THE RELATIONSHIP BETWEEN EFFECTIVENESS OF INTERNAL AUDIT FUNCTION AND FINANCIAL PERFORMANCE OF COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this research project is my original work and has not been presented for an academic award in any other university or institution of higher learning.

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

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DEDICATION

I dedicate this work to my family and those who supported me throughout the completion of this project.

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LIST OF ABBREVIATIONS

CAE	Chief Audit Executive
CEO	Chief Executive Officer
ERM	Entire Risk Management
IAD	Internal Audit Department
IAF	Internal Audit Function
ICPAK	Institute of Certified Public Accountants
IIA	Institute of Internal Auditors
ISA	International Standards of Auditing
IT	Information Technology
NSE	Nairobi Securities Exchange
SOE	State Owned Enterprises
SOX	Sarbanes Oxley Act
USA	United States of America

ABSTRACT

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit department is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality. The study sought to establish the relationship between effectiveness of internal audit function and financial performance of companies listed in NSE. The research design employed in this study was descriptive design. The population of the study comprised of all 61 publicly listed companies in the Nairobi Stock exchange. The study was a census survey. The source of data was both primary and secondary data. The main instrument for data collection was a semi-structured questionnaire. Data on financial performance was extracted from the audited financial statements of the listed companies at the NSE. Data was analyzed through the use of descriptive statistics and multiple linear regression analysis. The multiple linear regression models was used to estimate the causal relationship between ROA and the independent variables. SPSS Version 21 was used for analysis of the different variables in this study. The six independent variables that were studied (professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size) explain a substantial 78.4% of financial performance among companies listed at the NSE as represented by adjusted R^2 (0.784). It was established that there was a positive relationship between effectiveness of internal audit function and financial performance. The study found out that the intercept was 2.397 for all years. The study therefore concludes that effective internal audit function has a positive influence on financial performance of companies listed at the NSE. The study recommends that companies should employ skilled and competent professional internal auditors to strengthen the internal controls and minimize on fraud .With efficient internal controls, cases of fraud, embezzlement and cash mismanagement will be controlled hence supplementing on the level of profits in the company.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management. The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. (Goodwin-Stewart and Kent, 2006).

Ellis (2000) asserts that the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions, is past and post operative contrary to proactive and therefore does not have a big effect on organizational performance. Presently internal audit departments are being challenged not to only prove their value but to play a larger role in the overall corporate governance, specifically with the certifications under Sarbanes-Oxley act 2002 in ensuring organizational performance.

The internal audit department is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality. Moreover, an internal audit is a significant part of the corporate governance structure in an organization. It encompasses oversight activities taken by the board of directors and audit committees to make sure that the financial reporting process is credible (Public Oversight Board, 1994). (Al Matarneh, 2011; Anderson et al. 1993; Blue Ribbon Committee, 1999; IIA, 2003).

1.1.1 Effectiveness of Internal Audit Function

Institute of Internal Audit (2010) defined internal audit effectiveness "as the degree (including quality) to which established objectives are achieved". Internal audit effectiveness means the extent to which an internal audit office meets its purposes (Mihret & Yismaw, 2007). While Mizrahi and Ness-Weisman (2007) give their own definition which is in line with the ability of the internal auditor intervention in prevention and correction of deficiencies and they finally defined internal audit effectiveness as "the number and scope of deficiencies corrected following the auditing process. Audit effectiveness is an outcome of auditors' activities, duties, professional practices and responsibilities through a high commitment with audit standards, goals, objectives, policies and procedures. It refers to achieving audit's objective by gathering of sufficient and appropriate audit evidence in order to give reasonable opinion regarding the financial statements compliance with generally accepted accounting principles. Effective internal audit system helps in achieving performance, profitability and prevents loss of revenues particularly in public sectors even though Pilcher Gilchrist and Singh (2011) observed that efficiency and effectiveness of audit in public sectors context is more complex than in the private sectors.

Internal audit function plays an important role in the organizational process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency. Organizations with effective and efficient internal audit function are able to detect fraud more than those that have not such a function within their organizations (Corama, Fergusona & Moroney, 2006).

Effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance. Effectiveness of internal can be determined by following two approaches. The first approach is determined by the fit between the audit and some set of universal standards extrapolated from the characteristics of IA (White 1976). Such an approach was presented by Sawyer (1988), who advanced five standards for internal auditing: Organizational independence, professional proficiency, the scope of work, the performance of the audit and management of the internal audit department. The second approach, follows the arguments of Ransan (1955) and Albrecht et al.(1988) that the effectiveness of internal auditing is not a computable reality, but rather is determined by the subjective evaluations assigned to this function by management. In other words, the success of any internal audit can only be measured against the expectations of the relevant stakeholders (Albrecht et al. 1988).

This approach requires the development of systematic and generally valid measures by which to gauge IA effectiveness (Schneider 1984; Dittenhofer 2001). One of the early efforts in this regard is that of Hoag (1981), who designed a questionnaire designed to elicit managerial feedback for each internal auditing activity in an organisation. The questionnaire covered four issues: planning and preparation; the quality of the audit report; the timing of the audit; and the quality of communication between the relevant actors. Based on managers' responses, an average score was calculated for the effectiveness of a given auditing task.

1.1.2 Financial Performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.

Performance measures provide a mechanism for the organization to manage its financial and non financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy and that better services and greater satisfaction are provided to a customer. Performance can be measured by comparing current year's results with previous year to establish whether performance is more favorable or adverse than before, current year's results with those of comparable companies in the same line of business to establish whether the company is performing better or worse than its competitors and current performance against a benchmark or standard of performance.

Janglani and Sandhar (2013) identified the following measures of corporate profitability; profitability in relation to sales and profitability in relation to investment. Gross profit margins (GPM), net operating margin (NOM). Return on assets (ROA), return on equity(ROE) and return on capital employed(ROCE) are the main measures of profitability. Non financial companies must earn profit to survive and grow over a long period of time. Profits are essential, but all management decision should not be profit centered at the expense of the concerns for customers, employees, suppliers or social consequences. Operating efficiency of a company is measured by calculating profitability ratios.

According to Chambers (1987), in order to establish the relationship between internal audit and the performance of an organization, the yard sticks against which this performance is measured must be known. These include actual output compared to planned output, degree of success in achieving targets, number of customer complaints and profitability. No system of accounting today can be considered as complete and effective unless it contributes to the most efficient utilization of resources in its area of responsibility, (ACCA journal, 2003).

According to Janglani and Sandhar (2013) Return on Assets (ROA) expresses the net income earned by a company as a percentage of the total assets available for use by that company. ROA measures management's ability to earn a return on the firm's resources (assets). ROA is computed on pretax basis using EBIT as the measure. This results in a measure that is unaffected by differences in a firm's tax position as well as financing policy. It is computed by dividing earnings before interest and tax by total asset.

Sabatin (2000) explains ROE as measure of return an investor receives on the capital that has been invested in the business. DiNunno (2002) argues that ROE estimates are often based on current performance without understanding the impact of these changes. The real value of ROE estimation and measurement is in examining all the costs.

1.1.3 Relationship between Effectiveness of Internal Audit Function and Financial Performance

McNamee and Selim (2000) stated that managers are operating in an increasingly complex and global environment and risk is a central element of corporate governance. The emergence of risk management as a key organizational process gives the internal auditing profession a unique opportunity to shift its focus from control of functional areas to risk. The new paradigm recognizes that risk is the driver of organizational activity and corporate governance is the organizations strategic response to risk.

According to Hespenheide (2003) demonstrating an understanding of the importance of strong corporate governance is a great opportunity for a company to win in the market place. It sends a clear message to the market place, to the owners, that the company is managing their risks and thus a sound investment. Roth (2004) observes that good internal controls provide reliable financial reporting for management decisions and accomplishment of goals and objectives. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process the transactions and add no value to the activities.

Humphrey (2006) asserts that in the process of audit interviews with internal auditors and review of audit reports, employees get a greater understanding of the functions they perform and why the functions are important. Reager (2006) says in addition to identifying weak and overlooked controls, internal audits often lead to process improvement discoveries or efficiency breakthroughs and that such exchanges with internal auditors can provide employees with new perspectives on their positions triggering ideas for process improvements or new business possibilities.

Accordingly, Meletta (2004) audit committees and management teams are now looking for improvement opportunities within the audit department and internal audit leaders are searching for new ways to manage ongoing performance. This can be achieved by designing an effective performance measurement framework, implementing quality assurance programs and embedding import initiatives in department workflow.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) was constituted as *Nairobi Stock Exchange* in 1954. In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments.

Corporate Governance guidelines (2002) Issued by the NSE actually recognizes the important role played by the Internal Audit function and actually gives the various best practices companies can adopt in regards to setting up an audit function. In Kenya, the internal audit function is becoming increasingly important and it's very crucial in the public sector. All listed companies are required to have an internal audit department. The board should establish an internal audit function which should be independent of the activities they audit and should be carried out with impartiality (the Kenya Gazette 31st May 2002). The CMA has established guidelines for listed companies for good corporate governance practices by public listed companies (Capital Markets Authority Act Cap. 485A).

Most of the companies quoted at the Nairobi Stock Exchange (NSE) have not adopted corporate governance guidelines and those who have, do not enforce them. The confused application of the state corporations Act, Companies act, capital market regulatory Authority Act and various circulars and directives from government authorities often create conflict structures and procedures, (Standard Newspaper March 7, 2010 by Macharia Kamau).

1.2 Research Problem

In the aftermath of corporate scandals and the global financial crisis, corporate governance has received significant attention from regulators and the public. Regulatory responses have focused on increasing disclosure requirements relating to corporate governance and this has, in turn, driven increased awareness and demand for internal assurance on corporate governance processes, including internal control and risk management. Thornton (2004) observes that in recent years, stakeholder's expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks.

In a final Adopted report issued on August 3, 2012 by the Board of the Capital markets authority regarding the investigation into the affairs of CMC Holdings ltd, The CMA Management raised a complaint with the Institute of Public Certified Accountants of Kenya (ICPAK) in relation to the conduct of Deloitte as the external auditors. They stated that Auditors of CMCH (Messrs. Deloitte) ought to have pointed out the deficiencies highlighted especially with respect to the preparation of financial statements contrary to the IFRS. However, according to the ISAs the role of the external auditor is not to unearth frauds and irregularities in organizations but to carry out his work with a skepticism mind and report any if they encounter. The internal auditor should be aware of any irregularities even before the external auditor finds out. This means that the audit committee would have been made aware also through the internal audit reports.

Hutchinson and Zain's (2009) study involved the examination of the relationship between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. They recommended future research to consider different factor models that may impact quality of internal audit and improve corporate governance. Their study has two future recommendations. First, future studies should examine the role of the board and the interaction between internal audit quality and audit committee independence. Secondly, this study encourages future studies to look into alternate models of factors that would possibly impact IAQ and improve corporate governance.

There is a notable lack of research in developed as well a developing nations regarding the direct association of internal audits functions and firm performance. More specifically, among these few studies is the one conducted by Al-Matari *et al*. (2012) who investigated the association between the board characteristics and performance of Kuwaiti firms. They called for future researchers to examine the relation between internal audit and firm performance, both directly and indirectly, or in light of a moderating effect. The current study thus aimed to answer the question; Does a relationship exist between effectiveness of internal audit function and financial performance of companies listed in Nairobi Securities Exchange (NSE)?

1.3 Objective of the Study

To establish the relationship between effectiveness of internal audit function and financial performance of companies listed in NSE.

1.4 Value of the Study

This study is expected to provide information to the various stakeholders in the corporate world.

Management The study will highlight the significant contribution of internal auditing to the organization's performance. The internal auditors will understand their role in organizations and provide benchmark as they carry out these roles. To the academicians and scholars, the study contributes significantly to the internal auditing debate and reference material for those interested in further research. The insights are also relevant for external auditors who are required to consider various aspects of corporate governance, including the objectivity and quality of IA.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section looks at the theories on the topic of internal audit function and empirical studies which have been carried out in this area both in the global perspective and the local perspective.

2.2 Theoretical Review

Theories are analytical tools for understanding, explaining and making predictions about a given subject matter. The theories are as discussed below.

2.3.1 The Agency Theory

Meckling and Jensen (1976) in their paper on the theory of the firm defined the agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Ross and Mitnick (2013) independently and roughly concurrently. Ross is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency. Ross introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an incentives problem. Mitnick introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationships. That is behavior never occurs as it is preferred by the principal because it does not pay to make it perfect. But society creates institutions that attend to these imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams to see the incentives as well as the institutional structures (Mitnick, 2006).

Fama (1980) proposed that separation of security ownership and control can be explained as an efficient form of economic organization within the "set of contracts" perspective. He set aside the typical presumption that a corporation has owners in any meaningful sense and the concept of the entrepreneur for the purposes of the large modern corporation. Instead, the two functions attributed to the entrepreneur, management and risk bearing, were treated as naturally separate factors within the set of contracts called a firm. He proposed that the firm is disciplined by competition from other firms, which forces the evolution of devices for efficiently monitoring the performance of the entire team and of its individual members. In addition, individual participants in the firm, and in particular its managers, face both the discipline and opportunities provided by the markets for their services, both within and outside of the firm.

Agency theory evolution also owes much to the corporate governance literature, which analyzes the problem of the separation of ownership and control and the role of indirect policing forces in aligning shareholders and management's interests. The contemporary literature identifies three essential indirect policing forces: the labor market discipline, the product market discipline, and the market for corporate control (Padilla, 2003). Fama (1980) in Padilla (2003) argues that one mechanism to mitigate management's opportunistic behavior is the managerial labor market. He argues that manager's career and reputation concerns will alleviate negative incentives.

Moreover, Fama argues that career concerns also stimulate competition between the managers inside but also outside the firm, which, in turn, induces a monitoring process between managers to emerge. According to Fama and Jensen (1983) in Fama and Jensen (1998), agency problem is controlled by decision systems that separate the management (initiation and implementation) and control (ratification and monitoring) of important decisions at all levels of the organization. Devices for separating decision management and decision control include; decision hierarchies in which the decision initiatives of lower level agents are passed on to higher level agents, first for ratification and then for monitoring, boards of directors that ratify and monitor the organization's most important decisions and hire, fire, and compensate top-level decision managers, and incentive structures that encourage mutual monitoring among decision agents.

2.2.2 Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman and Donaldson (1997) as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward"s utility functions are maximized". Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson and Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Agyris (1973) argues that while agency theory looks at an employee or people as an economic being, which suppresses an individual"s own aspirations, on the other hard Donaldson and Davis (1991) argues that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders" returns are maximized. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) claims that managers return finance to investors to establish a good reputation so that that can re-enter the market for future finance.

Meckling and Jensen (1994) further states the cost incurred to curb agency problems (reducing information asymmetries and accompanying moral hazards) is less when owners directly participate in the management of the firm as there is a natural alignment of owner managers‟ interest with growth opportunities and risk.. It follows from the above that stewardship theory unlike agency theory is a complete contrast and doesn't emphasize on the need to incur monitoring or agency cost which includes establishing an internal audit function. Nevertheless Donaldson and Davis (1991) further notes that returns are improved by having both of these theories combined rather than separated which implies that management must strike a balance.

2.2.3 Stakeholder Theory

This theory was originally detailed by Freeman (1984) in the book *Strategic Management: A Stakeholder Approach* and identifies and models the groups which are stakeholders of a corporation. It is a theory of organizational management and business ethics that addresses morals and values in managing an organization.

In the traditional view of the firm, the shareholder view, the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them. Stakeholder theory argues that there are other parties involved, including employees, customers, suppliers, 9, communities, governmental bodies, political groups, trade associations, and trade unions. Even competitors are sometimes counted as stakeholders - their status being derived from their capacity to affect the firm and its stakeholders. The nature of what is a stakeholder is highly contested (Miles, 2012), with hundreds of definitions existing in the academic literature (Miles, 2011).

More recent scholarly works on the topic of stakeholder theory that exemplify research and theorizing in this area include Donaldson and Preston (1995), Mitchell, Agle, and Wood (1997), Friedman and Miles (2002), and Phillips (2003). Donaldson and Preston (1995) argue that the theory has multiple distinct aspects that are mutually supportive: descriptive, instrumental, and normative. The descriptive approach is used to describe and explain the characteristics and behaviors of firms, including how companies are managed, how the board of directors considers corporate constituencies, the way that managers think about managing, and the nature of the firm itself. The instrumental approach uses empirical data to identify the connections that exist between the management of stakeholder groups and the achievement of corporate goals (most commonly profitability and efficiency goals).The normative approach, identified as the core of the theory by Donaldson and Preston, examines the function of the corporation and identifies the "moral or philosophical guidelines for the operation and management of the corporation

Mitchell, et al.(1997) derive a typology of stakeholders based on the attributes of power (the extent a party has means to impose its will in a relationship), legitimacy (socially accepted and expected structures or behaviors), and urgency (time sensitivity or criticality of the stakeholder's claims).By examining the combination of these attributes in a binary manner, 8 types of stakeholders are derived along with their implications for the organization. Friedman and Miles explore the implications of contentious relationships between stakeholders and organizations by introducing compatible/incompatible interests and necessary/contingent connections as additional attributes with which to examine the configuration of these relationships. Robert Allen Phillips distinguishes between normatively legitimate stakeholders (those to whom an organization holds a moral obligation) and derivatively legitimate stakeholders (those whose stakeholder status is derived from their ability to affect the organization or it's normatively.

Charles Blattberg, political philosopher has criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. He argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests. He recommends conversation instead and this leads him to defend what he calls a 'patriotic' conception of the corporation as an alternative to that associated with stakeholder theory.

Stakeholder Theory is relevant to my study as it gives an idea about how business really works. It says that for any business to be successful it has to create value for customers, suppliers, employees, communities and financiers, shareholders, banks and others people with the money. It clearly states that you can't look at any one of their stakes or stakeholders if you like, in isolation. Their interest has to go together, and the job of a manager or entrepreneur is to work out how the interest of customers, suppliers, communities, employees and financiers go in the same direction. Each one of these groups is important to the success of a business, and figuring out where their interests go in the same direction is what the managerial task and the entrepreneurial task is all about.

2.3 Determinants of Financial Performance of Listed Firms

In order to survive and succeed in a competitive market, firms must focus on maximizing profit or they will eventually be driven out of business (Dutta and Radner,1999). Jovanovic(1982) supports this claim by saying that only efficient firms stay in the market, and that less productive firms will eventually exit many markets. Performance measures provide a mechanism for the organization to manage its financial and non financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy and that better services and greater satisfaction are provided to a customer.

2.3.1 Effectiveness of Internal Audit Function

Audit effectiveness refers to achieving audit's objective by gathering of sufficient and appropriate audit evidence in order to give reasonable opinion regarding the financial statements compliance with generally accepted accounting principles. Effective internal audit system helps in achieving performance, profitability and prevents loss of revenues.

The financial and corporate strategy of a company is underpinned by effective internal systems in which the internal audit has an important role in raising the reliability of the internal control system, improving the process of risk management and above all, satisfying the needs of internal users. The internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders (Eighme & Cashell, 2002). Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company (Ljubisavljević & Jovanovi, 2011).

2.3.2 Liquidity

Liquidity means ability of a company to meet its current liabilities and is usually measured by different financial ratios. The profitability of a company can by described as its ability to generate income which surpasses its liabilities. Profitability is usually measured by different ratios such as ROA and ROE. Efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of the inability to meet due short-term obligations, on one hand, and avoids excessive investment in these assets, on the other (Puneet & Parmil, 2012).

Liquidity plays a significant role in the successful functioning of a business firm. A firm should ensure that it does not suffer from lack-of or excess liquidity to meet its short-term compulsions.

Liquidity management and profitability are very important in the development, survival, sustainability, growth and performance. Profitability does not translate to liquidity in all cases. A company may be profitable without necessarily being liquid. Therefore, liquidity should be managed in order to obtain an optimal level, that is, a level that avoid excess liquidity which may translate to poverty of ideas by management. Also liquidity level should not fall below minimum requirement as it will lead to the inability of the organization to meet short term obligation. A study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a business (Bhunia,2010).

2.3.3 Productivity

Stierwald (2010) documented that productivity is measured as the degree of cost efficiency in the production process. There are a number of reasons why some firms operate more cost efficiently than others. Potential factors are lower average costs of production,better quality of products and services or higher output quantities produced with fewer inputs.Higher productivity levels can also be the result of strategic management or due to employing state-of-the art technologies or a highly skilled workforce. Stierwald (2010) further argues that the level of productivity is the result of firm's innovative activity. Investments into research and development (R&D) raise the probabilities of introducing product, processes or innovation which, if successful, lead to increases in profitability..

2.3.4 Financial Leverage

The financial leverage of a company is the ratio of its total debts, both short and long-term, to the amount of its equity capitalization. A high ratio of debt to capital puts the company at risk when there are fluctuations in sales volume and cash flow. Debt obligations must be paid on time regardless of the profit level or the amount of cash flow. A company with higher capital to debt will have an easier time meeting it debt obligations. Shareholders are paid with dividends, but the schedule is not rigid as with debt. While leverage magnifies profits when the returns from the asset more than offset the costs of borrowing, losses are magnified when the opposite is true. A corporation that borrows too much money might face bankruptcy or default during a business downturn, while a less-levered corporation might survive.

A major advantage of financial leverage is optimization of shareholders' wealth through mix of debt and equity, taking advantage of the tax system which favors debt financing by making interest deductible from income when calculating the company's tax liability. Low cost debt, especially when interest is low, would increase the return of equity relative to the return of assets. A disadvantage would be if the debt becomes too costly, it reduces the return of equity below the return of assets. Companies that are highly leverage in this case might find it difficult to make payments on their debt in times of trouble and also difficult to obtain additional financing from lenders.

2.3.5 Firm Size

Stierwald (2010) found positive and significant parameter estimate for firm size. The study shows bigger firms are more profitable than smaller firms. The size of a firm significantly enhances its performance. Stierwald (2010) suggested a possible reason is that large firms exploit scale economies and benefit from economies of scale. An alternative interpretation is that large firms can access capital at lower costs than small firms.

The size of internal audit is measured by the number of internal audit seating on the committee of the internal audit department. In this section, the role of size in the committee is explained in light of different theories. Firsteberg and Malkiel (1994) claimed that a board with eight to fewer members encourages greater concentration, participation and authentic interactions and discussion. From the perspective of resource dependence theory, it postulates that larger board size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks .

2.3.6 Organization Independence

Internal auditors are charged with upholding the best interests of their employer, but they may be reluctant to counter management, regardless of the consequences. Bou-Raad (2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities. Auditors should be sufficiently independent from those they are required to audit that they can both conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and gives employers confidence that they can rely on the results and the report. Organizational independence is more crucial to the effectiveness of internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work.

2.3.7 Professional Proficiency of Internal Auditors

Professional proficiency and the qualification of internal auditors enhances the quality of internal audit. A member of internal audit who has high qualification can deal with any issue inside the department of internal audit. Consistent to agency theory and resource dependence theory and their proponents, qualified persons help to improve firm performance because they have a clear insight about how to deal with operation and achieve their work with high quality. Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. The findings revealed a significant association between qualification of internal audit quality and firm performance.

2.4 Empirical Review

This section covers previous studies conducted in related area to the subject of this study and this then forms the theoretical underpinning on which the study is hinged.

2.4.1 International Evidence

Hutchinson and Zain (2009) explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual reports. It involved 60 firms which were listed on Malaysia Bursa in 2003. This study used multiple regression analysis to test the association between internal audit and firm performance and found a significant relationship between experience of internal audit quality and firm performance.

Additionally, Prawitt, Smith and Wood (2009) examined the association between internal audit quality (experience and qualification) and earnings management. This study obtained sufficient data to estimate abnormal accrual models for 528 firm-year observations (218 unique companies) for the fiscal years 2000 to 2005. It used OLS regression to test the association between independent variables and dependent variable. The finding shows that a relationship between experience of internal audit and earning management.

A study carried out by Mihret and Yismaw (2007) on the internal audit effectiveness: An Ethiopian public sector case study in which they use the following variables;. internal audit quality, support of management, organizational setting and attributes from auditee towards determining the internal audit effectiveness and used questionnaire, interview and documentation for research instrument and finally found that internal audit effectiveness is strongly influenced by internal audit quality and support from management, whereas organizational setting and attributes of the auditee do not have any strong impact on audit effectiveness.

In another study carried out by Arena and Azzone (2009) on identifying organizational drivers of internal audit effectiveness in which they used these variables; resources and competencies of an internal audit team, activities and processes performed and organizational role in determining the dependent variable and uses 153 Italian companies and survey method of data collection, found that the effectiveness of internal auditing is influenced by; the characteristics of the internal audit team; the audit processes and activities; and the organizational links**.** Hence the above studies give more emphasis on internal audit effectiveness at private sectors; little is known in the public sectors. Therefore, more research on internal audit effectiveness should be conducted in the public sector organizations so as to contribute to the public sector literature on internal audit effectiveness.

In a related study carried out by Cohen and Sayag (2010) on the effectiveness of internal auditing: An empirical examination of its determinants in Israeli Organizations in which they used these variables; Sector – private versus public, professional proficiency of internal auditors, quality of audit work, organizational independence, career and advancement, top management support in determining their relationship with the internal audit effectiveness. They also used questionnaire and mail survey of 292 organizations in their methodology and found that the support of management is almost crucial to the operation and success of internal audit effectiveness. The study also reveals that other determinants of internal audit effectiveness are derived from support of top management such as proficient internal audit staff, developing career, organizational independence for internal audit work are all results of decisions made by top management. The two studies above seems that they have something in common which is so effective toward determining the internal audit effectiveness i.e. management support despite.

Nawhera (2012) carried out a study on internal audit function and financial performance of a public organisation, a case study of NSSF, Uganda to determine whether the internal audit function impacts the performance of NSSF. The specific objectives were to examine the internal audit function in NSSF, assess the financial performance of NSSF, and establish the relationship between internal audit function on performance of NSSF. Descriptive and analytical research designs were used to examine the findings to come up with conclusions. A cross sectional research survey design was used to employing both qualitative and quantitative techniques. Qualitative data was gathered using questionnaires while quantitative data was by extracts from secondary data for a period of 2010-2011. The total population was 30 respondents. Stratified sampling was used and all the population was sampled. Data was analyzed by use of SPSS. The effect of internal audit function on performance was performed. The main findings were that internal audit function had a significant positive effect on performance in terms of control environment, risk assessment, control activities, information and communication, monitoring and advisory services.

2.4.2 Local Evidence

Ndimitu (2011) carried out a study aimed at establishing the relationship between internal audit and effective management in Embu water and sanitation company ltd. Primary data was collected from staffs in the different levels as per the organization structure using a questionnaire and secondary data included cost of internal audit from the payment cash book and salaries journals. The data was analysed using SPSS tool and the following conclusion was noted: with commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. A fact that ensures proper processes are followed in generating and safeguarding the organizations wealth.

Kamonjo (2012) sought to examine the effects of corporate governance practices on financial performance of SACCOs, a case study of urban Saccos in Kirinyaga County. The independent variables that were used are: board size, internal audit function and frequency of board meetings. Return on Capital Employed was used as a measure of financial performance. Financial information for the period between year 2006 and 2009 was used. The findings of this study indicate that there is a negative relationship between the size of the board and the financial performance; the average board size being seven. The study also revealed a positive relationship between the frequency of board meetings per year and ROCE; the average number of meetings per year being ten. Regarding the presence of internal audit function, the study revealed a negative relationship between ROCE and the presence of the internal audit function, with only 23.7% of the respondents indicating that they have audit departments in their SACCOs. The study recommends enhancement of independence and effectiveness of internal audit function in SACCOs. It further recommends a board size that suits the needs of each SACCO, and which provides desired mix of skills, effective communication and cohesiveness of the board.

Mugwe (2012) carried out a research to establish the relationship between the Independence and objectivity of the internal audit function and Earnings per share (EPS) in companies listed in

NSE. The major aim of this study was to find out the relationship between the independence and objectivity of internal audit function and EPS (profitability) in companies listed in the NSE. Objectivity, denoting having an impartial, unbiased attitude, is integral to the internal audit profession. While the increasing involvement of internal auditors in enterprise risk management (ERM) poses a threat to their professional objectivity, the expanding oversight responsibilities of audit committees may act to mitigate any such effect. This study presents empirical evidence on the effects of the extent of internal auditors' involvement in ERM and their relationship with the audit committee and the management, on the loss of internal auditors' perceived objectivity and their effect on profitability.

The study draws on agency and institutional theory to examine the issue of internal audit's independence through its relationship with components of corporate governance. The internal audit function is actively considered as one of the four components of corporate governance, along with the board, management and external auditors. It serves this purpose by providing a range of services in its capacity of monitoring and consulting which is actively sought by the other components of corporate governance to satisfy their extended accountability requirements. The integrity of these services is, however, only assured if internal audit maintains its independent status. As such there is a "tension" resulting from the pressure to provide these value added services as perceived by the parties involved and maintaining its independence status.

Njeru (2013) in his study sought to establish the independence of internal audit and how it relates to corporate governance among commercial banks in Kenya. Data was collected using a structured questionnaire distributed to all the 43 commercial banks in Kenya as at 31/12/2012. It was further analyzed by the use of descriptive statistics aided by SPSS data analysis tool and for each of the commercial bank a level of internal audit independence and a level of corporate governance was determined. A regression model was then used to analyze the relationship between internal audit independence and corporate governance within a test of significance of 95% confidence level. The study found out that there was indeed a threat to internal audit independence since the Chief Executive Officer (CEO) had powers in most banks to approve the internal audit budget, determine the compensation of the Chief Audit Executive (CAE) as well as hire and fire the CAE. The study further found out that there was a strong linear relationship between internal audit independence and corporate governance among commercial banks in Kenya. This implies that in policy and practice there are gaps in relation to internal audit independence that needs to be addressed by management.

Mugo (2013) carried out a study to establish the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls.. Data was collected using questionnaires as well as review of available documents and records targeting basically finance officers, Heads of departments, management committee members and finance and accounts staff as respondents from a population of 37 Technical Training Institutions in Kenya. Data was analyzed using the Statistical Package for Social Scientists where conclusions were drawn from tables, figures from the Package. The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the Technical Training Institutions in Kenya, all the activities of the Institution are initiated by the top level management, that the internal audit department is not efficient, is understaffed, doesn’t conduct regular audit activities and doesn’t produce regular audit reports although the few reports produced by the internal audit department address weaknesses in the system. It was further revealed that there is a clear separation of roles, weaknesses in the system are addressed, and there is a training program for capacity building in the institutions. However, the study also found out that there is lack of information sharing and inadequate security measures to safeguard the assets of the Technical Training Institutions in Kenya. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the Technical Training Institutions expects the internal audit department to do and what appropriate number staff would be required to do this job. It also recommends that the institutions establishes and manages knowledge/information management system to enable all parties within the institution to freely access and utilize the official information. The study therefore concludes that internal control systems do function although with hiccups and that there is a significant relationship between internal control systems and financial performance of Technical Training Institutions in Kenya.

2.5 Summary of Literature Review

From the theories highlighted in this chapter it is clear that the agency theory supports the concept of internal audit as a necessary function to check on corporate governance and top management on behalf of shareholders. However, the stewardship theory gives a different view that it is expected that top management be conversant with their roles and that they are good stewards in ensuring shareholder interests are met. Donaldson and Davis (1991) in his study contrasting stewardship theory and agency theory on governance, incentive of the CEO and shareholder return found out that CEO duality is associated with higher returns to shareholders than is an independent chair of the corporate board. The study suggested that a similar study could be conducted which utilizes a more sophisticated market based measure which adjusts for risk. Stewardship theory could also be investigated in strategic management whose premise should not be restricted to the narrow confines of agency and organizational economics.

From the empirical literature studied it can be noted that internal audit function has a significant positive effect on performance in terms of control environment, risk assessment, control activities, information and communication, monitoring and advisory services. Internal audit function plays a key role in corporate governance. The limitations of the studies carried out were time constraints, restriction to state owned corporations and having to make prior arrangements in order to meet the heads of IADs. Recommendations of further study were effectiveness and contribution of internal audit in promoting corporate governance for companies listed in the NSE. Additionally, a study on the influence of internal audit and audit committee on financial reporting quality was recommended. Therefore, the study aims to establish the relationship between effectiveness of internal audit function (IAF) and financial performance of companies listed in NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the research methodology that was used in this study. It discusses the research design especially with respect to the choice of the design. It also discusses the population of study, data collection methods as well as data analysis and data presentation methods to be employed in the study.

3.2 Research Design

The research design employed in this study was descriptive design. Descriptive studies describe characteristics associated with the subject population. Saunders et al (2003) assert that a descriptive research portrays an accurate profile of persons, events or situations. Kimani (2006) notes that a descriptive research collects data from members of a population and helps the researcher get the descriptive existing phenomena by asking individuals about their perceptions, attitudes, behavior or values. Moreover, it explores the existing status of two or more variables at a given position in time and whether a relationship exists between them; hence most suited in establishing the perceived role, effectiveness and evaluation of Internal Audit function in companies listed in NSE.

3.3 Population

Sekaran (2003) states that population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. The population of the study comprised of all publicly listed companies in the Nairobi Stock exchange. The study was a census survey. A census survey is a survey that measures the entire target population. A survey may refer to many different types or techniques of observation, but in the context of census survey it most often involves a questionnaire used to measure the characteristics and/or attitudes of people. A census survey is accurate because it involves entire population. There are 61 publicly listed companies as per the list obtained from the NSE; June 2014 and all the 61companies which were active for the last five years were taken as target population (Appendix 11).

3.4 Data Collection

The source of data used was both primary and secondary data. The main instrument for data collection was a semi-structured questionnaire. The questionnaire was divided into two main parts. Section one sought to gather general information of the organization and the respondent whereas section two sought to gather information on the effectiveness of internal audit function. To evaluate the effectiveness of the internal audit function the questionnaire covered five issues: professional proficiency of internal auditors, organization independence of internal department, quality of audit work of the internal audit, Career development of the IA personnel and top management support to the IA department. Based on managers' responses, an average score was calculated for the effectiveness of a given criteria. The administration of the questionnaires used key informant method where only the Head of Internal Audit Department in selected company were interviewed. A drop and pick technique was used in the administration of the questionnaires.

Data on financial performance was extracted from the audited financial statements of the listed companies at the NSE. Two types of financial statements used were the audited statement of financial position and the statement of comprehensive income. The period of data collection was from 2009 to 2013 covering five years. The specific data to be collected during the five years period is in the form of annual profit before tax, current assets, current liabilities, non-current assets and sales/turnover for each year of study.

3.4.1 Data Reliability and Validity

Cooper and Schindler (2000) note that pretesting helps not only to discover errors, but also in training the research team and discovering the respondent's reactions to the questions. A pilot study was conducted to pretest the questionnaire in order to identify any ambiguous and unclear questions. This also helped determine its appropriateness of the instrument in obtaining the desired information before administering it to the entire sample. The pilot study was carried out by administering four questionnaires. After making the amendment to the questionnaire in response to the results of the pilot study, these questionnaires were administered to the respondents using drop and pick method

3.5 Data Analysis

Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler (2000). Data was analyzed through the use of descriptive statistics and multiple linear regression analysis. The multiple linear regression models was used to estimate the causal relationship between ROA and the independent variables. SPSS Version 21 software was be used for analysis of the different variables in this study.

3.5.1 Analytical Model

A multiple linear regression was used to analyze the relationship between effectiveness of internal audit function and performance of companies listed in NSE. The study used the following model:

$FP = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6$

Where β_0,β_1, β_2, β_3, β_4,β_5 and β_6 are regression co-efficient

FP-Financial performance measured by ROA

β_0- Intercepts of equation

β_1-Coefficients of variables

X_1- Professional Proficiency of Internal Auditors

X_2-Quality of audit work of Internal Audit department

X_{3-}Organisational independence of the Internal Audit department

X_4-Career development of Internal Audit personnel

X_5-Top Management support to the Internal Audit department

x_6-Size measured by natural logarithm of Total Assets

3.5.2 Variables and Variable Measurement and Selection

Mugenda and Mugenda (2003) define a variable as a measurable characteristic that assumes different values among the subjects. The dependent variable is defined as the profitability of companies listed in NSE. ROA is considered the best measure of profitability since it measures the return on all assets utilized in generating profit. It is computed by dividing the profit before interest and tax by the book value of total assets.

The independent variables consist of 5 elements namely; Professional proficiency of internal auditors, Quality of audit work, Organizational independence, Career and development and Top management support.

3.5.3 Test of Significance

This study sought to establish the relationship between effectiveness of internal audit function and financial performance of companies listed in NSE and therefore a correlation design was used. A correlation analysis attempts to determine the degree and direction of relationship between two variables under study. Regression analyses are carried out to find out the significant effect of independent variables(X_1, X_2, $X_{3,}$ X_4 and X_5) on dependent variables (FP). Significance of coefficient values at 5% and 1% levels of significance was tested using the R^2, Analysis of Variances (ANOVA, the z and the F Statistics. R^2 was used to measure the amount of variation in the dependent variable (ROA) which is explained by the variation in the independent variables.

F Statistic is a statistic which compares Sum of Square due to Regression to Sum of Square due to Error. It enables a hypothesis test to be carried out on the significance of the regression model. The z measured how well a particular independent variable predicts the dependent variable if all other predictors are not included or are assumed constant.

The independent variables data were regressed against the dependent variable data. The coefficients measured whether there was a relationship between the dependent and the independent variable.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the information processed from the data collected during the study on the relationship between effectiveness of internal audit function and financial performance of companies listed in Nairobi Securities Exchange.

4.2 Demographic Information

The study sought to establish the industry that the respondents were in. The findings are as presented in Table 4.1.

Table 4. 1: Industry

	Frequency	Percentage
Manufacturing & Allied	9	15.5
Banking and insurance	19	31.0
Telecommunications & Technology	1	1.7
Agricultural	7	12.1
Energy & Petroleum	5	8.6
Commercial & Services	9	15.5
Construction & Allied	5	8.6
Automobile & Accessories	4	6.9
Total	**61**	**100.0**

Source: Research Findings

According to the findings, majority of the respondents (31.0%) indicated that they were in banking and insurance, 15.5% in manufacturing & allied and commercial & Services, 12.1% in agricultural, 8.6% in energy and petroleum and construction and allied, 6.9% in automobile and accessories while 1.7% were in telecommunications and technology.The study also sought to find out the position of the respondents in the organization. The findings are as shown in Table 4.2.

Table 4. 2: Position in the organization

	Frequency	Percentage
Head of Internal Audit Department	54	87.9
Internal Audit Manager	7	12.1
Total	**61**	**100.0**

Source: Research Findings

From the findings, majority of the respondents (87.9%) indicated they were heads of internal audit departments while 12.1% indicated they were internal audit managers.The study further sought to establish how long the respondents had worked in the organization. The findings are as presented in Table 4.3.

Table 4. 3: Years worked in the organization

	Frequency	Percentage
1-2 years	3	5.2
2-3 years	23	37.9
More than 3 years	35	56.9
Total	**61**	**100.0**

Source: Research Findings

According to the findings, 56.9% of the respondents indicated they had worked in their organization for more than 3 years, 37.9% for 2-3 years while 5.2% had worked in their of organization for 1-2 years.

The study also sought to find out who do the internal audit department report to and regularly submit their reports. The findings are as shown in Table 4.4.

Table 4. 4: The internal audit department report and regularly submit their reports to

	Frequency	Percentage
Board of Directors	7	10.3
Chief Executive Officer	4	6.9
Audit committee	47	77.6
Chief Finance Officer	3	5.2
Total	**61**	**100.0**

Source: Research Findings

According to the findings in Table 4.4, majority of the respondents (77.6%) indicated that the internal audit department report to and regularly submit their reports to the audit committee, 10.3% to the board of directors, 6.9% to the Chief Executive Officer and 5.2% to the Chief Finance Officer.

The study further sought to establish whether the respondents had full accounting qualifications and whether they were members of ICPAK. The findings are as shown in Table 4.5.

Table 4. 5: Qualifications and ICPAK membership

	Frequency	Percentage
Full accounting qualification	61	100.0
ICPAK Member	45	73.6
Total	**61**	**100.0**

Source: Research Findings

From the findings all the respondents indicated that they had full accounting qualifications. Further 76.3% indicated they were members of the ICPAK as shown in Table 4.5.

4.3 Effectiveness of Internal Audit Function

The study sought to establish the view of the respondents regarding the effectiveness of Internal Audit Function. The findings are as presented in Table 4.6.

Table 4. 6: Effectiveness of Internal Audit Function

	Mean	Std. Dev
IAF is used as training ground for future management personnel and as a stepping stone to managerial positions	4.128	1.009
IA employees have the relevant education in auditing that allows them to audit all of the organization's systems	4.002	0.897
Audit recommendations are clearly conveyed, reasonable, and cost-effective and implementation of the recommendations leads to control improvements, minimization of risk, and improvements in efficiency	3.975	0.542
The IA operates totally independently, and conduct their work without interference. Terminating the work of the IA requires the approval of the IA committee, and/or the board of directors	3.536	0.964
Management does not provide enough support and encouragement for training and developing the IA staff	2.285	0.756

Source: Research Findings

From the findings on the effectiveness of Internal Audit Function the respondents agreed that IAF is used as training ground for future management personnel and as a stepping stone to managerial positions as shown by a mean score of 4.128, IA employees have the relevant education in auditing that allows them to audit all of the organization's systems as indicated by a mean score of 4.002, audit recommendations are clearly conveyed, reasonable, and cost-effective and implementation of the recommendations leads to control improvements, minimization of risk, and improvements in efficiency as expressed by a mean score of 3.975 and the IA operates totally independently, and conduct their work without interference. Terminating the work of the IA requires the approval of the IA committee, and/or the board of directors as indicated by a mean score of 3.536. In addition, the respondents disagreed that management does not provide enough support and encouragement for training and developing the IA staff as shown by a mean score of 2.285.

4.4 Descriptive Statistics

Table 4. 7: Summary of the Size and ROA for the study period

	2009	2010	2011	2012	2013	Mean	Std. Dev.
Size	9.541268121	9.304532006	9.349192	9.360022	9.69340134	9.4497	0.16355
ROA	0.069655731	0.257271146	0.114307	0.081694	0.084430766	0.1215	0.07767

Source: Research Findings

Table 4.7 presents the summary Size and ROA for the study period, from the findings Size had a mean score of 9.4497 with the highest figure recorded in 2013 (9.69340134) while ROA had an average of 0.1215 during the study period.

4.5 Regression Analysis

The study conducted a cross-sectional multiple regression on internal audit function variables over the period 2009 - 2013 and of financial performance. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance) that is explained by all the six independent variables (professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size).

Table 4. 8: Results of multiple regression between financial performance and the combined effect of the selected predictors

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.902	0.814	0.784	0.618

Source: Research Findings

The six independent variables that were studied, explain 78.4% of the financial performance as represented by the adjusted R^2. This therefore means the six variables contribute to 78.4% of financial performance, while other factors not studied in this research contributes 21.6% of financial performance of companies listed in NSE. Therefore, further research should be conducted to investigate the other (21.6%) factors influencing financial performance of companies listed in NSE.

Table 4.9: Summary of One-Way ANOVA results of the regression analysis between financial performance and predictor variables

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	4.627	6	1.189	4.207	0.0118
1	Residual	17.26	51	0.301		
	Total	21.887	57			

Source: Research Findings

From the ANOVA statistics in table 4.9, the processed data, which are the population parameters, had a significance level of 0.0118 which shows that the data is ideal for making a conclusion on the population's parameter. The F calculated at 5% Level of significance was 4.207. Since F calculated is greater than the F critical (value = 2.27), this shows that the overall model was significant i.e. there is a significant relationship between financial performance and internal audit function.

Table 4.10: Regression coefficients of the relationship between financial performance and the six predictive variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.397	0.108		2.019	0.035
	Professional Proficiency of Internal Auditors	0.724	0.115	0.582	3.594	0.022
	Quality of audit work of Internal Audit department	0.568	0.147	0.306	3.557	0.037
	Organizational independence of the Internal Audit department	0.612	0.138	0.250	4.875	0.016
	Career development of Internal Audit personnel	0.544	0.104	0.344	3.826	0.035
	Top Management support to the Internal Audit department	0.451	0.116	0.178	4.467	0.032
	Size	0.792	0.112	0.101	4.668	0.034
Dependent variable: Financial performance						

Source: Research Findings

The coefficient of regression in table 4.10 above was used in coming up with the model below:

$$FP = 2.397 + 0.724PP + 0.568\,QA + 0.612OI + 0.544CD + 0.451TM + 0.792S$$

Where FP is financial performance, PP is Professional Proficiency of Internal Auditors, QA is Quality of audit work of Internal Audit department, OI is Organizational independence of the Internal Audit department, CD is Career development of Internal Audit personnel, TM is Top Management support to the Internal Audit department and S is Size. From the model, taking all factors (professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size) constant at zero, financial performance was 2.397. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in professional proficiency of internal auditors will lead to a 0.724 increase in financial performance; unit increase in quality of audit work of internal audit department will lead to a 0.568 increase in financial performance; a unit increase in organizational independence of the internal audit department will lead to a 0.612 increase in financial performance, a unit increase in career development of internal audit personnel will lead to a 0.544 increase in financial performance, a unit increase in top management support to the internal audit department will lead to a 0.451 increase in financial performance while a unit increase in size will lead to a 0.792 increase in financial performance..

According to the model, all the variables were significant as their significance value was less than 0.05. All the variables were positively correlated with financial performance.

4.6 Interpretation of the Findings

From the above regression model, the study found out that there were internal audit function variables influencing the financial performance of companies listed in Nairobi Securities Exchange, which are professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size. They all influenced it positively. The study found out that the intercept was 2.397 for all years.

The six independent variables that were studied (professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size) explain a substantial 78.4% of financial performance among companies listed at the NSE as represented by adjusted R^2 (0.784). This therefore means that the six independent variables contributes 78.4% of the financial performance among companies listed at the NSE while other factors and random variations not studied in this research contributes a measly 21.6% of the financial performance among companies listed in the NSE.

The study established that the coefficient for professional proficiency of internal auditors was 0.724 meaning that it positively and significantly influenced the financial performance of companies listed at the NSE. This concur with Humphrey (2006) who asserts that in the process of audit interviews with internal auditors and review of audit reports, employees get a greater understanding of the functions they perform and why the functions are important. Therefore it is expected that there will be a positive relationship between effective internal audit function and financial performance of a firm.

The study also deduced that the coefficient for quality of audit work of internal audit department was 0.568 meaning that quality of audit work of internal audit department positively and significantly influenced the financial performance of companies listed at the NSE. The findings are in line with Roth (2004) observes that good internal controls provide reliable financial reporting for management decisions and accomplishment of goals and objectives. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process the transactions and add no value to the activities.

The study also established that the coefficient for organizational independence of the internal audit department was 0.612 which means that organizational independence of the internal audit department positively and significantly influences the financial performance of companies listed at the NSE. This is consistent with Ljubisavljević and Jovanovi (2011) who opined that taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company.

The coefficient for career development of internal audit personnel was found to be 0.544 which means that career development of internal audit personnel positively and significantly influences the financial performance of companies listed at the NSE. Reager (2006) says in addition to identifying weak and overlooked controls, internal audits often lead to process improvement discoveries or efficiency breakthroughs and that such exchanges with internal auditors can provide employees with new perspectives on their positions triggering ideas for process improvements or new business possibilities which leads to an improved firm performance.

Further the study established that the coefficient for top management support to the internal audit department was 0.451 this means that top management support to the internal audit department positively and significantly affects the financial performance of companies listed at the NSE. This is in line with Eighme and Cashell (2002) who observed that the internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders.

Finally, the study established that the coefficient for size was 0.792 meaning that size positively and significantly influenced the financial performance of companies listed at the NSE. In correlation with this, Firsteberg and Malkiel (1994) claimed that a board with eight to fewer members encourages greater concentration, participation and authentic interactions and discussion. From the perspective of resource dependence theory, it postulates that larger board size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusion and recommendations of the main findings on the relationship between effectiveness of internal audit function and financial performance of companies listed at the NSE.

5.2 Summary

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit department is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality. The study sought to establish the relationship between effectiveness of internal audit function and financial performance of companies listed in NSE. The research design employed in this study was descriptive design. The population of the study comprised of all 61 publicly listed companies in the Nairobi Stock exchange. The study was a census survey. The source of data used was both primary and secondary data. The main instrument for data collection was a semi-structured questionnaire. Data on financial performance was extracted from the audited financial statements of the listed companies at the

NSE. Data was analyzed through the use of descriptive statistics and multiple linear regression analysis. The multiple linear regression models was used to estimate the causal relationship between ROA and the independent variables. SPSS Version 21 was used for analysis of the different variables in this study. From the regression model, the study found out that there were internal audit function variables influencing the financial performance of companies listed in Nairobi Securities Exchange, which are professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size. They all influenced it positively. The study found out that the intercept was 2.397 for all years. The six independent variables that were studied (professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size) explain a substantial 78.4% of financial performance among companies listed at the NSE as represented by adjusted R^2 (0.784). The study therefore concludes that effective internal audit function have a positive influence on financial performance of companies listed at the NSE.

5.3 Conclusion

This study examined the relationship between effectiveness of internal audit function and financial performance of companies listed in Nairobi Securities Exchange. The six independent variables that were studied (professional proficiency of internal auditors, quality of audit work of internal audit department, organizational independence of the internal audit department, career development of internal audit personnel, top management support to the internal audit department and size) explain a substantial 78.4% of financial performance among companies listed at the NSE as represented by adjusted R^2 (0.784).

The study concludes that professional proficiency of internal auditors positively and significantly influenced the financial performance of companies listed at the NSE. The study also concluded that quality of audit work of internal audit department positively and significantly influenced the financial performance of companies listed at the NSE. The study also concludes that organizational independence of the internal audit department positively and significantly influences the financial performance of companies listed at the NSE. Further, the study concludes that career development of internal audit personnel positively and significantly influences the financial performance of companies listed at the NSE. The study concludes that that top management support to the internal audit department positively and significantly affects the financial performance of companies listed at the NSE. Finally, the study concludes size positively and significantly influenced the financial performance of companies listed at the NSE.

This is in line with Roth (2004) observes that good internal controls provide reliable financial reporting for management decisions and accomplishment of goals and objectives. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process the transactions and add no value to the activities. Humphrey (2006) asserts that in the process of audit interviews with internal auditors and review of audit reports, employees get a greater understanding of the functions they perform and why the functions are important. Therefore it is expected that there will be a positive relationship between effective internal audit function and financial performance of a firm.

Reager (2006) says in addition to identifying weak and overlooked controls, internal audits often lead to process improvement discoveries or efficiency breakthroughs and that such exchanges with internal auditors can provide employees with new perspectives on their positions triggering ideas for process improvements or new business possibilities which leads to an improved firm performance.

Firsteberg and Malkiel (1994) claimed that a board with eight to fewer members encourages greater concentration, participation and authentic interactions and discussion. From the perspective of resource dependence theory, it postulates that larger board size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks.

The internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders (Eighme & Cashell, 2002). Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company (Ljubisavljević & Jovanovi, 2011).

5.4 Recommendations for Policy

The study recommends that the companies should employ skilled and competent professional internal auditors to strengthen the internal controls and minimize on fraud. This will yield high profits. With efficient internal controls, cases of fraud, embezzlement and cash mismanagement will be controlled hence supplementing on the level of profits in the company.

The study further recommends training of employees in the companies as important tool of motivating employees towards better performance. In fact through training, employees will get motivated and a full grasp of all aspects of the internal control, their nature hence better performance.

The study also recommends that, companies should invest in market research so as to understand what people think of their services and/or products for improving financial performance of the companies.

Lastly the study recommends that the companies should ensure that they have a large number of members in the auditing board as a larger board size results in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks.

5.5 Limitations of the Study

There were challenges which were encountered during the study. Some officers who are concerned with safe custody of the companies' financial reports were initially reluctant to release them. That reluctance delayed the completion of data collection.

There was also limited availability of local literature with respect to the relationship between effectiveness of internal audit function and financial performance of companies listed in Nairobi Securities Exchange which was overcome by consultation of foreign literatures and reference to other relevant locally published materials.

In addition, time and resources allocated to this study could not allow the study to be conducted as deeply as possible in terms of other predictor variables for financial performance of companies listed at the NSE.

5.6 Suggestions for Further Studies

The study focused on companies listed at the NSE, similar studies could be undertaken to look at the companies that are not listed at the NSE to find out whether it will yield the same results. The same study can be undertaken in other countries of East Africa to find out the effect of effectiveness of internal audit function to financial performance of companies listed at those countries stock exchange.

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APPENDICES

Appendix I: Cover Letter

Letter of Introduction

06 November 2014

CATHERINE C. BETT

THE UNIVERSITY OF NAIROBI

P.O. BOX 30197

NAIROBI

Tel: 0722 157 854

Dear Respondent,

I am a Masters of Business Administration (MBA) Student of the University of Nairobi.

As a partial requirement of the coursework assessment, I am required to submit a research project report on some management problem. My research topic is: Perceived role and , effectiveness and evaluation of internal audit function in companies listed in Nairobi Securities exchange.

I would highly appreciate if you could kindly spare some time to complete the questionnaire attached.

The results of the report will be used solely for academic purposes and will be treated with utmost confidence.

Thank you in advance,

Yours faithfully,

Catherine C. Bett

Appendix II: List of Companies Listed in NSE as at June 2014

CONSTRUCTION AND ALLIED

Athi River Mining Ord 5.00

Bamburi Cement Ltd Ord 5.00

Crown Berger Ltd 0rd 5.00

Crown Berger Ltd 0rd 5.00

E.A.Cables Ltd Ord 0.50

E.A.Portland Cement Ltd Ord 5.00

ENERGY AND PETROLEUM

KenolKobil Ltd Ord 0.05

Total Kenya Ltd Ord 5.00

Kenya Power & Lighting Co Ltd

Umeme Ltd Ord 0.50

GROWTH ENTERPRISE MARKET SEGMENT

Home Afrika Ltd Ord 1.00

AGRICULTURAL

Eaagads Ltd Ord 1.25

Kapchorua Tea Co. Ltd Ord Ord 5.00

Kakuzi Ord.5.00

Limuru Tea Co. Ltd Ord 20.00

Rea Vipingo Plantations Ltd Ord 5.00

Sasini Ltd Ord 1.00

Williamson Tea Kenya Ltd Ord 5.00

COMMERCIAL AND SERVICES

Express Ltd Ord 5.00

Kenya Airways Ltd Ord 5.00

Nation Media Group Ord. 2.50

Standard Group Ltd Ord 5.00

TPS Eastern Africa (Serena) Ltd Ord 1.00

Scangroup Ltd Ord 1.00

Uchumi Supermarket Ltd Ord 5.00

Hutchings Biemer Ltd Ord 5.00

Longhorn Kenya Ltd

TELECOMMUNICATION AND TECHNOLOGY

Safaricom Ltd Ord 0.05

AUTOMOBILES AND ACCESSORIES

Car and General (K) Ltd Ord 5.00

CMC Holdings Ltd Ord 0.50

Sameer Africa Ltd Ord 5.00

Marshalls (E.A.) Ltd Ord 5.00

BANKING

Barclays Bank Ltd Ord 0.50

CFC Stanbic Holdings Ltd ord.5.00

I&M Holdings Ltd Ord 1.00

Diamond Trust Bank Kenya Ltd Ord 4.00

Housing Finance Co Ltd Ord 5.00

Kenya Commercial Bank Ltd Ord 1.00

National Bank of Kenya Ltd Ord 5.00

NIC Bank Ltd 0rd 5.00

Standard Chartered Bank Ltd Ord 5.00

Equity Bank Ltd Ord 0.50

The Co-operative Bank of Kenya Ltd Ord 1.00

INSURANCE

Jubilee Holdings Ltd Ord 5.00

Pan Africa Insurance Holdings Ltd 0rd 5.00

Kenya Re-Insurance Corporation Ltd Ord 2.50

Liberty Kenya Holdings Ltd

British-American Investments Company (Kenya) Ltd Ord 0.10

CIC Insurance Group Ltd Ord 1.00

INVESTMENT

Olympia Capital Holdings ltd Ord 5.00

Centum Investment Co Ltd Ord 0.50

Trans-Century Ltd

MANUFACTURING AND ALLIED

B.O.C Kenya Ltd Ord 5.00

British American Tobacco Kenya Ltd Ord 10.00

Carbacid Investments Ltd Ord 5.00

East African Breweries Ltd Ord 2.00

Mumias Sugar Co. Ltd Ord 2.00

Unga Group Ltd Ord 5.00

Eveready East Africa Ltd Ord.1.00

Kenya Orchards Ltd Ord 5.00

A.Baumann CO Ltd Ord 5.00

Source:(www.nse.co.ke).Website - Nairobi securities exchange

Appendix III: Questionnaire

EFFECTIVENSS OF INTERNAL AUDIT FUNCTION IN COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE

Part A: DEMOGRAPHICS

Kindly answer the following questions by ticking (√) against your preferred choice (s).

1. Please indicate which industry you are in?
   a) Manufacturing & Allied
   b) Banking and insurance
   c) Telecommunications & Technology
   d) Agricultural
   e) Energy & Petroleum
   f) Commercial & Services
   g) Construction & Allied
   h) Automobile & Accessories
   i) Others? Please specify……………………..
2. Please indicate your position in the organization
   a) Head of Internal Audit Department
   b) Internal Audit Manager
   c) Other? Please specify……………………………………………………………………
3. How long have you worked for the organisation?
   a) Less than 1 year
   b) 1-2 years
   c) 2-3 years
   d) More than 3 years
4. Whom do the internal audit department report to and regularly submit their reports?
   a) Board of Directors
   b) Chief Executive Officer
   c) Audit committee
   d) Chief Finance Officer

e) Other? Please specify…………………………………………………………………...

5. What are the qualifications members of staff are in your Internal Audit Department?

a) Full Accounting qualifications………………………………………………………

f) Member of ICPAK…………………………………………………………………...

Part B: EFFECTIVENESS OF INTERNAL AUDIT FUNCTION

What are your views on the following statements regarding the effectiveness of Internal Audit Function? *(Circle the number closest to your view)*

Professional proficiency	Agree			Disagree	
a) IA employees have the relevant education in auditing that allows them to audit all of the organization's systems	5	4	3	2	1
Quality of audit work	5	4	3	2	1
b) Audit recommendations are clearly conveyed, reasonable, and cost-effective and implementation of the recommendations leads to control improvements, minimization of risk, and improvements in efficiency.	5	4	3	2	1
Organizational independence	5	4	3	2	1
c) The IA operates totally independently, and conduct their work without interference. Terminating the work of the IA requires the approval of the IA committee, and/or the board of directors.	5	4	3	2	1
Career and advancement					
d) IAF is used as training ground for future management personnel and as a stepping stone to managerial positions.	5	4	3	2	1
Top management support	5	4	3	2	1

e) Management does not provide enough support and encouragement for training and developing the IA staff –	5	4	3	2	1

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……………………………………………………………………………………………

Thank you, for your responses

Appendix IV: Raw Data

Total asset	2009	2010	2011	2012	2013
Athi River Mining	1.99E+09	2.02E+09	1.82E+09	1.99E+09	1.88E+09
Bamburi Cement Ltd	1.21E+10	1.66E+10	2.05E+10	2.7E+10	3.14E+10
Crown Berger Ltd	3.21E+10	3.33E+10	3.35E+10	4.3E+10	4.33E+10
Crown Berger Ltd	1.06E+10	1.11E+10	1.38E+10	1.52E+10	1.61E+10
E.A.Cables Ltd	3.21E+09	3.87E+09	5.56E+09	5.71E+09	6.7E+09
E.A.Portland Cement Ltd	1.38E+09	1.51E+09	1.74E+09	2.01E+09	2.16E+09
KenolKobil Ltd	1.33E+10	1.47E+10	1.46E+10	1.3E+10	1.45E+10
Total Kenya Ltd	1.86E+09	1.97E+09	2.22E+09	2.26E+09	2.34E+09
Kenya Power & Lighting Co Ltd	3.45E+10	3.82E+10	4.95E+10	5.46E+10	5.96E+10
Umeme Ltd Ord	3.54E+09	4.52E+09	4.99E+09	6.25E+09	6.83E+09
Home Afrika Ltd	1.2E+10	1.2E+10	1.35E+10	1.41E+10	1.56E+10
Eaagads Ltd	2.6E+08	0	3.55E+08	5.73E+08	4.99E+08
Kapchorua Tea Co. Ltd	9.98E+08	1.2E+09	1.02E+09	1.15E+09	1.23E+09
Kakuzi	1.3E+09	1.34E+09	7.67E+08	4.96E+08	3.9E+08
Limuru Tea Co. Ltd	2.87E+09	3.22E+09	3.82E+09	3.57E+09	4.06E+09
Rea Vipingo Plantations Ltd	1.17E+09	1.5E+09	1.57E+09	1.96E+09	2.15E+09
Sasini Ltd	1.09E+11	1.51E+11	1.61E+11	1.63E+11	1.87E+11
Williamson Tea Kenya Ltd	2.94E+10	3.04E+10	4.6E+10	3.27E+10	4.12E+10
Express Ltd	7.6E+10	7.33E+10	7.87E+10	7.74E+10	7.77E+10
Kenya Airways Ltd	78703987	74491123	0	0	7027826
Nation Media Group	7.16E+10	8.5E+10	1.21E+11	1.34E+11	1.54E+11

Standard Group Ltd	84794000	1.58E+08	1.91E+08	3.2E+08	3.52E+08
TPS Eastern Africa (Serena) Ltd	4.31E+08	5.23E+08	7.1E+08	6.62E+08	7.78E+08
Scangroup Ltd	1.43E+09	1.13E+09	1.08E+09	5.67E+08	5.9E+08
Uchumi Supermarket Ltd	1.75E+10	1.81E+10	2.29E+10	2.74E+10	2.96E+10
Hutchings Biemer Ltd	6.57E+09	7.98E+09	8.82E+09	1.07E+10	1.12E+10
Longhorn Kenya Ltd	1.41E+09	1.71E+09	2.29E+09	2.38E+09	2.59E+09
Safaricom Ltd	9.17E+10	1.04E+11	1.14E+11	1.22E+11	1.36E+11
Car and General (K) Ltd	3.01E+09	3.09E+09	3.13E+09	3.4E+09	3.37E+09
CMC Holdings Ltd	8E+09	9.06E+09	9.46E+09	8.92E+09	1.02E+10
Sameer Africa Ltd	3.93E+09	8.01E+09	8.49E+09	8.65E+09	1.09E+10
Marshalls (E.A.) Ltd	3E+09	3.31E+09	3.51E+09	3.5E+09	3.84E+09
Barclays Bank Ltd	3.15E+10	3.04E+10	3.52E+10	3.3E+10	4.11E+10
CFC Stanbic Holdings Ltd	7E+09	1.19E+10	1.31E+10	1.35E+10	1.64E+10
I&M Holdings Ltd	2.49E+09	3.15E+09	4E+09	4.94E+09	6.34E+09
Diamond Trust Bank Kenya Ltd	5.57E+09	5.06E+09	5.71E+09	6.41E+09	6.53E+09
Housing Finance Co Ltd	1.58E+10	1.82E+10	2.11E+10	2.12E+10	2.45E+10
Kenya Commercial Bank Ltd	1.58E+10	1.81E+10	2.11E+10	2.12E+10	2.45E+10
National Bank of Kenya Ltd	1.58E+10	1.81E+10	2.11E+10	2.11E+10	2.45E+10
NIC Bank Ltd	1.58E+10	1.81E+10	2.11E+10	2.11E+10	2.45E+10
Standard Chartered Bank Ltd	1.58E+10	1.81E+10	2.11E+10	2.1E+10	2.44E+10
Equity Bank Ltd	1.58E+10	1.81E+10	2.11E+10	2.1E+10	2.44E+10
The Co-operative Bank of Kenya Ltd	1.58E+10	1.81E+10	2.11E+10	2.09E+10	2.44E+10
Jubilee Holdings Ltd	1.58E+10	1.81E+10	2.1E+10	2.08E+10	2.44E+10

Pan Africa Insurance Holdings Ltd	1.58E+10	1.81E+10	2.1E+10	2.08E+10	2.44E+10
Kenya Re-Insurance Corporation Ltd	1.57E+10	1.81E+10	2.1E+10	2.07E+10	2.43E+10
Liberty Kenya Holdings Ltd	1.57E+10	1.81E+10	2.1E+10	2.07E+10	2.43E+10
British-American Investments Company (Kenya) Ltd Ord 0.10	1.57E+10	1.81E+10	2.1E+10	2.06E+10	2.43E+10
CIC Insurance Group Ltd	1.57E+10	1.81E+10	2.1E+10	2.06E+10	2.43E+10
Olympia Capital Holdings ltd	1.57E+10	1.81E+10	2.1E+10	2.05E+10	2.42E+10
Centum Investment Co Ltd	1.57E+10	1.81E+10	2.1E+10	2.05E+10	2.42E+10
Trans-Century Ltd	1.57E+10	1.81E+10	2.1E+10	2.04E+10	2.42E+10
B.O.C Kenya Ltd	1.57E+10	1.81E+10	2.1E+10	2.04E+10	2.42E+10
British American Tobacco Kenya Ltd	1.57E+10	1.81E+10	2.1E+10	2.03E+10	2.42E+10
Carbacid Investments Ltd	1.57E+10	1.8E+10	2.09E+10	2.03E+10	2.41E+10
East African Breweries	1.57E+10	1.8E+10	2.09E+10	2.02E+10	2.41E+10
Mumias Sugar Co. Ltd	1.57E+10	1.8E+10	2.09E+10	2.01E+10	2.41E+10
Unga Group Ltd	1.57E+10	1.8E+10	2.09E+10	2.01E+10	2.41E+10
Eveready East Africa Ltd	1.64E+10	1.88E+10	2.19E+10	2.1E+10	2.51E+10
Kenya Orchards Ltd	1.64E+10	1.88E+10	2.19E+10	2.09E+10	2.51E+10
A.Baumann CO Ltd	1.64E+10	1.88E+10	2.19E+10	2.09E+10	2.51E+10

Return on Asset	2009	2010	2011	2012	2013
Athi River Mining	0.112619	0.057677	0.10642	0.1578	0.155007
Bamburi Cement Ltd	0.296212	0.027886	0.007187	0.041416	0.074205
Crown Berger Ltd	0.340103	0.235551	0.254188	0.214196	0.128166
Crown Berger Ltd	0.204603	0.257985	0.403191	0.345754	0.360426
E.A.Cables Ltd	0.101577	0.102531	0.110538	0.063737	0.080445
E.A.Portland Cement Ltd	0.303443	0.318256	0.247466	0.307729	0.315322
KenolKobil Ltd	0.067142	0.043999	0.014288	0.015854	0.015424
Total Kenya Ltd	0.071765	0.091194	0.101676	0.101189	0.147654
Kenya Power & Lighting Co Ltd	0.354593	0.363797	0.320761	0.308022	0.203628
Umeme Ltd Ord	0.172968	0.072994	0.102858	0.150859	0.093684
Home Afrika Ltd	0.092306	0.02813	0.009891	0.062796	0.100736
Eaagads Ltd	0.060804	0.167226	0	0.101932	0.145151
Kapchorua Tea Co. Ltd	0.049644	0.01478	0.144844	0.067768	0.052516
Kakuzi	0.019624	0.011402	0.165726	0.017261	0.003422
Limuru Tea Co. Ltd	0.208993	0.194424	0.285868	0.148745	0.067001
Rea Vipingo Plantations Ltd	0.101557	0.170867	0.179056	0.071695	0.122439
Sasini Ltd	0.042585	0.022881	0.02425	0.025126	0.025089
Williamson Tea Kenya Ltd	0.069778	0.096355	0.16244	0.194993	0.017254
Express Ltd	0.073769	0.035154	0.068275	0.027253	0.139813
Kenya Airways Ltd	0	7.884226	0.016738	0	0
Nation Media Group	0.079958	0.078943	0.073563	0.070204	4.79E-05
Standard Group Ltd	0.670376	1.23037	0.378061	0.766673	0.05879

TPS Eastern Africa (Serena) Ltd	0.076816	0.063527	0.407409	0.036566	0.228703
Scangroup Ltd	0.097082	0.240397	0.161161	0.153712	0.194022
Uchumi Supermarket Ltd	0.084307	0.124737	0.146367	0.07694	0.081605
Hutchings Biemer Ltd	0.244368	0.326608	0.25163	0.397514	0.335953
Longhorn Kenya Ltd	0.186295	0.683602	0.211693	0.161399	0.189582
Safaricom Ltd	0.002978	0.000678	0.001426	0.002624	0.003745
Car and General (K) Ltd	0.246972	0.459968	0.32852	0.027272	0.046595
CMC Holdings Ltd	0.080058	0.104823	0.14129	0.115732	0.116375
Sameer Africa Ltd	0.099761	0.11534	0.028978	0.031256	0.034773
Marshalls (E.A.) Ltd	0.273135	0.462197	0.017498	0.018308	0.595313
Barclays Bank Ltd	0.035796	0.021978	0.028086	0.020499	0.02951
CFC Stanbic Holdings Ltd	0.021412	0.061918	0.043179	0.030715	0.036035
I&M Holdings Ltd	0	0.491544	0.410238	0.290532	0.23387
Diamond Trust Bank Kenya Ltd	0.2316	0.351438	0.356059	0.298218	0.358404
Housing Finance Co Ltd	0.009892	0.044554	0.036327	0.028806	0.034577
Kenya Commercial Bank Ltd	0.004598	0.042141	0.033542	0.025871	0.03252
National Bank of Kenya Ltd	-0.00075	0.039726	0.030756	0.022934	0.030452
NIC Bank Ltd	-0.00615	0.03731	0.027968	0.019995	0.028374
Standard Chartered Bank Ltd	-0.01161	0.034894	0.025178	0.017053	0.026285
Equity Bank Ltd	-0.01713	0.032475	0.022386	0.014108	0.024186
The Co-operative Bank of Kenya Ltd	-0.0227	0.030056	0.019592	0.011161	0.022076

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Jubilee Holdings Ltd	-0.02835	0.027636	0.016797	0.008212	0.019955
Pan Africa Insurance Holdings Ltd	-0.03404	0.025214	0.014	0.00526	0.017822
Kenya Re-Insurance Corporation Ltd	-0.0398	0.022791	0.011201	0.002305	0.015679
Liberty Kenya Holdings Ltd	-0.04562	0.020367	0.0084	-0.00065	0.013525
British-American Investments Company (Kenya) Ltd Ord 0.10	-0.05151	0.017942	1	-0.00361	0.011359
CIC Insurance Group Ltd	-0.05746	0.015516	0.002793	-0.00657	0.009182
Olympia Capital Holdings ltd	-0.06347	0.013088	-1.3E-05	-0.00954	0.006994
Centum Investment Co Ltd	-0.06955	0.01066	-0.00282	-0.01251	0.004794
Trans-Century Ltd	-0.0757	0.00823	-0.00563	-0.01547	0.002583
B.O.C Kenya Ltd	-0.08192	0.005799	-0.00844	-0.01845	0.00036
British American Tobacco Kenya Ltd	-0.08821	0.003366	-0.01126	-0.02142	-0.00188
Carbacid Investments Ltd	-0.09457	0.000933	-0.01407	-0.0244	-0.00412
East African Breweries	0	-0.0015	-0.01689	0	0
Mumias Sugar Co. Ltd	-0.1075	-0.00394	-0.01971	-0.03036	-0.00865
Unga Group Ltd	-0.11408	-0.00637	-0.02253	-0.03335	-0.01093
Eveready East Africa Ltd	-	0.0253	0.0424	-	0.0053

	0.08682	48	79	0.02478	99
Kenya Orchards Ltd	-0.09195	0.017744	0.040124	-0.02827	0.002807
A.Baumann CO Ltd	-0.09708	0.01014	0.037768	-0.03176	0.000216