

**A SURVEY OF FACTORS AFFECTING PUBLIC AUDIT INSTITUTIONS
PERFORMANCE: THE CASE OF KENYA NATIONAL AUDIT OFFICE**

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D61/72307/2011**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS OF MASTERS OF BUSINESS ADMINISTRATION (MBA)
DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER 2013

DECLARATION

This research project is my original work and has not been presented for an academic award in any other University.

Signature.....

Date.....

Keah Hope Matendera

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

Supervisor's Signature.....Date.....

Dr.J.O.Aduda

Supervisor

DEDICATION

I dedicate this research project to my family for their support and bearing with me during this process. I will remain forever grateful.

ACKNOWLEDGEMENTS

Apart from my efforts, the success of any project depends largely on the encouragement and guidelines of many others. I take this opportunity to express my gratitude to the people who have been instrumental in the successful completion of this project. I would like to show my greatest appreciation to all my fellow students, lecturers and staffs at the Department of Finance and accounting led by Dr.J.O.Aduda, Chairman of the department. I can't say thank you enough for their tremendous support and help. Without their encouragement and guidance this project would not have materialized.

Regards to my family for providing the much needed moral support and accepting my being away from home functions throughout the period of study. I am grateful for their constant support and help.

I also extend my appreciation to the respondents who accorded me the opportunity to collect data from their premises without a problem. The support received from all the respondents who contributed was vital for the success of the project.

Most important of all I extend my most gratitude to the almighty God for providing me with the strength and all the resource I required in making this journey a success.

ABSTRACT

Public finance accountability is increasingly becoming important in the public sector. One means of effecting accountability is through auditing. The overall objective of this survey was to study the factors affecting the performance of the public audit institutions i.e Kenya National Audit Office in undertaking its constitutional mandate of auditing and reporting on the accounts of public sector institutions. This study adopted a survey research design. The target population of this study was the staffs located in Nairobi region. The researcher used quantitative and qualitative methods to analyze data. The Statistical Package for Social Science (SPSS) was used to help analyze the collected data and reliability test was done to ensure that the research tools are consistent.

The findings were presented in form of summarized tables with percentage scores and charts. Arising from the data analysis, presentation and interpretation, the research indicated that inadequate resources, lack of adequate training and development, inadequate knowledge on issues such as corporate governance, professionalism, integrity issues poses a challenge to a greater extent to the overall performance. Top management commitment to the overall strategy was found to be average while poor communication of the strategy was ranked among the factors affecting performance. The study revealed that auditors face serious problems ranging from factors such as low staff motivation, lack of adequate training and capacity building, resistance to change problems, political interference, environmental, communication and leadership problems in their line of duty. On the area of experience the organizations are served by well experienced officers only that they have no experience from other organizations meaning that new ideas are lacking thus the need to inject new blood especially in order to improve performance by bringing in new ideas.

The researcher recommends more resource allocation from the government to the organization, the staffs to be sponsored for short courses in order to improve their skills, more incentives should be offered to the entire team so as to improve their commitment to the strategy implementation and drive the strategy holistically. The researcher gives a conclusion that even though there are a few areas where the organization is doing averagely well they fall short of the expectations of the general public.

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ABBREVIATIONS

GAAPS	General Accepted Accounting Principles
GOBI	Government Owned Business Investments
ISA	International Standards on Auditing
IPSAS	International Public Sector Accounting Standards
IFMIS	Integrated Financial Management Information System
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
KENAO	Kenya National Audit Office
MTEF	Medium Term Expenditure Framework
MDA	Ministries, Departments and Agencies
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PAC	Parliamentary Accounts Committee
PA	Performance Audit
PAC	Public Accounts Committee
SBA	System Based Audit
SAI	Supreme Audit Institutions
TI	Transparency International

CHAPTER ONE

INTRODUCTION

1.1Background

Audit is an integral part of the financial structure of public sector. Over the years, the precise role of audit has shifted from mere detection oriented procedures to prevention and advocacy oriented performance evaluation approach. To deal with this changing scenario, the audit organizations are trying to cover more relevant tasks in the financial sector to ensure accountability of the budget recipients. In Kenya, there exist actors and factors which play crucial role in achieving the constitutional goal of ensuring efficiency, effectiveness, economy while spending public money and this task is done by applying tools of accountability by the government auditor i.e. playing role of ‘principal’ utilizing these actors and factors to hold the ‘agents’ (auditee organizations) accountable in the public service (Nosworthy, 1999).

The concept of accountability refers to the legal and reporting framework, organizational structure, strategy, procedures and actions to help ensure that Supreme Audit Institutions (SAI) meet their legal obligations. The Office of the Auditor General (OAG) has the mandate to exercise its discretionary power in ensuring accountability in the public entities along with its own office. Its purview covers all of the accounts of public funds maintained by all government and autonomous agencies working under the supervision of line ministries. As the secretaries of the ministries are recipients of the budget, they are responsible and accountable for the utilization of this sanctioned budget (Nosworthy, 1999).

Ensuring accountability of public entities is the prime component based on which the entire job description of the audit officials are framed. The concept of accountability as exercised by OAG is taken up here correlating to its relevance with the function of the OAG in ensuring ‘true and fairness’ of the financial statements, accounts and records of an auditee as per its legal mandate (Nosworthy, 1999).

The Office of the Auditor General is a public “watchdog” with the mandate of strengthening the ability and capacity of public sector institutions to efficiently, effectively and equitably manage public resources. Revenue and expenditure forms the strength of governance in any given policy. It is through the strength of oversight bodies such as the Office of the Auditor General office that economic prosperity which serves as an appraisal of the living standards of the people in a particular policy is enhanced. The judicious application and prudent management of these key public resource areas has led to the categorization of nations as developed, developing and underdeveloped. In Kenya in general we have potential natural resources which are tapped and injected into government bodies for the provision of goods and services for several decades now yet we are being classified as developing nation.

In its mission to improve all round public service performance, the government identified the need to attain effective, efficient and timely public service for Kenyan citizens. This process started off well with the institution of results based management, performance contracting and service charters to name but a few(UN, 2009). Government public audit institutions/oversight bodies are mandated to oversee the effectiveness and efficiency of public service delivery across all Government Ministries, Departments and Agencies(Waldt, 2004). It is within this backdrop that this study seeks to conduct a survey on the factors affecting the efficient performance of the Kenya National Audit Office (KENAO).

Talking about public audit institutions performance we are talking about how well or badly these institutions execute their duties and obligations. Performance is about output, results and their outcomes obtained from processes, products, and services that permit evaluation and comparison relative to goals, standards, past results, and other organizations. Performance can be expressed in non-financial and financial terms. It is worth noting that performance measurement is a requirement for benchmarking and business excellence (Pollitt, 1999).

The public audit institution can be said to be performing when the organizations goals are consistently being met in an effective efficient manner. To be able to study the

performance of KENAO therefore one has to look into the factors that waseither enhance or constrain the institution willingness and ability to perform to the expected standards as set by the Constitution and other International Standards on auditing (ISA). Evaluating the factors related to the performance of the Kenya National Audit Office (KENAO) and audit effectiveness in the public sector is relevant in establishing relationships between the factors of audit effectiveness (‘performance indicators’) and possible pre-determinants of an effective audit (‘success factors’).

A critical assessment of the performance of the Kenya National Audit Office by evaluating the factors and its impact on the performance of the national audit office is crucial as the public is always demanding for accountability of stewardship from the custodians. Given the situation on ground, the role of audit in examining the programs, function, operations, projects and expenditures in the governmental bodies is an obligation that is demanded by the public.

1.1.1 Public Sector Audit

Public sector audit is an old and indispensable link in the process of governmental accountability in many countries. It is an activity of high democratic significance, helping to improve the functioning of governments. In general, a public sector audit focuses on investigating the economy, efficiency and effectiveness of government. More and more often, especially after extensive programs of public management reform have been introduced all over the world, the audit institutions have been forced to justify their own activities and demonstrate their results and achievements. Therefore, the ways of assessing the effectiveness of performance of the national audit offices has gained more importance and attention (Bourn, 2008).

The function of the state audit is an ancient and respected branch of state administration. It is an activity, *sui generis*, distinct from other branches of government in the system of checks and balances involved in its position, aims and sometimes also its techniques (Perrin, Lonsdale, & Videc, 2011). However, the state audit (also referred to as public sector audit or the public audit) has always played a role in the political accountability process. Audits are demanded within the context of relations involving accountability

between two parties and the operational difficulties of one party monitoring the activities of another (Power, 1997). In terms of democratic accountability, an audit provides professionally structured and independent information to a variety of actors in the accountability process (White & Hollingsworth, 1999).

The definition of the auditing process has evolved during the decades. Today, it is considerably broader than the audit of a financial statement. However, the core idea has remained. According to Power the core of the modern external audit is an independent examination of, and the expression of an opinion on the financial statements of an enterprise by a qualified auditor. The most important and challenging conceptual ingredient of an audit practice is independence from the matter being audited (Power, 1997). Independence creates the basis for an impartial and objective review of public activities, free of pressures from the executive, political parties, pressure groups or other foci of power in the political system (Gray & Manson, 2007). Although this study concentrates on the public sector, the differences between a public and private sector audit are considered briefly. There are fundamental differences both in principle and in practice, although a convergence of audit skills and techniques between the sectors has taken place (Pollitt, 1999) .

1.1.2 Public Audit Institutions

In Kenya, public sector audits are mainly conducted by the Kenya National Audit Office (KENAO). KENAO is an independent constitutional audit office which exercises external audits in order to assure public accountability. According to (Pollit & Summa, 1997) Supreme Audit Institutions (SAIs) play important roles within the institutional mechanisms of the democratic states. In some states, there are also other public sector audit bodies responsible for the public audit. Examples include some of the French inspectorates, the Audit Commission in the UK, the parliamentary audit bodies in Finland and Sweden, and the European Court of Auditors in Luxembourg (Pollitt, 1999).

The various audit offices have differences in their mandate and powers, in their role and emphasis to the work (Pollit & Summa, 1997). Usually, SAIs work for more than one

potential 'client'. Ranging from the mainly executive-oriented to the mainly legislature-oriented SAIs. The common element of all SAIs is responsiveness to Parliament and the high degree of independence in order to secure public accountability for the probity and legality of public spending as well as for economy, efficiency and effectiveness (Pollit & Summa, 1997). Pollitt and Summa (1997) distinguished between four main types of SAIs deriving from the concept of 'representativeness' and according to the differences in the constitutional contexts, powers and the institutional framework of SAIs.

The first type of SAI is the court with judicial functions and the second one is the collegiate body, the third type is the independent audit office reporting to Parliament and the fourth type is the audit office within the structure of an executive government (Pollit & Summa, 1997)). The first two types are examples of the collegiate system where the SAI is headed by a group of auditors enjoying judicial or semi-judicial status. The latter two represent the administrative system under which the SAI is organized similarly to a government department, being headed by one person, called the Controller or Auditor General (Perrin, Lonsdale, & Videc, 2011)

1.1.3 Determinants of public sector audit efficiency

To achieve the risk management, control and governance functions as stated under the International Standards on Auditing, all government audit functions require the existence of organizational independence, formal mandate, and unrestricted access to information, sufficient funding, competent leadership, competent staff, management support, and professional audit standards. This research proposal considers these elements as determinants which determine the existence of effective and efficient external audit function in public sector. According to Bourn (2008), the effectiveness of Supreme Audit Institutions (SAIs) is not determined solely by resources and capacity levels. A range of other factors is of equal importance, including the accessibility and communication of audit reports and findings and interaction with other stakeholders. The state audit cycle is a complex, interconnected system, and good practices in one area may not yield expected impact if other components of the audit cycle do not function well (Bourn, 2008).

1.1.4 Independent oversight bodies in Kenya

The concept of oversight is simply the reviewing of actions, expenditures, rulemaking and regulatory actions. It is another of the aspects of the system of checks and balances. Public sector oversight is the comparison of spending versus the plan, which provides a stimulus for re-profiling or reprioritization of budgets. Budget Oversight ensures that budget targets are being met and it improves the quality of future forecasts. The Importance of budget oversight enables stakeholders to have a clear and transparent picture of performance to budget, across time frames that may extend outside of the typical budget reporting cycles, better decisions to be made regarding future funding levels and allocations including identifying favorable budget trends and areas of concern, costs to be better managed throughout the organizations among other reasons.

Independent audit and oversight functions have been strengthened in the past few years especially by the new constitution and legislations such as the Public Finance Management (PFM) Act 2012. In Kenya, there are four main independent oversight bodies which are; first, Office of the Controller of Budget which is established under Article 228 of the Constitution of Kenya with the mandate of overseeing the implementation of the budgets in the public sector, second, Auditor-General which is established under Article 229 of the Constitution of Kenya with the mandate of auditing and reporting on the accounts public sector institutions in the national and county governments, third, Salaries and Remuneration Commission which according to article 230 of the constitution, in performing its functions, the commission is mandated to ensure that the total public compensation bill is fiscally sustainable and that there's need to recognize productivity and performance and transparency and fairness in the public sector and finally the National Assembly to exercise oversight over national revenue and its expenditure as per according to Article 95 (4) of the Constitution.

1.1.5 Overview of the Kenya National Audit Office

Originally the Office was referred to as the exchequer & audit department which with time changed to the office of the controller and Auditor-General. During this period, the office derived its mandate from the Exchequer and Audit Act Cap 412 which provided for the audit of the central government by the Controller and Auditor General. Later the Act was amended to provide for audit of Local Authorities and State Corporations. The public Audit Act 2003 which became effective on 9 January, 2004 established a more independent Office of the Controller and Auditor General and renamed it Kenya National Audit Office (KENAO). The Office of the Auditor General draws its mandate from the Article 229 of the Constitution of Kenya which establishes the Office of the Auditor General. This Article 229 provides for the independence of the Office of the Auditor General and its mandate of auditing and reporting on the accounts of the national and county governments, the accounts of all courts, commissions and independent offices the accounts of political parties funded from public funds, the public debt and the accounts of any other entity that legislation requires the Auditor-General to audit.

1.2 Research Problem

The role of auditors in curbing or reducing fraudulent activities in public sector include; to ensure that funds are expended as appropriated; to ensure that laid down procedures are been observed in tendering, contracts and storekeeping with a view to preventing waste, pilferages and extravagance; to ascertain the level of economy, efficiency, effectiveness derived from government projects and programmes; to determine whether the accounts have been satisfactorily and faithfully kept in accordance with the provisions of the law. Also the detection of fraud and errors as well as prevention of frauds and error though this appear to be a secondary one. Despite the significant role of auditors highlighted above, fraudulent activities, inefficiency and waste of public resources are increasingly high (TI, 2002).

Masya and Njiraini (2003) found that there have been challenges in service delivery in the public sector stemming from how the budgets are implemented to the performance of the Kenya National Audit Office in undertaking audits of how public institutions utilize the public resources. According to the two authors, poor accounting and failure in public institutions are common in the recent days and its negative impacts are noticeable on the Kenya's economy. These, in turn contribute to low industrialization, poor economic growth and above all lack of job creation at all levels of government. Furthermore, the two authors indicate differing results on the effectiveness of government auditors in curbing fraudulent activities in the public sectors thereby creating a research gap in the literature.

It is in the light of the above which has given the researcher the keen interest to conduct a survey on the factors affecting the performance of public audit institutions in Kenya; the case of Kenya National Audit Office to fill the gap and providesome highlights on the performance of the public audit institution in curbing problems such as mismanagement of public resources to fraudulent activities just to mention a few, their effects and consequences on the performance on the government auditor.

1.3Research Objective

The overall objective of this survey is to study the factors affecting the performance of performance of public audit institutions in Kenya: Kenya National Audit Office (KENAO) in undertaking its constitutional mandate of auditing public sector institutions, to ascertain the effectiveness of the audit performance in the public sector in checking fraudulent activities in the public sector and finally to find out the cause of persistent existence of poor performance of government projects, programs and fraudulent activities in ministries despite the existence of office of Auditor-General.

1.4 Value of Study

Efficiency of the performance of KENAO depends on a number of actors and factors. The study under this research project will add value exploring the extent of effectiveness of KENAO in ensuring accountability of auditee applying auditing measures efficiently. There is the need for the audit performance to be very effective so as to create improvement in the government bodies. Positive improvement in the public sector will definitely benefit the citizenry of Kenyan nation. This calls for an assessment of audit performance in the public sector so that recommendations will be given for the improvement.

Therefore this survey study would also add value and be of interest to the Kenya National Audit Office in helping them reflect where it might not be up to the standards. Other independent oversight bodies such as the newly established Office of the Controller of Budget may use the study to compare and contrast their processes with that of KENAO.

This study would be of interest to the Kenya government i.e Ministries, Departments and Agencies (MDAs) in understanding the auditor general audit mandate while managing public resources. These findings could also influence future policies on oversight mechanisms and form a basis of improving efficiency in the management of public finances.

The study would be of interest to academicians, scholars, other students and researchers interested or trying to understand the concept of oversight/audit in the public sector as they gauge its effectiveness. Results of this study could be used by stakeholders to design and implement, in a broad sense, a more transparent, accountable and efficient monitoring and evaluation framework in the public sector. This study therefore, enriches the existing literature by providing a wider analysis of the oversight/audit concept in the public sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the theoretical aspects related to the study. Thorough content analysis gave researcher guideline to fix the theory and analytical framework keeping relevance with the research questions intended in the study. This chapter focuses on concepts of accountability and audit, types of audit, role of auditing in public finance management, legislative framework, literature review and theoretical literature review and finally a conceptual framework.

2.1.1 Accountability and Audit

Accountability and audit are two correlated concepts. In accounting discipline, sometimes it is stated that, where accounts, there starts audit. A budget recipient of the public fund is accountable for spending this taxpayer's money. They are authorized to spend the money, manage properly the spending of this money and finally they are responsible to show a true and fare view of their activities presenting the accounts at the end of the financial year. Auditing keeps the budget recipient accountable by conducting different types of audit. There other organs and techniques to evaluate monitor and assessment of public institutions but audit bears the prime responsibility in the function of keeping the auditee accountable in using the public fund. So, accountability depends on audit activities. And there exist a relationship between the effectiveness of audit with auditor's credibility and simultaneously of auditee's role (White & Hollingsworth, 1999).

2.1.2 Types of Audit

Power (1997), indicates that there have been many attempts to break the idea of auditing down to its constitutive parts in order to outline different preoccupations. In the public sector the three main types of audit usually classified and practiced are: the financial audit, the compliance audit and the performance audit (Bourn, 2008).

A financial audit (sometimes referred to as certification audit) has been defined as an independent examination of, and expression of opinion on the financial statements of an enterprise (White & Hollingsworth, 1999). The purpose of a compliance audit is to determine whether the auditee is following specific procedures, rules and regulations set by some higher authority. The compliance audit is more common in the audit of governmental units, because of the extensive regulation by higher government authorities. A performance audit (also called value for money audit or effectiveness audit) represents a modern vision of an audit. It is distinctive to the state audit, although it has also influenced the private sector audit (Bourn, 2008).

2.1.3 Role of auditing in public finance management

Modern day public auditors perform a variety of audits aimed at satisfying different financial management goals. Auditing in public sector supports good governance; it also acts as a “watchdog”, guardian, a defender against theft or illegal waste and practices. Good governance is classified as being participatory, transparent, accountable, effective, compliant with the rule of law, and responsive to the needs of the people. By auditing public finances, auditors do not only demand accountability of the government but in turn add credibility to the government’s public financial policies and practices. By making their audit findings available to the public, auditors provide a critical window on transparency in public finance management and assess whether government agencies have complied with national and/or local laws, regulations, and their annual budgets (Nosworthy, 1999).

2.2 Theoretical Literature Review

To sketch the theoretical framework the researcher considered the following elements as priority concepts as they relate to the overall work and scope of the Kenya National Audit Office (KENAO) and they are accountability, effectiveness, efficiency and innovation. There are two such relationships which can be considered as the theoretical basis to perform the analysis to measure the effectiveness of Office of the Auditor General in ensuring accountability of its auditees. These are the principal-agent relationships as explained by agency theory, stewardship theory and fairness Theory. While comparing

these theories it was thought that the following theories and public expenditure principles resembles with the problem under this study.

2.2.1 Agency Theory /Principal-agent relationships

Agency theory was initially proposed by Berle and Means (1932) to explain the impact of separating ownership and control in modern corporations (Jensen & Meckling, 1996). In an article titled 'Agency Theory and the Role of Audit' published by Audit and Assurance Faculty of Institute of Chartered Accountants in England & Wales it was expressed that such relationship means the arrangement that exists when one person or entity (called the agent) acts on behalf of another (called the principal). An audit is of value to a variety of stakeholders to engender trust and confidence, but for many different purposes, which do not fit into the simple agency model. Audits serve a fundamental purpose in promoting confidence and reinforcing trust in financial information and use. Therefore, in this proposed research, Principal-Agent concept of relationship can be linked here with the relationship between the elected bodies and the public servants, where the watchdogs (auditors) provide independent objective assessments of the agents' performance (Eisenhardt, 1989).

2.2.2 Stewardship Theory

Stewardship Theory, developed by Donaldson and Davis (1991 & 1993) is a perspective to understand the existing relationships between ownership and management of the company. Stewardship theory "defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals" (Davis, Schoorman, & Donaldson, 1997). The stewards in this research proposal are the independent oversight bodies such as the Kenya National Audit Office while the people of the republic of Kenya are the principal. Stewards are motivated by intrinsic rewards, such as trust, reputation enhancement, reciprocity, discretion and autonomy, level of responsibility, job satisfaction, stability and tenure, and adherence to institutional mission. Fundamentally, stewardship theory relies significantly on the principal's and stewards' initial trust disposition. In contrast with the agency model, stewardship theory seeks to understand the conditions under which stewards wasnot

ground their actions in self-interest, but rather take pleasure in serving collective goals or act as stewards to the interests of their principals (Davis, Schoorman, & Donaldson, 1997).

2.2.3 Adolph Wagner's Law of Increasing State Activity

Adolph Wagner, the German economist made an in depth study relating to rise in government expenditure in the late 19th century. Based on his study, he propounded a law called "The Law of Increasing State Activity". Wagner's law states that "as the economy develops over time, the activities and functions of the government increase". According to Adolph Wagner, "Comprehensive comparisons of different countries and different times show that among progressive peoples (societies), with which alone we are concerned; an increase regularly takes place in the activity of both the central government and local governments constantly undertake new functions, while they perform both old and new functions more efficiently and more completely. In this way economic needs of the people to an increasing extent and in a more satisfactory fashion, are satisfied by the central and local Governments. "The principal criticisms of Wagner's law have concerned his view of history and of the relationship between the state and its citizens. Peacock and Wiseman also queried whether Wagner's ideas could be applied to all societies at all times and suggested that the time pattern of actual public expenditure growth did not fit well with Wagner's law (Scharmer, 2003).

2.2.4 The Peacock-Wiseman Hypothesis

Peacock and Wiseman conducted a new study based on Wagner's Law. They studied the public expenditure from 1891 to 1955 in U.K. They found out that Wagner's Law is still valid. Peacock and Wiseman further stated that the rise in public expenditure greatly depends on revenue collection. Over the years, economic development results in substantial revenue to the governments, this enabled to increase public expenditure". According to the two researchers, there exists a big gap between the expectations of the people about public expenditure and the tolerance level of taxation. Therefore, governments cannot ignore the demands made by people regarding various services, especially, when the revenue collection is increasing at constant rate of taxation. They further stated that during the times of war, the government further increases the tax rates,

and enlarges the tax structure to generate more funds to meet the increase in defense expenditure. After the war, the new tax rates and tax structures may remain the same, as people get used to them. Therefore, the increase in revenue results in rise in government expenditure (Scharmer, 2003).

2.2.5 Canons of Public Expenditure

According to Dalton, the main principles or canons of public expenditure are as first, the principle of maximum social advantage: The government expenditure should be incurred in such a way that it should give benefit to the community as a whole. Secondly, the principle of economy: which requires that government should spend money in such a manner that all wasteful expenditure is avoided. Thirdly, the principle of sanction: according to the principle, all public expenditure should be incurred by getting prior sanction from the competent authority. Fourth, the principle of balanced budgets which states that every government must try to keep its budgets well balanced. There should be neither ever recurring surpluses nor deficits in the budgets. Fifth, the principle of elasticity which requires that public expenditure should not in any way be rigidly fixed for all times. It should be rather fairly elastic and finally the “No unhealthy effect on Production and Distribution” principle: The public expenditure should be arranged in such a way that it should not have adverse effect on production or distribution of wealth (Dalton, 1922).

2.2.6 The Pure Theory of Public Expenditure

Samuelson (1954) is usually credited as the first economist to develop the theory of public goods. In his classic 1954 paper ‘The Pure Theory of Public Expenditure’ he defined a public good, or as he called it in the paper a “collective consumption good”, as goods which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good (Scharmer, 2003).

2.3 Empirical Literature review

Government Auditing Standards of Bangladesh (1999), states that persons or entities that are entrusted with the responsibility of managing public resources need to render an account of their activities to the public. It states that they are responsible for applying those resources economically, efficiently, and effectively to achieve the purposes for which the resources are furnished, complying with applicable laws and regulations. And it also states that the said actors must implement systems designed to achieve that compliance establishing and maintaining effective controls to ensure that appropriate goals and objectives are met, resources are safeguarded, laws and regulations are followed, and reliable data are obtained, maintained and fairly disclosed.

Hussain (2011), stated that like elsewhere in the world the sovereign Parliament of Bangladesh has the ultimate responsibility to ensure financial accountability and transparency in the management of public resources. He added that “...the concept of audit occupies a central part in public financial administration. Audit is, generally, conducted for two purposes. The one is to identify violations of accepted standards of ethics, and deviations from the principles of legality, efficiency, effectiveness and economy in resource management. The other is to make public managers responsible for their conduct and for their use of public funds and to motivate them to take corrective measures to prevent violations from recurring...”

Osoro (2001), Mbindyo (2010), Muthinji (2009) and Mugwe (2010), did studies on challenges of being faced by the public sector institutions in budget implementation and recommended that there was need for an enhanced efficient performance of the Kenya National Audit Office in auditing this public institutions. In addition, the four researchers noted that in ensuring financial accountability in public sector, to a large extent, depends on relevant, reliable and unbiased information provided by the Kenya National Audit Office headed by the Auditor General through audit reports. Now-a-days, the scope of public audit has further extended as the citizens are demanding for more value for money.

Ashton and Haylas (1982), in their efforts to provide evidence on the effectiveness of the particular audit techniques in detecting errors that affect the financial statements and on the causes of such errors conducted a study of 281 errors requiring financial statements adjustments. The results of the study suggested that all of the intentional errors are concentrated in relatively few audit areas majority of such errors affect income but the direction of the effect may either be an understatement or 528 overstatements. Regarding signaling off an error, they found that a large portion of financial statement errors are initially signaled by less vigorous audit procedures such as analytical review and discussion with clients. Client personal problems such as inexperience, incompetence and insufficient knowledge and inadequate control, follow up or review were found instrumental in causing more errors thus affecting the efficiency of the audit institutions.

In an attempt to define a client's control environment from the auditor's perception, Haskins (1987) identified 48 client control attributes and their perceived levels of importance in adequately describing a client's control environment thus serving to define more clearly audit planning concepts. Audit firms, firms' specialization and audit rank were found to be significant mediating contextual variables and that seniors had the largest share of the evaluation of internal control attributes responsibility.

Schneider and Wilners (1990), in their study examined the effectiveness of internal audit and external audit in determining financial reporting irregularities. They conducted an experimental study that examined the effects of manager's perception of internal and external auditing on the potential of financial irregularities. A total of 264 subjects, the majority of whom were experienced managers were required to make decisions on three cases involving materiality type of irregularity, perceived extent of Generally Accepted Accounting Standards (GAAP) violation and incentives for misstating income. The results clearly supported internal and external auditing as deterrents to financial reporting irregularities when all of the four factors were present. It was also found that internal auditing effects were similar to those of external auditing. The study, however, suffered from the inability to explain why the existence of audits was perceived as having deterrent effects (Schneider and Wilners, 1990).

Rono (2006), studied on the effectiveness of the internal control system in the management of finances in public universities in Kenya. The study sought to determine whether there was a significant difference in the evaluation of the effectiveness of the internal control system in the financial management between the academic and non-academic departments in Egerton University. It concluded that the evaluation of the effectiveness of the internal control systems in the university depended on the category of the departments. The research revealed that the internal control systems in Egerton university were effective due to the well-established departments charged with the responsibility of implementing the internal controls as they carry out the financial processes for example, finance, supplies and personnel departments with their various sections like cash office, salaries, computer, debtors and creditors.

Albrecht (1982), in a study sponsored by the Institute of Internal Auditors (IIA), identified 15 criteria used by 13 large private organizations to evaluate the effectiveness of auditing. They concluded that effectiveness is determined mainly by the fit between the auditing work and the goals set by managers, the qualifications of the auditor, management support for the auditing staff, and several characteristics of the auditing department.

Miettinen(2008), identified factors that contribute to an effective audit and categorized them into three stages of the auditing process: planning, fieldwork, and reporting and review. The author suggested measurements they considered valid and reliable for these factors and developed a questionnaire that includes criteria for effectiveness categorized into four main areas: the environment of the internal audit, input into the audit, the auditing process and the output of the audit.

Riccucci (2012), is of the opinion that auditing is a function that serves accountability as it adds credibility to the assertions of the person or entity rendering account, and it provides valuable insights and information to the person or entity conferring the responsibility and thus leads to establishing integrity. Pollitt (1999), projected the

growing interest on performance rather than mere compliance in auditing and mentioned accountability as a prime element of effective governance while. Riccucci observed that accountability in central government is based on an intricate web of relationships.

International Organization of Supreme Audit Institutions (INTOSAI) (1977), viewed and analyzed the audit processes adopted and exercised by different SAIs. INTOSAI's "Lima Declaration of Guidelines on Auditing Precepts" includes the following directions on different types of audit including financial and performance Audit: The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and accounting. The auditing objectives of Supreme Audit Institutions are legality, regularity, efficiency, effectiveness and economy of financial management.

2.4 Summary of Literature Review

From the literature review, several researchers seem to concur that there are factors which affect the efficiency in terms of performance of public audit institutions while undertaking their mandates. These conclusions will however be confirmed or dispelled after empirical evidence has been obtained from the research.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the research method that was used in this study with the aim of achieving the set objectives for effective interpretation of research findings. This chapter highlights the research design, population of the study, sample design, data collection and data analysis.

3.2 Research Design

A descriptive research design with survey method was applied in this research proposal in attempting to describe and explain the factors affecting the efficient performance of the Kenyan National Audit Office by using questionnaires to fully describe the phenomenon. The survey used qualitative (e.g. ask open-ended questions) and quantitative (e.g. use forced-choice questions) measures in order to answer the research question and thus arrive at the goal of the research. The qualitative method of inquiry allows the researcher to understand the respondents in terms of their view of KENAO and its performance effectiveness. According to Holliday(2002), qualitative method of inquiry allows one to understand the respondents in terms of their definition of the world.

3.3 Sample design

The target population includes Kenya National Audit Office staffs working in various capacities in Nairobi region. For the purpose of questionnaire survey respondents from different departments was chosen. To cope up with the time and resource constraints the sample size is set at 60 as illustrated in table 3.1 below.

Table 3.0.1: Sampling structure of the research under study

Department	No of Respondents
For Questionnaire Survey and Interview	
Finance and Administration	12
Central Government	12
State Corporations	12
Local Authorities	12
Specialized Audits	12
Totals	60

A sample of employees was drawn using stratified random sampling method. As there are different types of actors involved in the audit and accountability process from different departments, to make it more representative, stratified sampling was used. Here the stratum includes officers of Finance and Administration department, Central Government department, State Corporations department, Local Authorities department and Specialized Audits at the Auditor General's Office. Selection of strata is purposive and selection of respondents as sample points was performed on random basis. Sampling is the process by which a relatively small number of individual objects, and events is selected and analyzed in order to find out at something about relational population from the selected. According to Mugenda and Mugenda (2003), once the sample data has been analyzed, it can be generalized to represent the whole population.

3.4 Methods of Data Collection

The researcher used a questionnaire as the main data collection instrument to obtain important information about the population .Since this is a descriptive research it helps to identify and describe the variability in different phenomena through attitude, opinion. Self-administered questionnaires was distributed to the selected respondents and later collected after one week. The questionnaire contained questions which comprise of likert scale, closed-ended questions and also open ended questions. The study used questionnaires primarily due to their practicability and applicability to the research problem. Interviews on some selected persons working in the office of the Auditor general (KENAO) was also conducted. They were selected both purposively and randomly. The researcher gave proper attention and structured approach while

conducting such interviews. The intention is to allow the output to reflect the spontaneous responses of the respected senior and middle level officials.

Secondary data sources from publications from academic and research works on accountability issues relating auditor and auditee, policy papers on reform initiatives in budgeting was also be reviewed, MTEF guidelines from the National Treasury on Ministries, Departments and Agencies (MDAs), published and unpublished audit reports from the Kenya National Audit Office was reviewed for this purpose.

3.5 Data Analysis

The data collected was checked for completeness, uniformity, consistency and accuracy. The data analysis plan in this research proposal was attempt two approaches; quantitative approach and qualitative approach. Quantitative approach included quantitative techniques such as Statistical Package for Social Sciences (SPSS) software to apply multiple regression analysis in the analysis of primary data to establish to establish a causal effect relating independence variables to the dependent variable. Multiple regression analysis was used to determine whether independent variables simultaneously impact the dependent variable.

Prior research studies by Osoro (2001), Mbindyo (2010), Muthinji (2009) and Mugwe (2010) on challenges being faced by various public sector institutions in budget implementation recommended the use of multiple regression model since the model is a flexible method of data analysis that may be appropriate whenever a criterion variable is to be examined in relationship to any other predictor variables. In addition the four researchers suggested that if the sample size is sufficient, multiple regressions model is undoubtedly a more powerful model to test the correlation between two or more variables than other statistical methods like non-parametric tests. Relationships may be nonlinear, independent variables may be quantitative or qualitative, and one can examine the effects of a single variable or multiple variables with or without the effects of other variables taken into when using multiple regression model.

Based on the reasoning above, multiple regression analysis was used by the researcher to analyze data collected in order to determine factors' affecting public audit institutions performance to examine the relationship of dependent variable (performance) to independent variables (factors). This can be expressed by the model below to determine the quantitative association between the variables:

$$Y = b_0 + b_1X_1 + b_2 X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_nX_n + \varepsilon$$

Where;

b_0, b_1, b_2, b_3, b_4 and b_5 are constants;

Y = Organizational performance

X_1 = Non adherence to Corporate governance principles;

X_2 = Lack of professionalism;

X_3 = Improper strategy approach;

X_4 = Noncompliance with international quality standards;

X_5 = Lack of integrity among employees;

and ε is the error term.

The dependent variable (Y) i.e performance was measured by measuring the degree to which the output of the internal processes and procedures at Kenya National Audit Office (organizational performance) are affected by independent variables (X) such as non-adherence to corporate governance principles (X_1), lack of professionalism (X_2), improper strategy approach(X_3), noncompliance with international quality standards(X_4) and lack of integrity among employees (X_5).

Multiple regression analysis was also used to show the individual effect of each independent variable on the dependent variable. The relationships between the dependent variable and independent variables, and the results of testing significance of the model were respectively interpreted in the next chapter. In interpreting the results of multiple regression analysis, the three major elements considered were: the coefficient of determination, the standard error of estimate and the regression coefficients. These elements and the results of multiple regression analysis were presented and interpreted accordingly.

In addition, descriptive statistics such as the mean, standard deviation, percentages and frequency distribution was used in was used to analyze the data. Qualitative approach uses descriptive method to present the findings obtained from the respondents through questionnaire survey and interview. Segregation was made as per the indicators set to explain the independent variables (the factors) and the effect of the independent variables on the dependent variable (the performance) was presented. The intention is to ascertain whether the research question of this study and inherent hypotheses can be answered with the information obtained through the survey done. Some graphical input was used to helps readers to get simple idea about the findings.

3.6 Ethical Issues

The researcher was keen and careful to avoid causing any harm to respondents by not asking them irrelevant questions, using threatening language and making them nervous. Ethical principles like confidentiality, objectivity, respect and openness are very important in research and were observed. The researcher was keen to capture the views of each respondent which was achieved through preliminary discussions to be held by the researcher and respondent. This is to ensure respondents are fully aware of the importance of the study. Also to increase validity of the study, data was collected from reliable sources, the language to be used on the questionnaire was kept simple to avoid any ambiguity and misunderstanding. The researcher also adhered to the requirement of informed consent where prospective research respondents were fully informed about the procedures involved and to give their consent to participate. Similarly the anonymity of the respondent's was maintained and the confidentiality of the information provided.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The study findings are presented on to determine the factors affecting the performance of public audit institutions i.e Kenya National Audit Office. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. This chapter presents analysis and findings of the study as set out in the research methodology. Data collected is presented and a summary and interpretation of the findings is also covered under this chapter.

4.2 Data presentation

4.2.1 Response Rate

A total of 60 questionnaires were distributed to the employees of Kenya National Audit Office, all of which were received back making response rate of 100%.

4.2.2 Reliability of the Research Instrument

The research assessed the construct reliability by using Cronbach Alpha value. The results showed accountability had a coefficient of 0.801, training and professionalism 0.694, integrity .707, Objectivity in auditing 0.753, Confidentiality 0.850, and Compliance with laws and auditing standards 0.721. All of the scales were above the suggested value 0.5 (Nunnally and Bernstein, 1994; Nunnally, 1974). Therefore it was concluded that the scales used in this research were reliable.

Table 4.0.2: Reliability Test of Constructs

Variables	Cronbach Alpha
Accountability	0.801
Training and professionalism	0.694
Integrity	0.707
Objectivity in auditing	0.753
Confidentiality	0.850
Compliance with laws and auditing standards	0.721

Source: Research data, 2013

4.2.3 Level of education

On the highest level of academic qualification reached by the respondents, the findings revealed that 26% of the respondents had post graduate qualifications such as Masters in Business Administration (MBA), Masters of Science in Finance (MSc.) followed by 53% who had attained bachelor's degrees and 21% had professional certifications such as Certified Public Accountants (CPA). None of the respondents had high school certificate only. This implies that most of the employees at the Kenya National Audit Office are qualified for their jobs as illustrated by Figure 1 below.

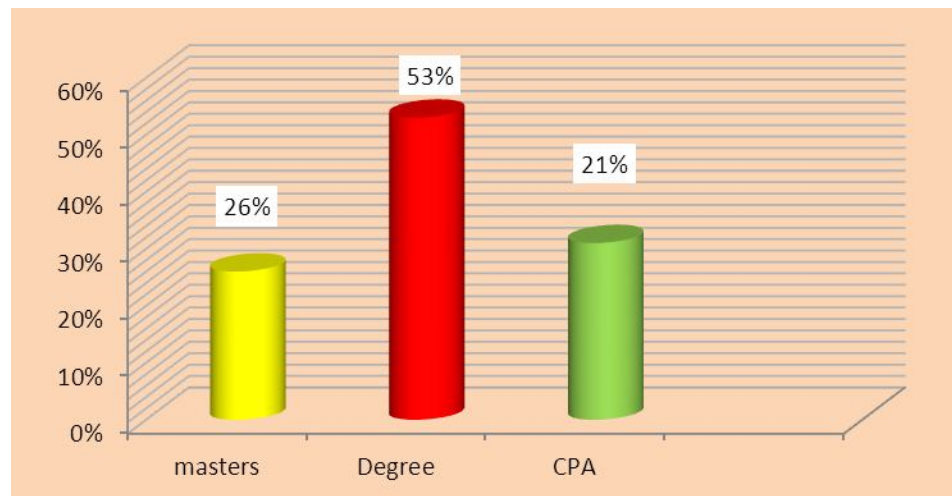


Figure 1: Level of education

4.2.4 Working experience

The study also established the duration of time respondents have worked at KENAO. From the findings, 62% of them had worked at the government auditor for periods over 10 years, 28% for periods between 5-10 years and 10 % between 1 and 5 years as illustrated by figure 2 below.

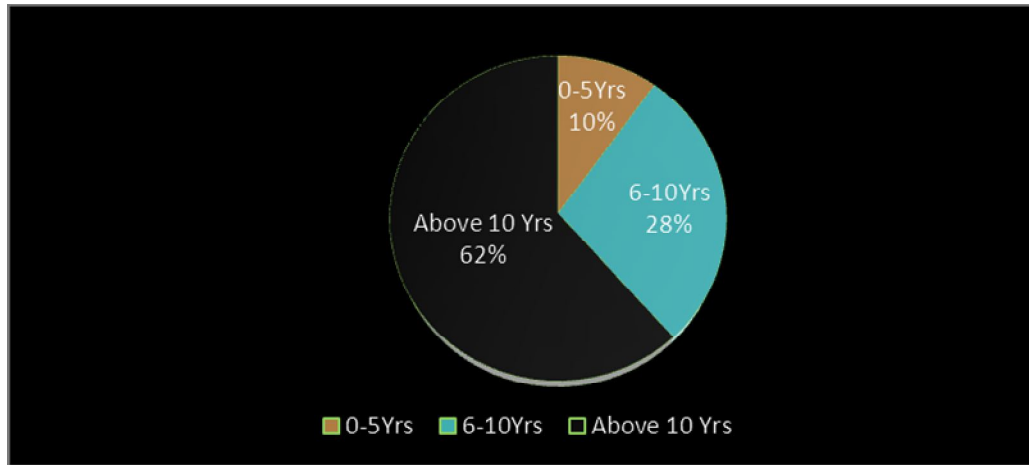


Figure 2 : Working experience

4.2.5 Preferred approach of auditing

The researcher sought to establish the approach of auditing which was most preferred by the respondents among the following financial audit, compliance audit, and value for money audit. From the findings, 65% of the respondents preferred value for Money (VFM) audit, 23% of the respondents preferred Compliance audit, while the remaining of the respondents preferred financial audit 12% as shown in Table 4.3 below.

Table 4.0.3: Preferred basic types of audits

		Frequency	Percent	Valid Percent	Cumulative Percent
	Financial audit	7	12%	12%	12%
	Compliance audit	14	23%	23%	35%
	Value for Money (VFM) audit	39	65%	65%	100%
	Total	60	100.0	100.0	

Source: Research data, 2013

4.3 Factors affecting organizational performance

4.3.1 Corporate governance

The research sought to find out whether the respondents had any knowledge of corporate governance. According to the findings, 83% of the respondents indicated that they had knowledge of corporate governance and had an idea of what the role an external auditor is expected to play to strengthen corporate governance in the public sector in the near future, while 17% responded that they were not very much aware of what corporate governance is as illustrated in Figure 3 below.

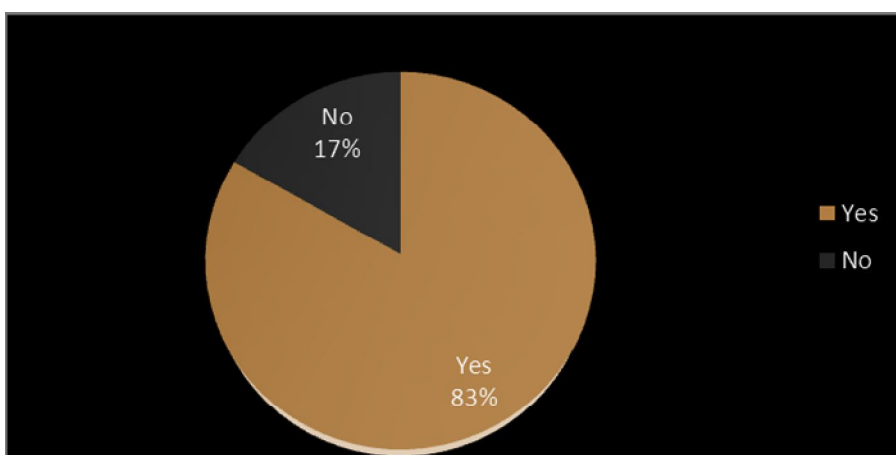


Figure 3: Knowledge of Corporate governance

On the level of agreement on statements on corporate governance, it is becoming more important than ever to focus on corporate governance in the public sector to maintain faith in the government system and promote better service to the public, accompanied by transparent and controlled operations (Table 4.4 below).

Table 4.0.4: Respondents level of agreement with statements relating to corporate governance.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Ineffective application of corporate governance principals contributes to ineffectiveness and inefficiency of operations at Kenya National Audit Office	10	24	10	10	6
None compliance with corporate governance principals affects performance of KENAO	8	18	18	10	6

Source: Research data, 2013

4.3.2 Professionalism

On whether professionalism affected performance of KENAO, the findings revealed that 78% of the respondents indicated that it does while the remaining 22% indicated that it did not as indicated by figure 4 below.

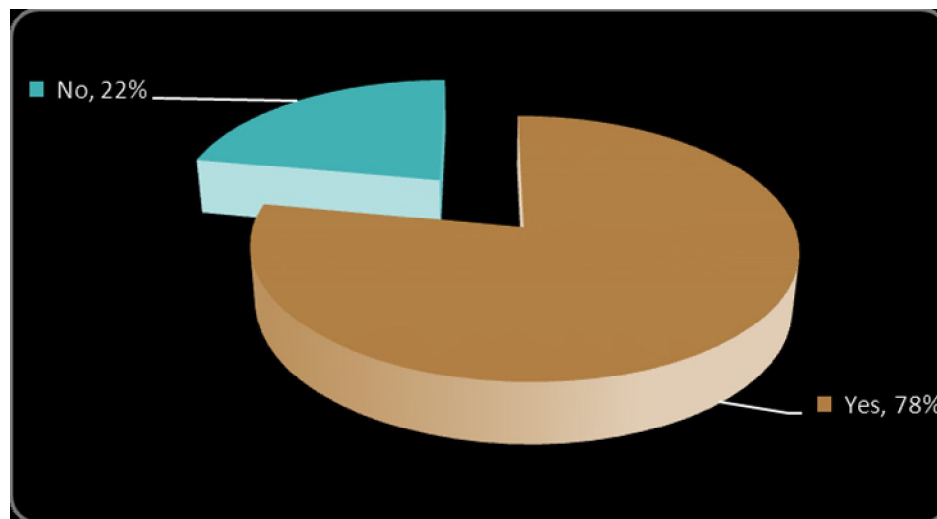


Figure 4: Effect of professionalism on performance

Respondents agreed that various reforms on issues touching on professionalism was being developed to resolve some of the issues of performance of Kenya National Audit Office to a great extent as indicated by the table 4.5 below.

Table 4.0.5 : Respondents level of agreement with statements on the effect of professionalism on performance.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Professionalism enhances performance of Kenya National Audit Office	18	23	13	0	6
Professionalism resolves majority solutions of performance of Kenya National Audit Office	14	26	12	4	4
Professionalism enhances efficiency of performance of Kenya National Audit Office	22	16	14	8	0
There are still a few very important areas which have to be identified and addressed towards performance of Kenya National Audit Office.	8	20	12	16	4

Source: Research data, 2013

4.3.3 Strategy approach

The research sought to find out whether how the strategic plan is approached has any effect on their performance. According to the findings, 69% of the respondents indicated that it was true that the choice of a strategic approach do affect their performance of the organization while the rest (31%) indicated that it did not (Figure 5).

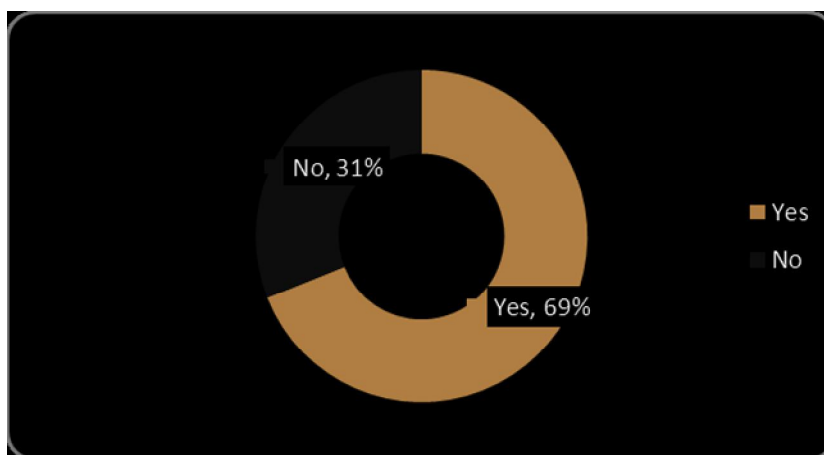


Figure 5: Strategic plan approach effect on performance

Findings of the study also revealed that the KENAO need to use a range of techniques to communicate and implement its strategic plan for the organisation. This understanding was allow KENAO to develop a strategy approach which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements of MDAs as a whole. According to the findings of the research at KENAO, the strategic plan approach is designed to add value to the client and is tailor mad to meet the needs of, and risks faced by, individual clients and the various stakeholders (Table 4.6).

Table 4.0.6: Respondents level of agreement with statements relating to the effect of a strategy approach on performance.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Kenya National Audit Office should use a range of techniques/approaches to drive the strategic plan	26	6	18	10	0
A well communicated strategic plan brings about excellent performance in Kenya National Audit Office	13	18	13	13	3
Implementation of a strategic plan is top managements role	10	18	18	10	4
Few employees have knowledge of the strategic plan	18	15	24	0	3

Source: Research data, 2013

4.3.4 Non-compliance with quality assurance standards

The researcher also determined the extent to which non-compliance with quality assurance standards affects performance of KENAO. Majority (35%) of the respondents indicated that it affected to a very great extent, 28% to a great extent, 23% to a moderate extent, 9% to a little extent and the remaining 5% to no extent as indicated by figure 6 below.

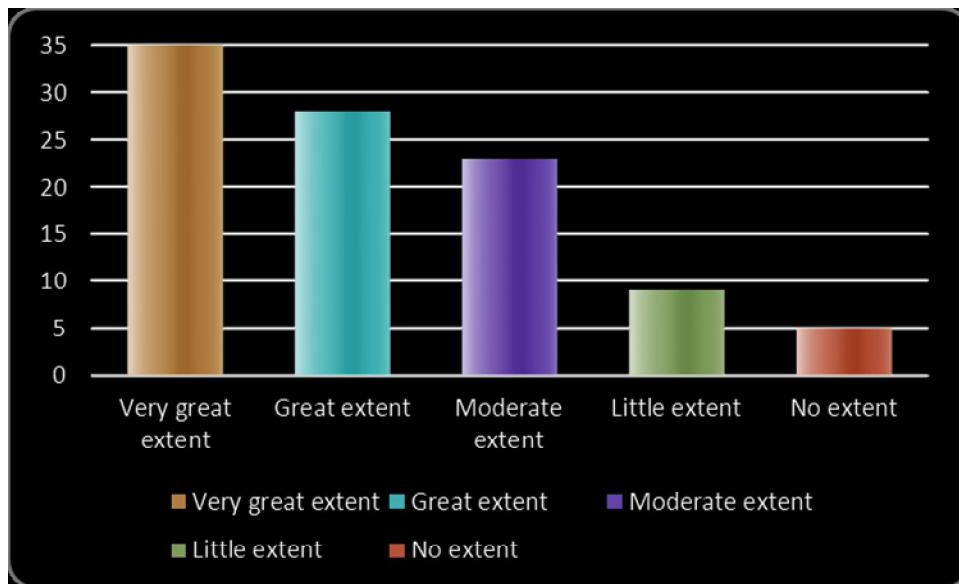


Figure 6 : Extent of non-compliance with quality assurance effects on performance

Findings of the study also showed that non-compliance with quality assurance standards on auditing do have an impact on the performance. Majority (31.7%) of the respondents agreed with the statements relating to non-compliance with quality assurance standards effects on performance, 30.4% of the respondents were neutral, 20.8% strongly agreed, 15.8% disagreed while 1.3% strongly disagreed with the statements on non-compliance as illustrated by table 4.7 below.

Table 4.0.7: Respondents level of agreement with statements on the effect of non-compliance with quality assurance standards affects performance

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
How officials at KENAO complies with laws and regulations affects its performance.	23	22	5	10	0
The compliance with laws and regulations is crucial in any audit firm.	8	22	22	8	0
Public audit firms are scored on the basis of their performance on the various examinable areas according to evaluation criteria indicated in the constitution and IAS.	12	14	28	6	0
Public audit firms participates in auditing the various MDAs activities, but also monitors the entire audit operations.	7	18	18	14	3

Source: Research data, 2013

4.3.5 Integrity

From figure above, majority (39%) of the respondents indicated that integrity issues effects the level of performance of KENAO to a great extent, 26% to a moderate extent, 19% to a very great extent, 8% to a little extent and the remaining 8% to no extent. This findings means that integrity is one of those concepts where everyone has an idea of what it is but often are at a loss to describe the meaning and its impact on performance. How this plays out in our day-to-day work may be personal, but as a profession, there is a code of ethics which sets out a clear framework for applying integrity professionally as it does have an impact on performance as illustrated by figure 7 below.

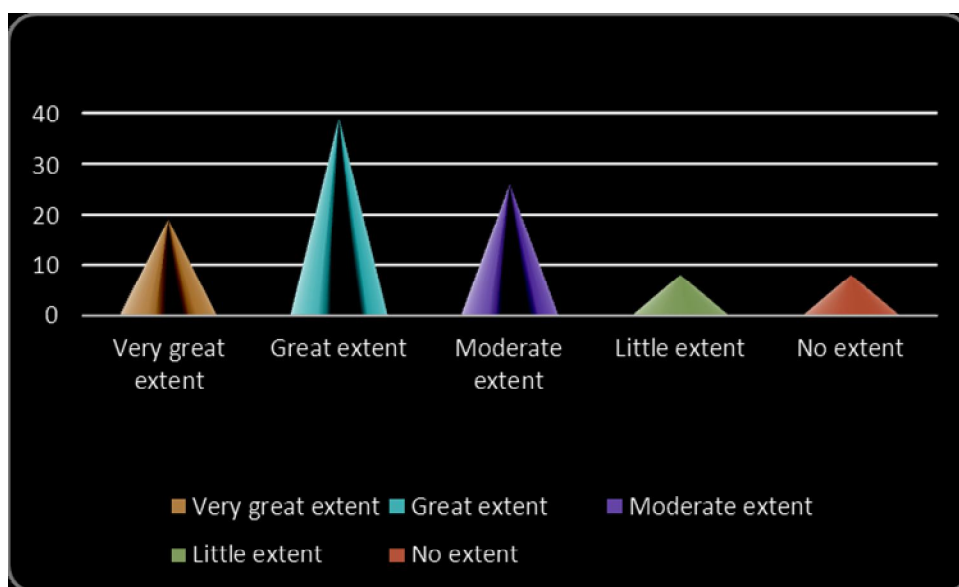


Figure 7: Extent of failure to observe integrity principals on performance

Table 4.0.8: Respondents level of agreement with statements relating to the integrity on the performance

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Integrity addresses strategies for regulating the behaviour of auditors while conducting audits.	11	11	25	0	13
Integrity focuses on principles for achieving its overall goals	13	24	10	13	0
Success in organization can be measured by degree of integrity in that organization.	15	23	22	0	0

Source: Research data, 2013

Findings from the research indicate that despite the overt and justifiable pressures for economic performance, ethical and ecological sensitivity can contribute to sustainable organizational value. Staffs with a reputation of strong integrity have a clear sense of purpose, grounded in consciously selected ethical priorities that allow them to face new challenges with creativity and initiative. Integrity is not just a self-contained trait of virtuous character, but rather an interactive attitude in relationship with others that increases self-understanding and awareness of one's ideals and objectives as well as the threats to those. Respondents agreed that success in organization can be measured by level of integrity as it does have an effect on the general performance of the organization as indicated in Table 4.8 above.

4.4 Challenges affecting employees performance

Table 4.9: Challenges affecting employee's performance

Category	Factor	Standard deviation σ
Professional proficiency	Lack of minimal education in professional levels	10.12
Capacity Building and development	Lack of adequate training and capacity building	10.49
Internal factors	Resistance to change problems in MDAs	12.08
	There is low staff motivation	13.98
	High staff turnover	15.18
	There are no adequate working tools	14.05
	Ineffectiveness and inefficiency of operations	3.54
External factors	Political interference	12.35
	Existence of corruption	10.37
	Problems in coordination	8.89
	Long and slow procurement procedures	9.46
	Bureaucracy behaviors of public officers in the public sector	13.73
Resources	Lack of financing including staff remuneration	15.97
	Inadequate support and financial resources	13.73
	Low staffing levels	15.81
Compliance with laws and auditing standards	Lack of Professionalism	5.05
	Lack of Integrity	4.64
	Lack of Objectivity in auditing	7.42
	Lack of Confidentiality	8.31

Source: Research data, 2013

The researcher sought to establish how the various factors which affect the employees are dispersed among the respondents. Findings of the research reveal that lack of financing

including staff remuneration was ranked first, low staffing levels second, high staff turnover affecting the performance of other staffs due to increased work overload was ranked third while insufficient working tools and low staff motivation were ranked fourth and fifth respectively. This analysis means that most of the respondents are affected those factors.

4.5 Regression output

Table 4.0.10: Regression Output

Multiple Regression Model Summary: Aggregate effect of Independent Variables on the Dependent Variable; Presence of moderating variable		
	Coefficients	P-value
Constant	1.345	0.302
Corporate governance	0.068	0.022
Professionalism	0.308	0.049
Strategy approach	0.178	0.059
Compliance with laws and International quality standards on auditing	0.488	0.003
R	1	
R ²	1	
F Value	9.448	
Std. Error of the Estimate	0.00	
Multiple Regression Model Summary: Aggregate effect of Independent Variables on the Dependent Variable; Without moderating variable		
Constant	1.443	0.402
Corporate governance	0.291	0.411
Professionalism	0.851	0.005
Strategy approach	0.512	0.034
Compliance with laws and International quality standards	0.921	0.027
R	1	
R ²	1	
F Value	9.933	
Std. Error of the Estimate	0.00	

Source: Research data, 2013

To test the relationship between the dependent variable and the independent variables, a multiple regression model was used. The result in Table 4.9 above shows that corporate governance, professionalism, strategy approach and compliance with laws and international quality standards on auditing have a positive relationship with organizational performance of the public audit institution.

The relationship between adherence to corporate governance principals and organizational performance has been tested, the results of regression analysis revealed that adherence to corporate governance principals has a significant and positive effect on performance ($\hat{\alpha} = 0.068$, $p < .01$). On the other hand, professionalism is found to be significant and positive effect on organizational performance ($\hat{\alpha} = 0.308$, $p < .01$).

In support of this, adherence to corporate governance principals, professionalism, strategy approach and compliance with laws and international quality standards on had significant positive effects performance (standardized regression coefficient 0.68, 0.308, 0.178 and 0.488 $p < .01$, respectively)

The p-value for each term tests the null hypothesis that the coefficient is equal to zero (no effect). A low p-value (< 0.05) indicates that you can reject the null hypothesis. In other words, a predictor that has a low p-value is likely to be a meaningful addition to your model because changes in the predictor's value (independent variables) are related to changes in the response variable (performance).

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4.6 Summary and interpretation of findings

This study investigated the Kenya National Audit Office which is a public audit institution, to identify factors affecting its performance in audit efficiency and effectiveness using a model developed for the analysis. The model consisted of five core interrelated factors: corporate governance, professionalism, strategy approach, non compliance with audit quality assurance standards and integrity principals in addition to other factors such as resource allocation, staff motivation, staff remuneration, management among others.

The research observed that there were majority staffs who reported that they were no aware of the quality assurance standards and that they do not carry out both internal and external quality assessments. A few other staffs reported that they carried out either internal quality assessment or external quality assessment. The research identified factors that would contribute to lack of compliance with quality assurance standards. They include; lack of awareness of standards which most respondents agreed that it's a major factor; non-membership with audit bodies and lack of understanding of the quality assurance standards. The data supported that the higher the understanding of quality assurance standards, the higher the likelihood of complying with the standards.

The respondents also identified quite a number of other factors that would contribute to lack of compliance with the quality assurance standards. In summary the factors includes; lack of commitment by the members of staff, qualifications of the the staffs, lack of training such as seminars, lack of awareness, the official secrets act may also hinder especially external assessment, high cost of carrying out quality assessment, the time involved in conducting quality assessment, and biases in conducting the quality assessments.

The respondents also indicated that training on the need for quality assurance, morale boosting to the staff, to improve awareness among decision and policy makers, awareness, budgeting and planning for the quality assessment can help improve compliance hence performance. The organization studied has low technical staff

proficiency and high staff turnover, which would limit its capacity to provide effective service to the public. The research also identified the benefit of compliance with quality assurance standards as high quality audit work. The benefits of high quality internal audit work include; saving of public resources, increased revenue and profits for the public sector institutions, improved state development and reduced external borrowing.

Majority of the respondents responded that they preferred Value for money (VFM) auditing approach. The research findings indicated that the reason why value-for-money auditing is preferred is because it examines whether public organizations or programmes have attained economy, efficiency and effectiveness in the management of resources at their disposal. VFM is a set of assessment practices for appraisal, review or evaluation of systems and functions as well as initiatives, schemes and projects that are time bound. VFM is now found not only amongst a range of internal and external controls, procedures and assessments for financial and resource management, (for example risk management, fraud and corruption, audits), but also forms part of performance management systems and processes in organizations. Hence there are many and necessary links to results-based management, monitoring activity, impact assessment and evaluations.

The pursuit of quality in audit work is a constant journey for all auditors and all audit organizations. Majority of the respondents indicated that it affected the overall organizational performance to a very great extent. Much has been said and written about the drivers of audit quality. It seems to be generally agreed that the drivers within the control of the audit practice are broadly around such as the culture within the practice, the skills and personal qualities of audit executives and staff, the effectiveness of the audit process and the reliability and usefulness of audit reporting.

From the research it is evident that continuous trainings and development of audit areas touching on audit laws, regulations and international standards on auditing is crucial to any organizational performance so as to equip the staffs with relevant, up to date knowledge. From the findings of the research, the study found out that there is generally low compliance knowledge with quality assurance standards among the respondents. The research identified some of the reasons that led to non-compliance to include; lack of

awareness of the standards; non-membership with audit bodies and lack understanding of the quality assurance standards.

Based on the result of analysis using multiple linear regression corporate governance, professionalism, strategy approach, non compliance with quality standards and integrity principals have an affect on performance of public audit institutions . It means that when an auditor acts professional, adheres to corporate governance and integrity principals, and there is an existence of a clear strategic approach embraced by the entire organization, performance improves. The results of this study reveal that the four variables i.e adherence to corporate governance principals, professionalism, the strategy approach, non compliance with the international quality standards and failure to apply integrity principals while offering services to the public have direct effects on organizational performance.

A number of academic studies have examined and presented evidence of performance measurement practices in various countries. The ways and means of accurately measuring organizational performance is perceived as being an increasingly important field of research for both organizations and academic alike. Assessing organisation performance is a topic which is often discussed and a complex issue that normally incorporates at least three different disciplines: economics, management and accounting.

Hussain (2011), defined a performance measurement as the process of quantifying the efficiency and effectiveness of action. Interest in organisation performance measures has grown, as evidenced by the large portion of literature investigating some aspects such as “benchmarking”, “total quality” measures and “balanced scorecards” (Nosworthy, 1999) as new performance measurement systems after many past criticisms prompted a reappraisal and development of performance systems. The increased attention to such systems by managers, consultants, and academics reflects the pressures that result from vigorous competition. This trend has forced organizations to improve their performance to survive in their environment and industries.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study aimed at investigating factors affecting the efficient performance of the public audit institution both at the organizational level and individual staff level. Government public audit institutions/oversight bodies are mandated to oversee the effectiveness and efficiency of public service delivery across all public institutions thus the need for an efficient public audit institution to ensure that public resources are utilized well.

The research found out that corporate governance principals are crucial in the planning and conduct of the mandate of KENAO as lack of it affected its general performance thus the need for the entire team to observe them in their daily duties. Further findings showed that majority of the respondents indicated that integrity issues do affect the general performance of the organization. This findings means that integrity is one of those concepts where everyone has an idea of what it is but often are at a loss to describe the meaning and its impact on performance. How this plays out in our day-to-day work may be personal, but as a profession, there is a code of ethics which sets out a clear framework for applying integrity professionally as it does have an impact on performance.

According to the findings, majority of the respondents indicated that it was true that how the strategic plan is approached and implemented affected performance. Further findings of the study also revealed that strategic plan was not well communicated to the entire staffs thus the need for the top management to ensure that the entire team is conversant with the strategic plan so that the organization may move in the same direction. In addition, research found out that there is generally low compliance knowledge with quality assurance standards among the respondents. The research identified some of the reasons that led to non-compliance to include; lack of awareness of the standards; non-membership with audit bodies and lack understanding of the quality assurance standards.

5.2 Conclusions

The study concludes that although the Constitution of Kenya provides for the independence of the Auditor General Office, there is more that needs to be done for the audit to be able to realize such independence and supremacy in reality. The existing regulatory framework needs to be revised to include provisions such as giving of prosecutorial powers to the Kenya National Audit Office because currently the office is rendered a watchdog institution without teeth to bite. An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary.

The findings of the study reveal that the public audit institution needs to enhance the proficiency of the staff and minimise staff turnover so as to foster audit effectiveness. The study has shown that the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. Audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting.

Good corporate governance including effective internal control systems over financial reporting is important for improving economic efficiency and enhancing investor confidence in the public sector. Given that auditors perform a critical role in reviewing internal control systems, audit quality is paramount to the effectiveness public audit institutions performance. The absence of a proper strategic plan approach would minimise audit effectiveness by undermining the office's ability to prepare wellthought annual plans, assist management in managing risk and determine its projected resource requirements in due time. Audit quality and management support significantly influence audit effectiveness in the organization studied.

5.3 Policy Recommendations

The results of this study indicate that public audit institutions such as the Kenya National Audit need the following in addition to the organizational independence and formal mandate which the government auditor enjoys at the moment to enhance the performance; unrestricted access to public offices employees, property, and records, sufficient funding, competent leadership, competent staffs, stakeholder support, professional audit standards support among others. In addition, the only way to gain accurate information about employee engagement in your business is to measure it. Organizations need not only to understand their current level of employee engagement, but also to have confidence that the measures used to evaluate their engagement are reliable and valid.

Efforts of a turnaround of the auditor general's office into an effective and professional office will increase the level of efficiency to the organization even though the findings of the research established there are some challenges including fear of the unknown; satisfaction with the status quo and fear of inability to develop relevant skills. To deal with such challenges, it the government auditor could adopt a number of methods including training and education and effective and open communication.

Substantial majority of the respondents reported that they were not very conversant with quality standards. The recommendation by the auditing standards and research findings is that external quality assessment should be carried out at least once in every five years because the quality of audit work may go a long way in enhancing efficiency in the organization performance.

The findings of the research indicate that the use of multi approach in strategy implementation should be embraced by all the staffs to as to drive the entire strategic plan. Findings of the study also suggest that the management should make efforts to enhance the skills of its team through continuous capacity building and development by sponsoring their staffs to attend various seminars and trainings. Good institutional

governance should be instilled by the development of governance systems in ministries and authorities, with the aim of focusing on enhancing the quality of public services consistent with citizen expectations, promoting compliance and conformance, with appropriate transparency and flexibility. Given the situation on ground, the role of audit in examining the programs, function, operations, projects and expenditures in the governmental bodies is an obligation that is demanded by the public.

5.4 Limitations of the study

The respondents were initially reluctant in giving out information fearing that the information asked would be used to intimidate them or paint a negative image about them of the organization. The researcher handled this problem by attaching the introduction letter from the university to each of the questionnaires and assured the respondents that the information they gave will be treated as confidential and will be used for academic purposes only.

The researcher encountered problems of time as the research was being undertaken in a short period with limited time for doing a wider research. However, the researcher countered the limitation by taking two days leave from my workplace to distribute the questionnaires to the respondents located in different departments which enabled generalization of the study findings on the factors affecting the performance of public audit institutions.

Given the different location of the different offices where the respondents were located depending on the departments or their work stations e.g. some of the respondents were located at the head office, some in upper hill areas of Nairobi while others located at Central Business District which posed logistics challenge.

The other notable limitation is the fact that this study only covered Nairobi region leaving out other areas in Kenya where the Kenya National Audit offices are located in Kenya. It should be noted that however that most of the staffs are located in Nairobi thus their response was deemed to reflect all the areas.

5.5 Suggestions for further research

There are still areas that more research can be carried out in relation to the topic in hand or around any of the variables used. It would be an interesting study if researchers seek to study how the government auditor itself is efficient in terms of utilization of public funds i.e the government allocation.

Further, research could be welcome to fully understand the level of external audit effectiveness in the Kenyan public sector vis-à-vis its private sector, with a view to highlighting differences, if any, and conclusively defining the variables affecting audit effectiveness in Kenya.

In addition, a research study on the performance of the public audit institution in Kenya could be benchmarked against other Supreme audit institutions in the world.

The importance of information technology (IT) auditing has grown with increased reliance on IT for business operations and new regulations regarding the assurance of IT for these operations. The researcher suggests a study could be carried out to analyze the impact IT on audit quality.

Moreover, with the current trend towards the harmonization of auditing standards and guidelines, further research into the usefulness and adequacy of auditing standards and guidelines is worthwhile. Considering that the objective of performance audit is to provide the information on the status of the activity or program, present auditing standards and guidelines should be examined to ensure that they truly assist in the generation of audit report and audit process. The finding of this study shows that there is a need for more research on the effect of auditing standards and guidelines on the conduct of performance audit.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Dear Respondent,

Ref: REQUEST FOR RESEARCH DATA

My name is Hope Keah an MBA student at the University of Nairobi carrying out a survey on the “Factors affecting public audits institutions performance: the Kenya National Audit Office”. In order to complete this study, you’re requested to respond by completing the questionnaire attached to the best of your knowledge. The information given was treated with confidentiality and used only for the sole purpose of this academic study. Your contribution in this study was highly appreciated.

Thank you in advance.

Yours faithfully

Hope Keah

MBA Student-Researcher

Student Reg.No.D61/72307/2011

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APPENDIX II: QUESTIONNAIRES FOR SURVEY AND INTERVIEW

Information about the Respondent:

1. Job Title:
2. Academic Qualification:
3. Department:.....
4. Duration at Kenya National Audit Office:
☐ 0-5 years

☐ 6-10 years

☐ Above 10 years

General Questionnaire:

(Please *tick* or *write* as the response requires)

- 1) In order to provide the Parliament with relevant information on all aspect of Government's functioning, the Kenya National Audit Office (KENAO) undertakes three basic types of audits- Financial audit, Compliance audit and Value For Money (VFM) audit. Of these which you think most appropriate to make auditors effective to ensure accountability of the auditee?

☐ Financial audit ☐ Compliance audit ☐ VFM audit

- 2) Do you have any knowledge of corporate governance as an external auditor?

☐ Yes ☐ No ☐ No comment

- 3) Do you have an idea of what the role an external auditor expected to play to strengthen corporate governance in the public sector in near future?

☐ Yes ☐ No ☐ No comment

4) To what extent do you consider corporate governance in the planning and conduct of external audit?

☐ 1 No extent

☐ 2 Medium

☐ 3 Very great extent

5) The choice of a strategy approach has an impact on the performance of KENAO-
Do you support this comment?

☐ Yes

☐ No

☐ No comment

6) Does lack of professionalisms have any impact on the performance of KENAO?

☐ Yes

☐ No

7) Do you think by complying with audit laws, International quality assurance standards on auditing will help improve the performance of KENAO?

☐ Yes

☐ No

☐ No comment

8) Does lack of training and development (if any) affect your performance?

☐ Yes

☐ No

☐ No comment

9) In your own view, is the top management of KENAO committed to the overall strategy so as to drive the entire organization to achieve its mandate?

☐ Yes

☐ No

☐ No comment

10) Was the organizational strategic plan properly communicated to you?

☐ Yes

☐ No

☐ No comment

11) What is the extent that the failure to observe integrity principals have on the performance of KENAO?

☐ No extent

☐ Little extent

☐ Moderate

☐ Great extent

☐ Very great extent

12) Does non-compliance with quality standards have any effect on an organizational performance?

☐ Yes

☐ No

☐ No comment

13) What is KENAO's role in preventing fraud and corruption in the public sector through its Audit reports?

☐ Preventive

☐ Detective

☐ Corrective

☐ Other

14) Do you think the systems of auditing and reporting by KENAO are satisfactory?

☐ Not Satisfactory

☐ Partially Satisfactory

☐ Fully Satisfactory

15) To what extent would you agree on the following as key factors affecting the performance of the KENAO (Please tick)?

Category	Factor	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Professional proficiency	Lack of have minimal education in professional levels					
Capacity Building and development	Lack of adequate training and capacity building					
Internal factors	Resistance to change problems in MDAs					
	There is low staff motivation					
	High staff turnover					
	There are no adequate working tools					
	Ineffectiveness and inefficiency of operations					
External factors	Political interference					
	Existence of corruption					
	Problems in coordination					
	Long and slow procurement procedures					
	Bureaucracy behaviors of public officers in the public sector					
Resources	Lack of financing including staff remuneration					
	Inadequate support and financial resources					
	Low staffing levels					
Compliance with laws and auditing standards	Lack of Professionalism					
	Lack of Integrity					
	Lack of Objectivity in auditing					
	Lack of Confidentiality					

Thank you for participation!