial performance (Return on equity) is adopted. The model of this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where: Y = Dependent variable ((Return on Equity)

X₁, X₂, X₃, and X₄ = Independent variables

X₁ = Risk based Audit was evaluated by five point Likert scale

X₂ = Inflation (Rate of Inflation) was evaluated by Annual inflation rate

X₃ = Annual GDP rate

α = Constant, ϵ = error term

β_1 , β_2 , β_3 = Regression coefficients

The dependent variable is ROE of the MFI's whereas the independent variables are the Risk based Audit.

3.6.2 Tests of Significance

This study performed importance analysis with Analysis of variance (ANOVA). ANOVA measures variances among variables. Correlation coefficient (R) measured through bearing and strength of linear correlation among variables. Coefficient of determination (R²)

would give the amount by which risk based audit (x) predicts MFI's performance (y). (R^2) is such that $0 \leq r^2 \leq 1$, and stand for the power of the linear link amid x and y .

The greater the (R^2), the greater the point line percentage that passes across when the line as well as data points are designed. A regression line of 80% occur where there is a 0,80 coefficient points. Values of 1 or 0 would show the regression line characterizes entirely or none of the data, correspondingly. A greater coefficient indicates there is a better goodness of fit for the observations. The enquiry employed T statistic since the population is at 95% confidence level. A t-test's statistical importance pointed out whether or not the variance between two variables' means probably replicates an "actual" variance in the population from which the sets picked.

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

In particular, the study looked into risk based audit, inflation rate, annual GDP and their effect on performance in microfinance institutions in Kenya. This chapter centers on data analysis, interpretation and presentation by presenting findings of diagnostic tests, descriptive statistics, regression analysis and a discussion of the findings.

4.2 Diagnostic Tests

To explore the various distributions from which the study data was sort the study undertook various diagnostic tests. Among the diagnostic tests that were carried out included; normality, multicollinearity, heteroscedasticity and serial correlation.

In terms of checking on the normality of the data, Sharpio-wilk was used to test this. This test looks into the variances of the data to determine of the data comes from a normal distribution. If the P value from the test is equal or greater to 0.05 then the data is said to be drawn from a normal distribution otherwise it is drawn from a data set that is not normally distributed.

Multicollinearity of the data was tested using the variance inflation factor. This test looks at the intercorrelation of the variables under study. VIF values of less than 4 are indicate moderate or no correlation among the variables thus they are acceptable while VIF values of greater than 4 indicate high correlation among the variables which shows interconnectedness between the variables under study which is problematic.

Heteroscedasticity was utilized by the study to look into the variances of the data to check for the errors that exist. To explore heteroscedasticity, the study used a scatterplot of the residuals against the predicted values of the dependent variable.

Serial correlation was conducted by the study to check if there exists correlation among the variables thus helping in pointing out associations. The study implied the Durbin Watson test to check for serial correlation. The Durbin-Watson statistic value of above 4 indicates that there is negative autocorrelation between the variables while if the Dublin Watson is less than 4 implies that there is no autocorrelation. Findings from the various diagnostic tests are as presented below.

Table 4.1 Shapiro-Wilk Test

	Tests of Normality					
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Return on Equity	0.288	12	0.598	0.441	12	0.624
Risk based Audit	0.049	12	0.278	0.548	12	0.178
Inflation	0.188	12	0.124	0.923	12	0.778
Annual GDP	0.358	12	0.109	0.033	12	0.677

Source: (Secondary Data, 2021)

Findings from the Shapiro-Wilk test show that the level of significance from the data utilized by the study was above 0.05. The investigation shows that the data extracted for this study was normally distributed.

Table 4.2 Multicollinearity

Collinearity Statistics		
	Tolerance	VIF
Risk based Audit	0.827	1.2092
Annual GDP	0.452	2.2123
Inflation rate	0.437	2.2883

Source: (Secondary Data, 2021)

Findings from the collinearity statistics table indicate that the VIF factor for risk based audit, annual GDP and Inflation rate are all below 4. Thus this is an indication that moderate or no correlation exists between the independent variables.

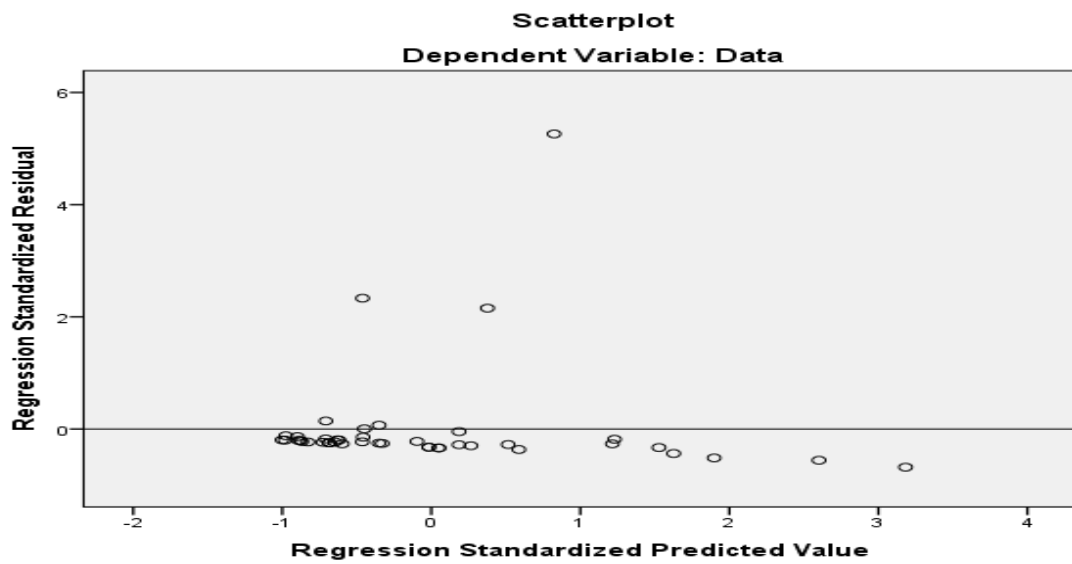


Figure 4.1 Heteroscedasticity

Source: (Secondary Data, 2021)

From the figure it can be noted that a vast majority of the data points plotted lied on or close to the line of best fit for a normal distribution. This is a sign that the information that was used for the study came from a normal distribution.

Table 4.3 Serial Correlation

Autocorrelation	
Durbin-Watson	2.724

Source: (Secondary Data, 2021)

From the table it was clear that the Durbin Watson statistic is 2.724 which is less than 4 thus indicating that no correlation existed between the independent variables in the study.

4.3 General Information

The study also sought to know an overview of information from the respondents to help them understand the general attributes of the respondents. Among the information sought from the respondents included; gender, working experience and length of the company existence. The results of the study are as presented below.

4.3.1 Gender

Gender was part of the various element that respondents participated in the study. The detection for the gender investigation are as shown below.

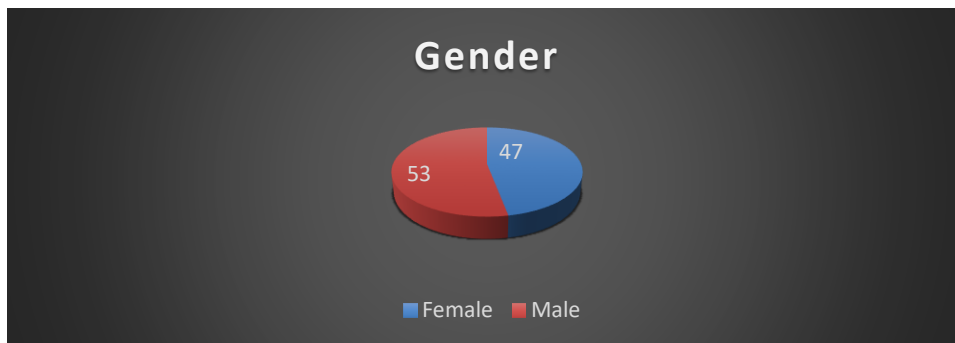


Figure 4.2 Gender

Source: (Primary Data, 2021)

The study established that most of the participants that took part were male as they accounted for 53% of the population, while 47% of the participants were female. Despite the male been slightly more in the study almost achieved an equal gender parity between the participants.

4.2.2 Working Experience

The study also sought to determine how long the various respondents had worked for their current employer. The results are as shown in the below.

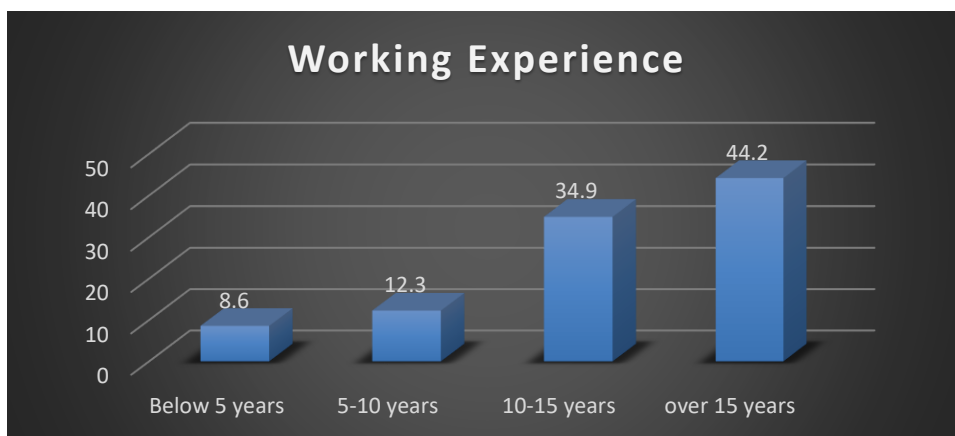


Figure 4.3 Working Experience

Source: (Primary Data, 2021)

This study showed that 42.9% of the participants in the questionnaires had an average of working experience between 5-10 years, 40 of the participants had an experience of 0-15 years, 13.4% had an experience of below 5 years and the remaining 3.7% had an experience of over 15 years

It is evident from the above information that the participants of this research have been in the working industry for about 5-10 years. The participants have been in the field for a long

duration of time and thus they were able to comprehend the subject under study at a very wide perspective.

4.2.3 Company Length of Existence

The company length of existence in relation to the study helps to show how long the various companies respondents worked for had been in existence. The findings from the study is as shown below.

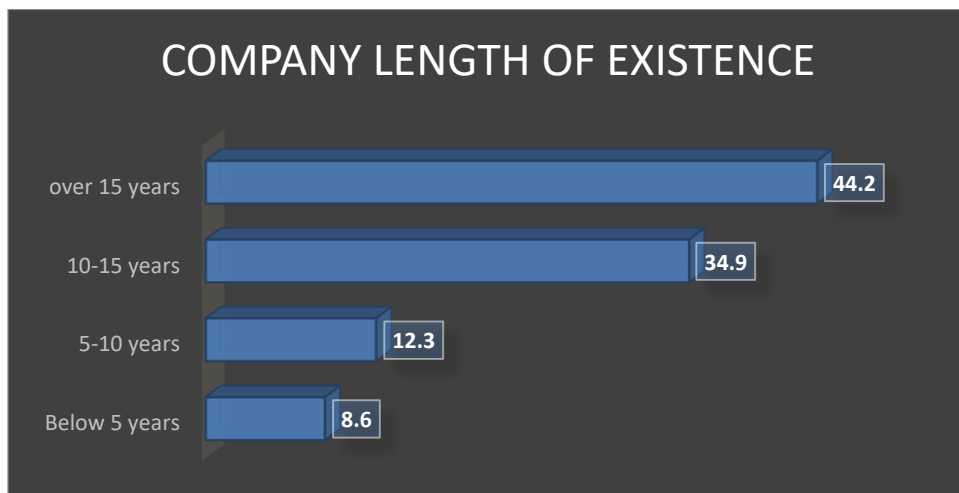


Figure 4.4 Company Length of Existence

Source: (Primary Data, 2021)

44.2% of the firms had been in existence for over 5 years, 34.9% of the firms show that they have been in operation for a period between 10-15 years, 12.3% had been in existence for 5-10 years while 8.6% of the respondents had been in existence for a duration of below 5 years.

From these findings, it was clear that most of the company's period of existing for a was above 10 years. Thus it is an indication that most of the companies have been able to

witness the variables under study change over an extended period of time thus making these companies a good study pool.

4.4 Effect of Risk Management on Micro Finance Financial Performance

To carry out these assessment respondents were asked to rate some statements associated with risk management on their agreement with the statements. The responds were measured by the use of a Likert scale that was divided on a 5-point average where 1=Strongly Disagree, 2= Disagree, 3=Not Sure, 4= Agree and 5= Strongly Agree. Findings from the study are as shown below.

Table 4.4 Risk Management

Risk Management	Mean	Standard Deviation
Potential risk is identified	4.09	0.29
Assess the potential severity of the risks	3.73	0.04
Establishing the context of the risk	3.56	0.72
Develop a risk implementation plan	3.91	0.74
Monitor results of the plan	4.18	0.23
Average	3.894	0.404

Source: (Primary Data, 2021)

From the study findings it was shown that on average participants agreed that risk management practices had an impact financial performance of microfinance institutions as shown by the average mean of 3.894 and standard deviation of 0.404.

The respondents agree that that the practice that had a huge impact was identifying potential risk as shown by the mean of 4.09 and standard deviation of 0.29. The respondents also agreed that establishing the context of the risk had the least impact as shown by the mean of 3.56 and standard deviation of 0.72.

4.5 Effect of Internal Auditing Capacity on Microfinance Financial Performance

To show the effect of internal auditing capacity on the performance of MFI's in Kenya.

To carry out these assessment respondents were asked to rate some statements associated with internal auditing capacity on their agreement with the statements. The responds were measured by the use of a Likert scale that was divided on a 5-point average where 1=Strongly Disagree, 2= Disagree, 3=Not Sure, 4= Agree and 5= Strongly Agree.

Findings from the study are as shown table below.

Table 4.5 Internal Auditing Capacity

Internal Auditing Capacity	Mean	Standard Deviation
Internal audit is adequately financed to perform its duties	3.44	0.13
Internal audit staff are skilled	3.72	0.38
Training programmed are regularly organized	3.52	0.89
Internal audit personnel are well remunerated	3.69	0.26
Internal audit personnel are well motivated	3.61	0.77
Average	3.596	0.486

Source: Primary Data, 2021

From the study conclusions it revealed that on average participants agreed that internal auditing capacity planning had an impact on financial performance of the microfinance institutions with an average mean of 3.596 and standard deviation of 0.486.

The participants acknowledged that the internal auditing capacity practice with the most impact was having skilled staff with a mean of 3.72 and standard deviation of 0.38. The respondents reported that they were unsure about if internal audit is adequate financed to perform its duties with a mean of 3.44 and standard deviation of 0.13.

4.6 Effect of Annual Risk Based Planning on Microfinance Financial Performance

This helps to understand the effect of annual risk based planning on the performance of the micro finance institutions. To carry out these assessment respondents were asked to rate some statements associated with annual risk based planning on their agreement with the statements. The responds were measured by the use of a Likert scale that was divided on a 5-point average where 1=Strongly Disagree, 2= Disagree, 3=Not Sure, 4= Agree and 5= Strongly Agree. Findings from the study are as shown table below.

Table 4.5 Annual Risk Based Planning

Annual Risk Based Planning	Mean	Standard Deviation
Major risks are reviewed annually	3.95	0.21
Business objectives are considered	3.62	0.94
Risk appetite is reviewed annually	3.84	0.74
Understanding of the business environment	4.14	0.97
Develop and audit plan	3.88	0.16
Average	3.886	0.604

Source: (Primary Data, 2021)

It had been assessed that on average the respondents came to a consensus that annual risk based planning had an impact on the performance of microfinance institutions as shown by the overall mean of 3.886 and standard deviation of 0.604.

Participants agreed that understanding the business environment was the most important practice by a mean of 4.14 and standard deviation of 0.97. The respondents further acknowledged that business objectives should be considered is the least practice of annual risk based planning with a mean of 3.62 and standard deviation of 0.94.

4.6 Regression Analysis

The regression analysis was presented in the model summary, Anova and coefficient tables. The model summary how much of the variation of the dependent variable that is as a result of the independent variables. The Anova checks if the model fit with the independent variable as predictors is statistically significant to predict the independent variables. The coefficient table gives beta coefficients that show the impact of each independent variable on the dependent variable. The results of the findings are as shown in the tables below.

Table 4.6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.859 ^a	0.74	0.0762	0.2421

Source: (Secondary Data, 2021)

It was able to be determined that the R Square was 0.74. This implied that 74% of the variation in return on equity can be explained by a model that is fitted with RBA, inflation and annual GDP as predictor variables.

Table 4.7 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	32.541	3	10.847	12.8909	.000 ^b
Residual	7.573	9	0.8414		
Total	40.114	12			

Source: Secondary Data, 2021

The Anova table reveal that the F value was 12.8909 at a significance level of 0.000. This significance level subordinate to the p value of 0.050. This showed that the model fit with risk based audit, inflation and annual GDP as predictor variables was statistically significant to predict return on equity.

Table 4.8 Coefficients

Model		Coefficients ^a		Standardized Coefficients Beta	t	Sig.
		Unstandardized Coefficients				
		B	Std. Error			
1	(Constant)	3.468	0.084		2.556	0
	Risk Based Audit	0.714	0.172	0.159	4.152	0
	Inflation Rate	-0.487	0.132	-0.382	3.689	0
	Annual GDP	0.124	0.624	0.215	0.199	0

Source: Secondary Data, 2021

Findings from the coefficient table for the data were as below ;

$$Y=3.468+0.714X_1-0.487X_2+0.124X_3$$

Where; Y = Return on Equity

X₁ = Risk based Audit

X₂ = Inflation Rate

X₃= Annual GDP rate

4.7 Discussion of the Findings

The findings showed that 74% of the disparity in return on equity can be explained by a model that is fitted with risk based audit, inflation and annual GDP as predictor variables.

This also showed extensively that 26% of the variation in return on equity was explained by either error or other variables that were not investigated by the study.

From the coefficient table it was shown that the constant value is 3.468. This meant that if all other variables were held constant then return on equity would have a value of 3.468.

Risk based audit had a beta value of 0.714. This showed that an increase in risk based audit directly proportionally causes an increase in return on equity by a value of 0.714.

Inflation rate had a beta value of -0.487. This shows that a unit increase in the inflation rate would lead to a decrease in the return on equity by a value of -0.487. Annual GDP rate had a beta value of 0.124. A conclusion that an increase in GDP would lead to the increase in the return on equity by a value of 0.124.

This investigation showed a similarity with those of Kabare (2014) to evaluate the influence of RBA on the fiscal enactment of Commercial National Establishments in Kenya. Findings from his study affirmed that risk-based audit positively impacted the monetary recital of the State Corporations in Kenya.

The determinants also showed an agreement with those of Al-Qudah (2021) who assessed the influence of a RBA method on decreasing random threats on Jordan Banks. Findings from his study revealed that risk-based audit approach significantly impacted business risks by minimizing unsystematic risks, and thus, banking performance was improved.

The findings of this study also concurred with those of Geke et al. (2017) who assessed the impact of RBA practices on the economic enactment of selected public-owned sugar companies in Kenya. Results from his study pointed out that there was an affirmative correlation amid risk-based auditing and the economic enactment of the designated public-owned sugar entities in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The summary of the findings and conclusions that were came up with and what the study recommends in line with the study objective which was to define the influence of risk based audit on economic enactment among MFIs in Kenya will be in this chapter. In addition, this chapter presents constraints and propositions for further studies.

5.2 Summary of the Findings

The normality, multicollinearity, heteroscedasticity and serial correlation diagnostic tests it was shown that the data used for the study was drawn from distributions that were normal. Findings from the study revealed that respondents agreed that risk management practices had an effect on the performance of microfinance institutions as shown by the overall mean of 3.894 and standard deviation of 0.404.

It also shows in this study that the participants agreed that internal auditing capacity planning had an impact on performance of the microfinance institutions as shown by the average mean of 3.596 and standard deviation of 0.486. The findings from the study further showed that on average respondents agreed that annual risk based planning had an impact on the performance of microfinance institutions with an overall mean of 3.886 and standard deviation of 0.604.

Results from the regression analysis showed the 74% of the variation on return on equity was due to risk based audit, inflation and annual GDP. Further the results showed that the model fit with risk based audit, inflation and annual GDP as predictor variables was statistically significant to predict return on equity. The regression findings also showed that

risk based audit and annual GDP rate that showed a beneficial effect which was positive on ROE while inflation rate had an unfavorable effect which was negative on the ROE.

5.3 Conclusion

The study established that risk based audit as defined by risk management, internal auditing capacity and annual risk based planning showed an effective which was positive on the financial performance of MFI's. This was because it enhanced risk deterrence, assessing the working environment for businesses and staffing trained personnel to carry out auditing which are practiced that are geared towards improvement of financial performance.

The study also concluded that that annual GDP rate had a beneficial effect (positive) on the performance of the MFI's. This is because as the economy grows and performs better businesses experience a conducive working environment in which they can flourish.

A conclusion was made that inflation rate had a negative impact on financial performance of microfinance institutions. This is because as inflation goes high the working environment becomes harsh and such institutions are likely to incur a loss.

5.4 Recommendations

A recommendation that the management of the microfinance institutions should embrace measures that promote risk based audit in the firms. This can be done through establishment of better internal audit programmes and ensuring that the financial institutions have qualified and trained staff that can implement the measures. The management should also ensure establishment of an effective risk evaluation strategy to ensure that the institutions are able to operate proficiently in the market.

The study also recommends that the government through the central bank should put in place measures and policies to make sure there is a beneficial operation of the markets. It is in such an environment that the annual GDP growth can be realized and inflation rate kept in check to ensure optimal operation of financial institutions.

5.5 Limitations of the Study

An investigation of the study was curbed by the influence of a limited time frame. The study specifically looked into financial performance of micro financial institutions in the year 2020. Hence the findings of this study can only be inferred to this time period only.

In addition, there was a limitation to the use of secondary data. Hence, the researcher could not verify validity of the data with certainty and hence relying on the data as presented. The study also utilized primary data that is also subject to bias that the researcher cannot control.

The researcher was also limited in the time set aside to carry out the research. However, the researcher utilized the time set aside to the best use.

5.6 Suggestions for Further Research

It was concluded that 74% of the disparity in financial performance was to risk based audit, inflation and annual GDP. Thus it is significant for other studies to investigate the remaining factors that account for the 26% of the variation in performance.

The study assessed micro financial institutions financial performance in the year 2020 only. Thus the findings of the study were limited to this time period only. Hence it is important for other researchers to look into the financial performance of these institutions in other time frames as well to see how it is affected by the variables under study.

Limitations to the number of micro financial institution in Kenya also restricted to more findings of the research. Thus it is important for other studies to look into other MFI's in Kenya as well to see what components that affect their performance thus helping in establishing a knowledge base of factors that have an impact on financial institutions in the country.

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APPENDICES

APPENDIX I: LIST MICRO FINANCE INSTITUTIONS

1. Caritas Microfinance Bank Limited
2. Century Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank Limited
7. Rafiki Microfinance Bank Limited
8. Remu Microfinance
9. SMEP Microfinance Bank Limited
10. Sumac Microfinance Bank Limited
11. U & I Microfinance Bank Limited
12. Uwezo Microfinance Bank Ltd
13. Maish Microfinance Bank Limited

APPENDIX II: Research Questionnaire

It has been intended that this questionnaire will help in facilitating the research on the impacts of risk based audit on monetary enactment of MFI's firms in Kenya. Taking part in it will be highly appreciated. Mark appropriately [√].

SECTION A: GENERAL INFORMATION

1. What is your highest level of education?

Post graduate level University

Tertiary College Secondary

2. How long have you worked for the current employer?

Below 5 years 5 -10 years

10-15 years Over 15 years

3. For how long has the company been in existence?

Below 5 years 5 -10 years

10 - 15 years Over 15 years

SECTION B: RISK BASED AUDIT

1. Rank the extent to which your micro finance institution practice the following risk based audit activities?

To examine the functionality risk based audit of MFI’s financial performance in Kenya. Using the likert scale, kindly categorise the following RBA activities.

Where;

- 1= strongly disagree 2= disagree 3= not sure
 4= agree 5= strongly agree

		strongly agree (5)	agree(4)	not true (3)	disagree (2)	strongly disagree (1)
	RISK BASED AUDIT					
	Risk management					
1	Potential risk is identified					
2	Assess the potential severity of the risks					
3	Establishing the context of the risk					
4	Develop a risk implementation plan					
5	Monitor results of the plan					
	Annual Risk based planning					
6	Major risks are reviewed annually					
7	Business objectives are considered					

8	Risk appetite is reviewed annually					
9	Understanding of the business environment					
10	Develop and audit plan					
	Internal Auditing Capacity					
11	Internal audit is adequately financed to perform its duties					
12	Internal audit staff are skilled					
13	Training programmed are regularly organized					
14	Internal audit personnel are well remunerated					
15	Internal audit personnel are well motivated					

APPENDIX III: Data Collection Form

	Year
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Return on Equity	
Inflation rate	
GDP rate	