

**ROLE OF INTERNAL AUDIT IN PROMOTING ACCOUNTABILITY AND  
GOOD MANAGEMENT IN CONSTITUENCY DEVELOPMENT FUND IN  
NAIROBI PROVINCE CONSTITUENCIES**

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**A Management Research Project Submitted In Partial  
Fulfillment of the Requirements for the Award of the Degree of Master  
of Business Administration (MBA), School of Business, University of  
Nairobi**

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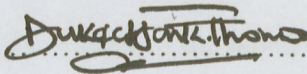
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## DECLARATION

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

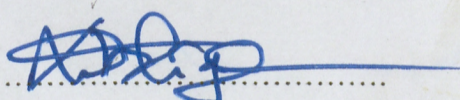
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This research project has been submitted for examination with my approval as the university supervisor.

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## DEDICATION

I dedicate this work, first to my father and my teachers and lecturers whose nurturing has motivated me study industriously throughout my life. Secondly to all lovers and seekers of knowledge and wisdom.

Last but not least to the sincere hardworking Kenyans who have been made the wretched of the Earth by the Landlords of poverty.

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## ABSTRACT

The objective of the study was to establish the role of internal audit in promoting accountability and good management in constituency Development Fund in Nairobi Province. To satisfy the research objectives, the study used a descriptive research design and involved a census survey of the eight constituencies in Nairobi. Primary data was collected using semi-structured questionnaires. The questionnaires were dropped and picked later.

The target respondents were the constituencies Development Fund Committee three top officials (Chairman, secretary and treasurer). Once the pertinent data were collected the research carried out analysis of the same using, frequencies, percentages and means scores. Results of analysis were presented inform of tables, charts and frequency tables.

The study established that all constituencies Development Fund did not have internal Audit Department. The study also established that all the CDF wanted to have internal Audit Department. The study further established that the CDF also wanted to have internal Audit charter for effective functioning of the internal Audit Function. The study revealed that internal Audit Function was a sufficient tool in promoting accountability and good management. The study established that the IAD had to report to CDF National Board as a mechanism to help it function well.

The study concluded that, a combined force of internal Audit department and CDF committee can work well to promote accountability and sound management. The study

satisfied the objective of the study which focused on the establishment of internal Audit Department in promoting accountability and management.

The study recommends that the internal Audit Department should be set in CDF and the CDF Act 2003 should be revised with an aim of strengthening CDF structures and grassroots Governance.

## LIST OF ABBREVIATIONS

AC	Audit Committee
AGM	Annual general Meeting
BOD	Board of Directors
CAE	Chief Audit Executive
CDF	Constituency Development Fund
CEO	Chief Executive Officer
CGC	Certified Guaranty Company
CIPE	Centre for International Private Enterprise
CMA	Capital Markets Authority
ECIIA	European Commission Institute of Internal Auditors
FC	Full committee
GDP	Gross Domestic Product
GOK	Government of Kenya
IA	Internal Audit
IAD	Internal Audit Department
IAF	Internal Audit Function
ICGN	Internal Corporate Governance Net Work
ICPAK	Institute of Certified Public Accounts of Kenya
ICT	Information Communication Technology
IIA	Institute of Internal Auditors
IS	Information System
ISA	International Standards on Auditing

KCC	Kenya Co-operative Creameries
KPCU	Kenya Planters Co-operative Union
MP	Member of Parliament
NGOs	Non Governmental Organization
NSE	Nairobi Stock Exchange
NYSE	New York Stock Exchange
OECD	Organization of Economic Development
PSCGT	Private Sector Corporate Governance Trust
SEC	Security Exchange Commission
UK	United Kingdom
USA	United States of America
WOCCU	World Credit Union Conference

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background

Currently Corporate Governance is major debate in the world due to the numerous corporate financial scandals and the ensuing business failures. These corporate frauds following in the footsteps of the Asian financial crisis of the late 1990s are epitomized by Enron, WorldCom, Global Crossing and Tyco in the USA as well as Vivendi, Parmalat and others in Europe. These scandals have shaken investors' confidence to the core and called into question the honesty and integrity among Corporate Boards and Executive Management (KPMG, 2004).

In this era of financial reporting failures and increased regulatory scrutiny, the internal auditors have an exceptional opportunity to contribute towards improving both financial reporting integrity and corporate governance. The company's board and management must reaffirm or improve internal audit's independence and scope of inquiry. (Centre for Corporate Governance, 1999).

Shleifer and Vishny, (1997), define corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”. The OECD, (2004), takes a wider view and defines corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders. This definition by OECD recognizes the presence of many stakeholders to the resources of the firm. The interests of these stakeholders are not always in harmony. Studies, including those of Berle and Means, (1932), have long established that there are problems posed by the separation of ownership and management of the firm. Therefore



governance mechanisms should be developed to reduce the agency conflicts among all the stakeholders interested in the well-being of the firm. Corporate governance therefore seeks to promote the harmonious relationship among these stakeholders.

### **1.1.1 Internal Audit**

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (II A, 2004).

The above definition is designed to embrace the expanding role of internal audit which has evolved from a narrow focus on control to include risk management and corporate governance and also encapsulates the scope and challenges for modern internal audit. An internal audit function that meets this definition is uniquely positioned to support the board, the audit committee, and executive management as an essential component of their governance mechanisms (ECIIA, 2005).

As a result a significant opportunity for internal auditing has emerged to demonstrate its potential to add value and to break away from its historical characterization as “organizational policemen and watchdog” (Morgan, 1979). Expertise and knowledge of risk management and internal control become a source of power for internal auditing to advance and play an important assurance and advisory role within the contemporary governance environment.

From the above definition, internal audit function has had a corporate governance role in many organizations as early as the 1940s (Moeller, 2004), and that role has evolved over time. The nature of internal audit activity today includes risk assessment, control assurance and compliance work, all of which map directly into corporate governance (Hermanson and Rittenberg, 2003). International standards on Auditing (ISA) require those charged with governance of any entity to have oversight responsibility of systems for monitoring risk, financial control and compliance with the law. The standards encourages auditors to seek the views of those charged with governance on the adequacy of accounting and internal control systems in place to prevent and detect fraud, to determine risk of fraud and error, and the competence and integrity of management (ISA 240). Further, ISA 315 defines internal control as the process designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives.

An internal audit function could be viewed as a "first line defense" against inadequate organizational governance and financial reporting. With appropriate support from the board of Directors' and Audit Committees, the internal audit official is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls and ineffective corporate governance (Zelege, 2007). It is therefore an integral

and necessary part of an effective corporate governance framework. Alongside the Board, executive management and external audit, internal audit is one of the cornerstones of good corporate governance. In attempting to adequately discharge their responsibilities, however, internal auditors often find themselves in an ambiguous situation. They report to the same management they are expected to audit. The only satisfactory solution to this problem is for internal audit to report primarily and directly to the Board and its Audit Committee rather than senior management.

### **1.1.2 Definition of Significant Terms**

#### **Auditing**

Auditing may be defined as the examination of financial statements covering the transactions over a period and ascertaining the financial position of an organization on a certain date in order that the auditor may issue a report on them. It means auditing is the application of auditing principles and methods as may be considered necessary by an auditor (Hermanson & Rittenberg, 2003).

#### **Internal Audit**

An independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the effective use of resources (Druckes, 1995).

#### **Accountability**

Accountability refers to whether an organization and its directors are answerable in some way for the consequences of their actions. The directors are primarily accountable to the

shareholders; therefore accountability in this study refers to corporate leadership that must be ready to account PSICG (2000).

### **Responsibility**

Responsibility in the study means leadership that is capable, responsible, representative and conscious of its obligations. Management should do whatever it takes to set the CDF on the right path. For management to be responsible there must be a system that allows for corrective action and penalizing mismanagement (Linyiru, 2006).

### **Transparency**

Transparency and open leadership refers to accurate and timely disclosure of information relating to all economic and other activities of the (PSICG, 2000).

#### **1.1.3 Nairobi Province Constituencies**

Embakasi which is located in the Eastern side of the city centre is the largest in size and the most populous constituency in Nairobi province with 927,775 people and 292,643 registered voters. In second place is Kasarani constituency with 525,624 people and 192,987 registered voters. It is fourth in size after Embakasi, Lang'ata and Westlands and it is situated in the North Eastern side of the city centre. Lang'ata is the third most populous constituency with 355,188 people and 162,843 registered voters. It is the second largest in size and it is situated in the southern side of the city centre. Dagoretti is the fourth most populous constituency in Nairobi province with 329,577 people and 122,395 registered voters. It is the fifty largest constituency in size and it is situated in the western side of the city centre.

Starehe is the fifty most populous constituency with 274,607 people out of which 135,394 are registered voters. It is in the city centre and it is the smallest in size of all the constituencies. In the sixth place is Kamukunji constituency with a population of 261,855 people with 136,435 registered voters. It is the second smallest in terms of size and it is in the Eastern side of the city centre. Westlands is the second least populous constituency in Nairobi with 247,102 people and 140,839 registered voters. It is the third largest constituency in terms of size and it is situated in the North western side of the city centre. Makadara is the least populous constituency in Nairobi province with 218,641 people out of which 122,809 are registered voters. It is sixth in size and it situated in the south Eastern side of the city centre. (IIEC registers' voters September 2, 2010). Each constituency has constituency Development Fund (CDF) to manage the government allocated resources.

#### **1.1.4 Constituency Development Fund (CDF) in Kenya**

The Kenyan CDF was revived by the Narc Government in 2003 by the Act of Parliament. Initially it was called District Focus For Rural Development but later on collapsed in the 1990s. The 210 constituencies are allocated 5 percent of the national revenue as devolved funds. The CDF is a system introduced by the government on resource distribution to constituencies but has created powerful bureaucracies in CDF projects administration and accountability. The CDF idea has its origin in Rwanda before borrowed by Uganda and Kenya.

## 1.2 Statement of the Problem

CDF is required to be accountable in its use of tax payers' money in improving citizens' welfare. Efficient management and quality of governance at all levels in CDF is seen as one of the ways of creating wealth and employment in a nation. Without accountability and transparency CDF will stagnate and collapse. It is important, therefore, for it to be well governed and managed so that it can attract investments, create jobs and wealth and remain viable, sustainable and relevant among the citizens especially in the poor rural. The crisis in institutions has often been associated with poor management (Ikiara, 2000). Central to the management of CDF is the issue of good corporate governance, there has been public outcry since the 1990s due to massive financial scandals and frauds in the public sector such as rural development Fund, the Kisumu Molasses project, the Turkwell Gorge Multi-purpose project the Goldenberg Export Compensation, Anglo leasing, National Social Security Fund, and Grand Regency Hotel.

The crises have not escaped CDF. There has been public outcry on mismanagement and embezzlement of CDF funds. Taxpayers have lost a lot of money since the inception of CDF in 2003.

Therefore there is need to improve some institutions in CDF. First and foremost it's internal governance specifically decision making process, division of roles between the CDF and internal audit and issues related to the establishment of a clear vision, mission and objectives of the CDF board and CDF internal audit.

Several studies have been conducted on corporate governance in Kenya organization. There has been a wide variety of previous studies on auditing practices for private sector organizations while others have dwelt on internal auditing. Musyoki (2006) studies

corporate governance practices in Kenya and his findings were that good corporate governance practices ensures that profitability and long term sustainability is achieved for any state corporation. Sigowo (2009) conducted a survey of the role of internal audit in promoting good corporate governance in Saccos. He found out that internal audit promotes good management.

Mwaniki (2009) carried a study on performance measurement of CDF committees in Nairobi with an objective of measuring the success of CDF committee performance. The study found that performance was poor due to lack of proper internal control systems. There exists a research gap since no study has been conducted on the role of internal audit that it can inject in good management and accountability in Constituency Development Fund in Kenya particularly in Nairobi province.

This study therefore seeks to fill this gap by focusing on the possible role of internal audit in promoting accountability and good management of CDF in Nairobi province. Nairobi province is the Headquarter of CDF disbursement in Kenya charged with the running of CDF board. Due to its large size, cosmopolitan in nature, and jurisdiction, the province is faced with challenges of providing common services to a very large population, amid stagnated revenues and increasing obligations. This scenario presents a challenge in its roles hence a rich area for this research and a good presentation of other constituencies.

Furthermore the constituencies cover a small geographic area thus data collection is not costly. The province is also faced with the typical problems of inadequate resources and pressure from many interest groups to be satisfied, and many challenges are bound to be experienced when serving the people.

This proposed study aim to find out the role of internal audit in promoting good management and accountability.

### **1.3 Objective of the Study**

The objective of the study is to establish the role of internal audit on accountability and good management of Constituency Development Fund (CDF) in Nairobi Province.

### **1.4 Research Questions**

What role does internal audit play on accountability and management on CDF?

### **1.5 Importance of the Study**

This study will be of benefit to the following constitute parties:-

#### **Internal Audit Managers**

The research findings are useful to managers of internal audit departments as the results make them appreciate their role and place in promoting accountability and good management.

#### **Academia**

The study will add to the wide academia gap of knowledge in this area of CDF governance and accountability which may in turn be used to trigger subsequent studies in the sub areas of the same topic.

#### **Government**

CDF internal audit is likely to lead to reduction of administrative burdens on CDF programmes and projects implementation and accountability among constituencies of the



country. The CDF internal audit will inform the government on achievement made so far on CDF funds.

### **Regulators**

The findings will give regulators information that will facilitate their ability to put in place appropriate regulations for CDF programmes and projects in order to enable them operate like programmes and projects in the private sector.

### **The International Monetary Fund (IMF) and World Bank (WB)**

The IMF has been pushing governments in developing countries to give up commercial goods productions and services provision so as to be handed by the citizens. The findings of this study will give them an opportunity to review the effectiveness of this condition especially in the CDF sector.

### **Potential Investors**

Local and international investors interested in purchasing/funding CDF owned projects may use the findings of this study and turn around these cash drained CDF projects into profit making programmes/ projects through effective management.

### **Policy Makers**

Policy makers require information to enable them put in place sound policies that will enhance financial discipline and mobilize managerial and financial autonomy aimed at having CDF programmes and projects operate on commercial principles. This study will provide such relevant information for policy formulation in CDF sector.

## **1.6 Scope of the Study**

The study will cover the role of internal audit in all constituencies in Nairobi Province.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter presents a review of the related literature on the subject under study as presented by various researchers, scholars, analysts and authors. The review has drawn materials from several sources that are closely related to the theme and objective of the study. The chapter contains the following major areas: Definition of corporate governance, the pillars of good corporate governance, constituency development fund , constituency development fund (CDF) National Board of Management, Composition of the Constituency Development Fund Committee ( CDFC), theoretical framework , agency theory, role theory of accountability, role of internal audit, accountability theories, mechanism of accountability, role of internal audit, internal audit charter, relationship between management and internal audit, internal audit and governance, and empirical studies.

#### 2.2 Definition of Corporate Governance

Though corporate governance is not a new issue according to Vinten (1998), there is no universally accepted definition of corporate governance. It has been defined variously by different authors, committees and organizations. Sir Arthur Cadbury in his report (Cadbury, 1992) adopted a broad definition that 'corporate governance is the system which companies are directed and controlled.' This involves the establishment of structures and processes through which management is accountable to shareholders with the objective of structures and processes shareholder value.

The Capital Market Authority (CMA) in 2002 defined it as “the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of the realizing shareholders’ long-term value while taking into account the interests of other stakeholders.

Essentially governance addresses the leadership role within the institutional framework (Private sector Corporate Governance Trust 2002). Woccu (2002) defines governance as the system designed to control and distribute power within an organization.

### **2.3 Principles of Good Corporate Governance**

Good corporate governance is founded upon the attitudes, ethics, practices and values of the society. It enhances accountability, power sharing, and representation and owner participation. It also defines the sense of right and wrong, fair and just, work ethics and continuing social responsibility (Murungi and Maina, 2004). The OECD principles (1999) focused on fairness, transparency, accountability and responsibility.

### **2.4 Constituency Development Fund and its Functions**

The CDF Act allows for the establishment of a board to be known as the constituency development fund board (CDFB) as a body corporate with perpetual succession and a common seal and shall, in its corporate name, be capable of suing and being sued, taking purchasing or otherwise, holding, charging or disposing of movables and immovable property, borrowing money or making investments and doing or performing all other acts or things for the proper performance of its functions under this Act which may lawfully be done to performed by a body corporate (CDF Act, 2003).

The board's functions include; ensuring timely and efficient disbursement of funds to every constituency, to ensure efficient management of the fund, to receive and discuss annual reports and returns from the constituencies, to ensure the compilation of proper records, returns and reports from the constituencies

Receive and address complaints and disputes and take any appropriate action, to consider project proposals submitted from various constituencies in accordance with the Act, approve for funding those projects proposals that are consistent with this Act and send funds to the respective constituency fund account of the approved projects.

To perform such other duties as the Minister, with the concurrence of the Constituencies Fund Committee, may deem necessary from time to time for the proper management of the fund.

### **2.5 Constituency Development Fund (CDF) National Board of Management**

The CDF board currently is administered by a board of management consisting of; the permanent secretary of the ministry of economic planning; the permanent secretary ministry of finance; the clerk of the National assembly; the attorney general; eight persons qualified in matters relating to finance, accounting, engineering, economies, community development, or law, appointed by the minister; four persons, qualified in matters of relating to finance, accounting, engineering, economist, community development or law; the chief executive officer as ex-officio member and secretary to the board; the minister then shall appoint the chairperson of the board from amongst the eight persons appointed; four nominees, two of who shall be men.

The total of 32 (thirty two) names taking into account regional balance of the people of Kenya; appoint nine (9) persons, at least one from each of the eight organizations and at least a third of the appointees to be from either gender, to be members of the board. The name of the person proposed to be appointed as the chief executive officer to be submitted to parliament for approval before the appointments are made. (CDF Act, 2003).

## **2.6 Composition of the Constituency Development Fund Committee (CDFC)**

The CDF Act 2003 provides for the establishment of CDF for every constituency, which shall be constituted and convened by the elected member of parliament, to have a maximum of fifteen (15) members, comprising of elected members of parliament; two councilors in the constituency; one district officer in the constituency; two persons representing religious organization in the constituency; two men representatives from the constituency; two women representatives from the constituency; one person representing the youth from the constituency; one person nominated from among the active NGOs in the area if any; a maximum of three other persons from the constituency such that the total number does not exceed fifteen (15); and an officer of the board seconded to the constituency development fund committee by the board who shall be ex-officio.

## **2.7 Theoretical Framework**

### **2.7.1 Agency theory**

Agency relationship is a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf (Jensen and Méckling, 1976). Agency problem arises as a result of separation of ownership from control and it takes

two forms: one is the conflict of interest between shareholders and management and the other is the conflict between shareholders and debt holders. The shareholders through the board delegate the day to day decision making to the managers or agents. Managers are charged with using and controlling the economic resources of the firm.

Power (2000) argued that agency theory is based on the notion that the delegation of responsibilities by the principal to professional managers requires the presence of a mechanism that either aligns the interests of principals and agents or monitors the performance of managers to ensure that they use their knowledge and the firm's resources to generate the highest possible return for the principal. More specifically, agency theory suggests that the best option for owners is to design contracts that align manager/owner interests. Agency theory is concerned with aligning the interests of owners and management and is based on the perception that there is an inherent conflict between a firm and its management.

To guard against management failures, Modoveanu et al (2001) suggests that shareholders should enact ratification, monitoring and sanctioning mechanisms. These mechanisms are for validating the decisions of the agents of giving financial approval or veto for an initiative or actionable plan of the agent. Power (2002) observed that the primary means of monitoring is via the annual accounts whose reliability is enhanced by the audit report. However, accounts may be inadequate for monitoring purposes due to information asymmetry. Managers who have more information than the shareholders or auditors (external) produce the accounts and they may be unwilling to disclose private information for fear that it may be used against them. The nature of the

audit is such that omissions or distortions may not be detected or reported to shareholders. In addition monitoring involves costs which the shareholders may not be willing to bear. Therefore, to monitor management, shareholders have traditionally relied in the Board of Directors and Audit Committees.

Various corporate governance mechanisms can be used to monitor management's behaviour and these include board of directors, an effective audit committee and both internal and external audit. The management is accountable to the board which in turn reports to the shareholders. It is therefore the responsibility of board charged with governance of the entity to ensure, through oversight of management, that the entity establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Active oversight by those charged with governance can help reinforce management's commitment to creating a culture of honesty and ethical behavior. Internal Audit assists the Board of an organization discharge its corporate governance responsibilities and Anderson (1993) argues that internal audit is a substitute mechanism for monitoring by the board. The internal auditing function as part of the corporate governance structure plays an increasingly important role in monitoring the internal control system of the company and its financial reporting systems (Khas, 1999). The demand for good corporate governance now equally applies to the public sector as well as the private sector, and hence CDF.

Accordingly, the management of such institutions must give equal attention to the processes and governance mechanisms of their institutions (Balderston, 1974). Internal auditing was identified as one of the key participants to promote good governance in the

corporate sector (Kadir, 2000); hence, management in CDF should realize the importance of the internal audit function in constituencies. Moreover, Kinfu (2006) has also noted that one of the strongest means to monitor ethics and governance in institutions can be through the audit function. These statements clearly indicate the contribution that IAF can have towards enhancing effective CDF governance.

### **2.7.2 Accountability Theories**

Accountability requires an account of the extent to which the objectives for which the resources were entrusted have been achieved. This accountability is described as a contract between an agent and a principal and arises from a duty upon the agent and the rights of the principal (Gray, et al., 1987). The principal can be entirely passive and this will not matter to the agent whose duty nevertheless is to account - the passive principal is merely waiving his or her rights to the information (Stewart, 1984). On the other hand, it has been argued by Tricker (1983) that the agent only has a duty to account to principals who demand information and are willing to enforce the contract.

Much of the research on corporate accountability suggests that regulation is the only way to ensure that companies provide complete and comparable reports. Gray et al. (1987) suggest a compliance with standards approach, and the proliferation of reporting guidelines mainly on environmental issues. Many academics consider that only mandated, standardized reporting will produce the comprehensive information needed to assess corporations' performance. A more persuasive argument for the use of legislation in making companies more accountable is that social and environmental matters are too complex and crucial to be left entirely in the already over-burdened hands of



corporations. Thus, by opening up organizations in order to inform stakeholders, it enables the stakeholders, rather than management of organizations, to express their choices about critical issues. One of the problems associated with reporting against mandatory standards however, is the question of who ensures compliance with those standards and what penalties apply for non-compliance. For implementing agencies it can be argued that accountability should be more focused on accounting for their actions and effects on society, rather than accounting for their financial performance (Bebbington & Gray, 1993).

According to Ebrahim (2003), agency accountability is a dynamic concept and arguably more complex than simply making agents transparent and allowing public scrutiny, which highlights the issue of competing stakeholder interests. Organizations must deal with competing requirements of various stakeholders, and most often choose to satisfy the needs of their primary stakeholders first and often at the expense of secondary stakeholders' needs as their principle goal is aligned with the needs of these primary stakeholders. Brown & Moore (2001) postulate that since agencies are not coherently aligned with one another they must, like other organizations, also prioritize their stakeholders. This can have dire consequences for their existence as their goals to provide welfare may not always be aligned with the goals of their donors.

The issue of multiple stakeholders, while at best making accountability more complex can be additionally problematic for agents because such competing demands can actually lead to poorer performance - satisfying clients and donors can sometimes be in conflict with the organization's long term goals. While this is in some part true for companies also, for donor dependent agents it is the primary goal that is often subverted (Brown &

Moore, 2001). Brown and Moore (2001) suggest that these agents should commit themselves to more accountability to their clients rather than donors. They argue that if they provide assessments of their performance to clients, the clients will only be prepared to talk about problems if donors are not also evaluating the program, for fear of losing future funding if they criticize the program. Ironically however, if they resist the demands for accountability made by funding bodies and donors, they may lose funding anyway.

Slim (2002) in an overview of the agency Accountability literature over a period of often years, outlines two kinds of accountability for agents: performance accountability and voice accountability. Performance accountability requires agents to be accountable for what they do. This kind of accountability is focused on accountability to donors and clients and is similar to corporate-style accountability that firms have to their primary stakeholders - shareholders and investors - which they discharge via published accounts and other reporting that indicates how much has been spent, what targets were set and whether they have been achieved.

Voice accountability on the other hand, requires agents to be accountable for what they say. That is, they are accountable to an abstract purpose (Brown & Moore, 2001). This form of accountability is similar to what Najam (1996) calls accountability to themselves, where agents are accountable for their goals and aspirations, and for their mission. This requires a different way of thinking about accountability than the corporate-style reporting model that can be applied to performance accountability and a basic conflict appears as demands for greater performance accountability may come at the expense of voice accountability. The task of providing statements of income and expenditure,

descriptions of programs, and targets and achievements is less subjective than providing an account of goals and missions.

### **2.7.3 Role Theory of Accountability**

Role systems theory was originally seen as a way to describe how organizations manage to inculcate or produce reliable behavior on the part of their members (Katz & Kahn, 1998). Moreover, role theory places a great deal of emphasis on interpersonal relationships. Furthermore, it postulates a central role for interpersonal expectations, emphasizes the importance of the consequence of compliance, and links tasks and activities to individuals (Ferris et al, 2000). Besides these striking similarities regarding the structure and functioning of role systems and accountability systems in organizations, the former perspective provides what people feel are important new insights regarding when and where accountability is produced and the organizational systems that are relevant. This seems to be a deficiency in current views of accountability theory. Thus, people feel that a role systems theory perspective adds value to any treatment of accountability in work settings.

At its essence, accountability in organizations can be viewed as involving elements of role taking and role making as these unfold in the context of a history of role episodes. While accountability refers to the building of self-actions-standards perceptions (Schlenker et al., 2004), role theory also deals with such linkages, but in the form of role expectations. Accountability has tended to focus on opinions, decisions or behaviors related to moral or ethical issues (Dose & Klimoski, 2005) as noted, and role theory also has included these as well as issues of a more mundane sort. Moreover, at its base,

accountability implies the anticipation of an accounting, having to report or explain oneself to others in the future. In role theory, the focal worker also anticipates facing an accounting as well, in this case, having to respond in the future to the expectations of role senders, albeit, perhaps on shorter and recurring cycles. In many ways, role theory explicates the essential components and relationships central to accountability.

Accountability has largely been one of explaining reactions to anticipated reviews. Thus, Ferris et al (2000) describe examples of both the cognitive and behavioral consequences of having to face the expectations of another party. This is almost the essence of role theory. Role theory has proven useful for the explanation of organizations because of its consideration of several factors and dimensions in a unified framework. These factors and dimensions have specific applications to accountability which warrant discussion. One is that a role theory approach incorporates a multitude of intrapersonal, interpersonal, and person-organization dynamics which help guide our approach to several issues. The framework developed herein suggests that variables, such as general cognitive ability, social intelligence, conscientiousness, generalized efficacy, trait stress, and self-monitoring, among others, may be of particular interest. These variables have specific implications for how individuals approach their environments, which may set the stage for receiving and interpreting environmental cues. Other variables have specific implications for the interpersonal and person-organization aspects of the proposed framework.

Variables, such as agreeableness, locus of control, and personal and work values, among others, are related to how one interprets and responds to environmental cues, and might help explain and predict behavior related to accountability perceptions (Patten, 2002).

## **2.8 Role of Internal Audit**

The roots of internal auditing lie in the financial control area, as shown in IIA's statement of responsibilities of Internal Auditing issued in 1947. It was charged with the task of measuring and evaluating the effectiveness of different types of control and evaluating the correctness of financial transactions. The objective of the function was to assist members of the organization in the effective discharge of their responsibilities (Rittenberg & Covaleski, 1997).

Chapman and Anderson (2000) argue that the inclusion of assurance and consulting services in the new definition of internal auditing results in internal auditing becoming a proactive, consumer focused activity concerned with the important issues of control, risk management and governance. The definition specifically states that IAF is designed to add value and improve on organization's operations. The IIA standards indicate examples of assurance engagements as financial, performance, compliance, system security and diligent audits. Consulting activities include conducting internal control training, providing advice to management about the control concern in new systems, drafting policies and participating in quality teams. These are all value-added activities and contribute to organizational success and strategic achievement.

Internal audit is an integral element of corporate governance and is carried out by an internal auditor. The public audit Act, 2003 requires the internal auditor to report to the

board on the internal control systems and financial matters of the public enterprises. It further states that those to be appointed as auditors should hold professional qualifications in accounting. Its task is to assist management and the board in the discharge of their obligations relating to safeguarding assets, risk management, operation of adequate controls and reliability of financial statements and stewardship reporting.

## 2.8 Relation between Management and Internal Audit

### 2.8.1 Internal Audit Charter

The Internal Audit charter is the formal document that specifies the internal auditor's authority and responsibilities. The charter is important to management, the people being audited, and the audit staff. The endorsement of the Internal Audit Activity charter by IIA underscores the importance of the internal audit function in organizations operations. There should be continued cooperation from management as internal auditors fulfill their important responsibility to the corporation (IIA Manual, 2002).

The charter gives authority to the internal auditor to inspect all offices and to have access to all official books, documents and other records as may be necessary to perform his duties. (Exchequer and Audit Act cap 412).

In order to clarify the position of internal audit and to provide guidance for its operations, a number of policy documents have been developed including the Charter for Audit Committees, Charter for Internal Audit, Internal Audit Guidelines and ethical guidelines for internal auditors. An internal audit manual and guidelines for the adoption of the standards for the professional practice of internal auditing has been developed. One of the guidelines issued by the Kenyan capital market authority (CMA) in 2002 requires that the board establish an audit committee with at least three independent and non executive

directors. The authority also requires boards to disclose in their annual reports whether they have an audit committee and the mandate of such committees. The Sarbanes –Oxley Act 2002 states that members of the audit committee must be members of the board with at least one member classified as a “financial expert”. (The Sarbanes-Oxley Act of 2002).

## **2.9 Relationship between Management and Internal Audit**

Internal audit is an integral part of the CDF structure and is an independent appraisal function for the review of activities as well as a service to all levels of management. The Blue Ribbon Committee (1999) stated that the quality of financial reporting can only be achieved through open and candid communication and close working relationships among the company’s board, management, internal audit and external audit. The success of the internal audit in fulfilling their appraisal function depends on their working relationship with other participants of corporate governance. Cohen, Krishnamorthy and Wright, (2002) in their study observed that the inclusion of management as one of the cornerstones of corporate governance recognizes the strong influence of management in setting the overall tone for governance.

A recent study by Van Peurseem (2005) found that internal audits are conducted in an environment of close and, sometimes, dependent on associations with management, which makes their independence from management structurally at risk. She found that those who seem to be able to meet their own expectations are also those who most carefully balance the conflicting interests of their own profession. Essentially, a key issue is that internal audit would assume whatever position that is in the best interests of their

adding activity. Failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving organizational objectives. This can result in underutilized audit services and ignored audit recommendations as observed by (Flesher & Zanzing, 2002).

It is clear that different levels of management, including senior management, should commit to providing prompt responses to recommendations from IA, to monitoring the implementation action plans, and to keeping IA informed of plans, of changes to the risk and internal control profile of the organization, and of major changes to the organization's policies and procedures.

## **2.10 Internal Audit and Governance**

The primary representatives of the organization's stakeholders are seen as the four cornerstone of the corporate governance, and which includes the Audit Committee, Board of Directors, executive management, external auditors and the internal audit function. Moeller (2004) notes that the internal audit function has had a corporate governance role in many organizations as early as the 1940s and that the role has evolved overtime. The institute of Internal auditors (IIA, 2004), bears similar observations by naming internal audit function as one of the four cornerstones in good corporate alongside the board, the executive management and external audit. The institute argues that with the right positioning in an organization and with competent professional staff and leadership, and internal audit function will provide independent and objective opinion on the organization's operations and report these regularly to the board, audit committee and management.



The internal auditing function as part of the corporate governance structure plays an increasingly important role in monitoring the internal control system of the company and its financial reporting systems (Khas, 1999). The demand for good corporate governance now equally applies to CDF. Accordingly, institutions management must give equal attention to the process and governance mechanisms (Balderston, 1994). Internal auditing was identified as one of the key participants to promote good governance in the corporate sector (Kadir, 2000); hence, management in CDF should realize the importance of the internal audit function in their institutions.

Drucker (1995) observed that to ensure institutions derive the most benefit from internal auditing, it is essential that the governing body should formally establish an internal auditing department, an audit committee of the governing body should oversee the coordination of internal and external audit operations; and internal auditors in the internal auditing department should report to an official who will ensure the deficiencies are promptly considered and corrective actions taken.

Hespenheide (2003), on the renewed interest in auditing, observes that internal audit units are now being challenged by audit committees and the chief executive to not only prove their value but also to play a larger role in overall corporate governance. He notes that internal audit has a significant role to play in a company's demonstration of good corporate governance and that effective internal audit functions embraces a broad concept of risk assessment focusing on monitoring financial and operational controls and compliance.

Hermanson and Rittenberg (2003) argue that as a result of the nature of internal audit activity today typically include risk assessment, control assurance and compliance work all of which map directly into corporate governance.

The IAF has been described as the “Window into the whole company” (Tapestry Networks, 2004) and thus serves as the “eyes and ears of management” (Sawyer, 1973). An IAF with this type of access throughout the company, it is in a unique position to serve as a valued resource to the other three corporate governance parties.

Many national and international corporate governance guidelines, including recent incentives taken by the European Commission (2003) and the Capital markets Authority (2002), clearly demand that boards of directors and executive management adhere to sound risk management, and demonstrate publicly that they are in control of their organization.

By stating that internal auditing should evaluate and contribute to the improvement of the risk management, control and governance, the IIA formally recognizes the assurance and consulting role of internal auditing in corporate governance, and thereby, reflects existing practice; internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operations. It helps organizations accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (IIA, 2004).

An internal audit function that meets this definition is uniquely positioned to support ht board the audit committee and executive management as an essential component of their governance mechanisms (ECIIA, 2005). Therefore, a significant opportunity for the

internal auditing has emerged to demonstrate its potential to add value and break away from its historical characterization as “organizational policemen and watchdog” (Morgan 1979). In other words, expertise and knowledge of risk management and internal controls has become a source of power for internal auditing to advance and play an important assurance and advisory role within the contemporary governance environment.

### **2.11 Empirical Studies**

A number of scholars have shown that the problems of adverse selection and moral hazard exist in the management of diverse outlets. Outlet/agency managers have an incentive to shirk and to misrepresent their abilities since the owner of the firm cannot easily differentiate the effect of manager behavior on outlet performance from the effect of exogenous factors (Brickley and Dark, 1987). Franchising scholars have found that one way that performance of outlets can be enhanced is through the provision of residual claimancy.

Roberts (2002) undertook a study to understand the determinants of corporate social responsibility disclosure using a sample of 80 companies drawn from a population of 130 major companies investigated in 1984, 1985 and 1986 by the Council of Economic Priorities (CEP). Roberts found that his measures of stakeholder power, strategic posture and economic performance are significantly related to levels of corporate social disclosure. The findings contribute to the knowledge on how organizations should manage their stakeholders using disclosures. However, the extent to which such disclosures are related to accountability remains debatable. For example, numerous

studies from the 1980s through to 2000s report either no significant or negative relationship between disclosure and accountability (Patten, 2002).

In another related study, Fogarty (1996) examined accountability standard-setting process and found that institutionalization, through the basis of separated procedures and the formal characteristics of assessment, enables the organizations to achieve tolerable decisional freedom. He further noted that the visibility of its processes, and the consequences of its outcomes, contributed to its critical dependence on legitimacy. Further, he analyzed the peer review process of firms as a mechanism utilized by them seeking to legitimize a largely self-regulatory industry. Studies by the National Audit Office (2001) regarding accountability practices indicated that accountability for joint expenditure requires the roles and responsibilities of partners, how their performance is to be measured and reported, and the accounting and audit arrangements to ensure propriety over public expenditure all need to be clearly set out and understood. Further, prior internal audit research in other countries has explored objectivity issues (Brody & Lowe, 2000) and Kaplan, (1996), and some recent studies have explored the relationship between internal audit and the audit committees (Goodwin, 2003; Raghunandan et al., 2001)

Jebet (2001) acknowledges the fact that in Kenya little is known about the difference governance practices in the country. Mucuvi (2002) found that there was generally a high level of awareness about corporate governance among the motor industry in Kenya. Her results indicated that a large number of firms in motor industry had taken deliberate steps to implement the corporate governance policies. Wainaina (2003) in his discourse on

corporate governance in microfinance sector concluded that lack of regulatory framework in the sector had led to the low levels of good corporate governance practices in that sector. Linyiru (2006) examined the depth of corporate governance in Kenyan banking industry and contended that there was significant positive relationship between good corporate governance practices and financial performance in the Kenyan banking sector. Maina (2007) studied corporate governance practices in insurance industry in Kenya and revealed that some weaknesses in the corporate governance among the insurance companies in Kenya.

Riro (2005) conducted a survey of the audit committees and corporate governance of companies listed at Nairobi Stock Exchange. He adopted an empirical study since it provides a wide access to geographically dispersed samples at low costs. His population sample included all companies listed at NSE as at June 30, 2004. His findings were that most listed companies (93%) have established Audit committees.

More recently, Mutiga (2006) conducted a case study on study on the perceived role of the external auditors in corporate governance in public institutions. He used random sampling and found out that for an audit to be effective the auditor must be independent, both in fact and appearance. He concluded that auditor independence and integrity is what makes the audit useful.

Kibet (2008) conducted a survey on the role of internal audit in promoting good corporate governance in states owned enterprises. The study finds that the presence of internal audit department contributed to sound corporate governance. Sigowo (2009) carried out a survey of the role of internal audit in promoting good corporate governance in Saccos. He

found out that the societies that had established internal audit department were well managed as opposed to those without the department.

Muriithi (2009) conducted a survey aimed at establishing the role of internal auditors in enterprise wide risk management for listed companies in Kenya (industrial and allied sectors). The result of study suggests that firms that had internal audit function had sound management of risks.

Mwaniki (2009) carried a research on performance measurement of CDF committee in Nairobi with an objective of measuring the success of CDF committee performance. The study found that performance was poor due to lack of proper internal control systems.

No research study, however, has been undertaken examining the role of internal and corporate governance audit in promoting good management and accountability or / and factors that promote the influence of the government to create an internal audit function, in CDF. This research study, therefore seeks to investigate the role and the extent of the contributions to good management and accountability in CDF. It also seeks to narrow the existing gap by answering the question: what role do the internal audit function play in promoting sound management and accountability in CDF. The results of the study make important contribution to this growing body of literature and the use of internal audit in CDF for enhancing good governance and accountability. Limited use of the internal audit function by the CDF has important practical implications for sound management.

## **2.12 Literature Review Summary and Conclusions**

Corporate governance, the system by which corporations are directed and controlled, has been around since the early stages of the 19<sup>th</sup> century when the separation of management

and ownership became inevitable due to increase in the size of business as well as sophistication of business operations requiring specialized expertise.

All the large business entities regardless of their form requires good corporate governance practices or mechanisms as they help reduce agency problems as well as align agents' interests to those of the principals or shareholder. Corporations should also address the interests of other stakeholders including employees, customers, suppliers, creditors and the general public.

Corporate governance mechanisms that can be used to mitigate problems arising from the agency conflicts in CDFs include ratification of the board decisions and making of key decisions by the voters' representatives proper board composition and operations; reliable financial reporting enhanced through audit; effective legal and regulatory framework; and requiring CDF to comply with good prudential standards to ensure safety and soundness of resource utilization.

Overall, good management aims at ensuring that CDF affairs are run efficiently, responsibly, viably, in an accountable manner, transparently and compliance with legal framework all with a view to observing stakeholders rights, fairness and equitable treatment of all voters and stakeholders. Research on good management and accountability in CDF is minimal due to lack of sufficient literature on the field thus literature from research on other forms of corporations was reviewed. In Kenya very few studies have been undertaken on management and accountability in Constituency Development Fund (CDF).

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter sets to explain the research design, population of interest, methods of data collection and the techniques that were used in data analysis.

#### 3.2 Research Design

A survey study was used for the purpose of this research. Mugenda and Mugenda (1999) observe that this method is the best suited for gathering descriptive information since the researcher makes an attempt to collect data from members of population with respect to one or more variables. Thus the descriptive is appropriate as it seeks to ascertain the effect of internal audit on accountability and management of CDF in Nairobi province constituencies.

#### 3.3 Population

The population of the study composed of all the eight constituencies in Nairobi Province. The population composed of CDF chairman, secretary, and treasurer giving a total of 24 respondents. Since the population is small, a census survey study was preferred.

#### 3.4 Data Collection

This research study utilized data that was collected by way of a questionnaire. The questionnaire was sent to and administered to the chairman, secretary and Treasurer in all eight constituencies the questionnaire consisted of both closed and open ended questions



and was administered by a drop and pick latter method. Such questions were preferred because they provided an opportunity for in-depth probing of issues. A standardized questionnaire was developed to allow comparison of results amongst the various constituencies. This method of data collection was considered appropriate because the information sought in the study was not publicly available and CDF officials were in a good position to provide answers to the questions posed in the survey instrument. The drop and pick approach was considered an appropriate method for the study because it gave the respondents time to fill the questionnaire and allow the researcher an opportunity to review the questionnaire before picking it to ensure completeness of responses.

### **3.5 Data Analysis**

Data collected was validated, coded and checked for any coding errors and omissions. Thereafter, it was run through the Statistical Package for Social Sciences (SPSS). The output from the data analysis was tabulated and represented in frequency distribution tables, pie and bar charts and summarized by calculating averages and/or percentage frequencies for clear presentations of the research findings. This facilitated quick and easy exploration of data to help identify the most prominent factors that influence internal auditors in their role of promoting accountability and good management.

### **3.6 Reliability and Validity of Primary Data**

The reliability and validity of data collected for research was controlled through formulation of relevant research question by considering the research questions that expressed a relationship between variables the questions is stated in an unambiguous

form and the questions that might be tested empirically Black (1993); choosing the appropriate data collection method that suits the research questions and using a sampling technique that ensures that the sample is representative and minimizes bias.

In other words, the researcher used the contingency questions in the questionnaire to ensure that data collected was reliable. Contingency questions are subsequent questions asked after the initial questions and whose responses depend on the responses given for the initial questions. Mwanza (2009).

4.2 General Information about the Respondents

A total of twenty-four questionnaires were distributed to members of the top CDC compliance members in the district. The response rate was 100%. The respondents were mostly male (80%) and female (20%). The respondents were mostly aged between 30 and 40 years. The respondents were mostly from the district capital. The respondents were mostly from the district capital. The respondents were mostly from the district capital.

Table 4.1 Response Type and Frequency

Response type	Frequency
Completed questionnaires	24
Unreturned questionnaires	0
Incomplete questionnaires	0
Total Questionnaires	24

Source: Research Data

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter covers data analysis and interpretation of the findings. Data was collected using internal audit questionnaire. Data was coded, validated and analyzed in order for the research questions to achieve the objective of the study.

#### 4.2 General Information about the Respondents.

A total of twenty four questionnaires were distributed to respondents selected from the top CDF committee members i.e. chairman, secretary and Treasurer of the eight constituencies in Nairobi province. Twenty of the respondents were received which were completed, three questionnaire were not returned and one response incomplete. The response was therefore rated as high at 83%. The table below summarized the response.

Table 4.1 Response Type and Number of Respondents

Response type	Number of respondents	Percentage
Completed questionnaires	20	83.3
Unreturned Questionnaires	3	12.5
Incomplete questionnaires	1	4.2
Total Questionnaires	24	100

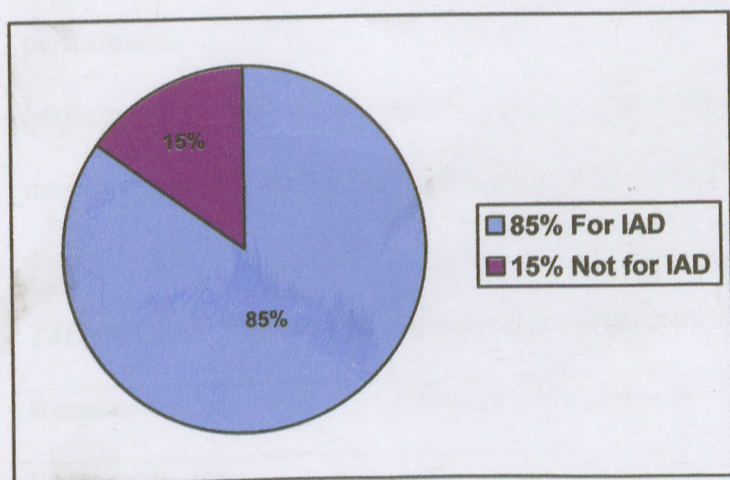
Source: Research findings

### 4.3 Existence of Internal Audit Department in CDF

It was established that no internal Audit Department existed in CDF. Hundred percentage (100%) of the respondents said that there was no internal Audit Department in CDF. This is an indication that constituencies depends on District Audit Department.

### 4.4 Need for Internal Audit Department to enhance Accountability and Sound Management.

Figure 4.1 Percentage of Respondents in favour of establishment of internal Audit Department.



Source: Research Findings

As shown in figure 4.1, majority of the respondents i.e. 85% preferred to have internal Audit Department. This illustrates that they know that internal audit Department plays an important role in the overall management of resources in an institution. It follows that IAD are designed and implanted to address and identified business risks that threaten the achievement of the institution's objectives. One of the key principles of accountability in

CDF is the existence and maintenance of adequate systems of financial management and internal controls over the organization, including procedures for managing risk and fraud.

#### 4.5 Internal Audit Department Function on Accountability and Good Management.

Table 4.2 indicates that (50%) of the respondents felt that the establishment of internal Audit Department will perform reasonably well and 30% of the respondents were of the opinion that the IAD will excel in promoting accountability and good management . On the other hand 10% of the respondents were for both moderately well and poorly performance.

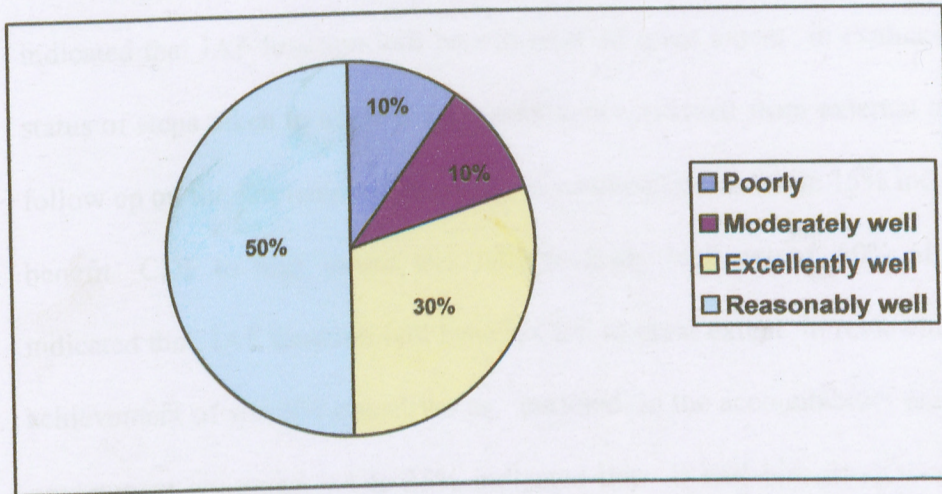
Majority of the respondents therefore considered Internal Audit Department as one of the most important tools of promoting accountability and good management in CDF.

**Table 4.2 IAF Function in Promoting Accountability and Good Management**

Responses	Number of responses	Percentage (%)
Reasonably well	10	50
Excellently well	6	30
Moderately well	2	10
Poorly	2	10
Total	20	100

Source: Research Findings

**Figure 4.2 IAD Functions in Promoting Accountability and Good Management**



**Source: Research findings**

#### **4.6 Extent of IAF will benefit CDF in promoting Accountability and Good Management.**

The study sought to establish the extent of internal Audit Department functions will benefit CDF in promoting accountability and good management.

Table 4.3 shows that 85% of the respondents indicated that IAD function will benefit CDF to great extent in developing, implementing and evaluating internal control framework for preventing and detecting irregularities while 15% indicated that it will benefit it to high extent. 75% of the respondents said that IAD function will also to great extent analyze data for evidence of deficiencies and weaknesses in internal controls, duplication of effort, extravagance, fraud or lack of compliance with approved policies and government regulations pertaining to the procurement and disposal of public property while 15% indicated that it will benefit it to high extent as opposed to 10% who indicated that it will benefit CDF to fairly high extent 75% of the respondents also

indicated that IAF function will benefit CDF to great extent in evaluating progress and status of steps taken to address audit comments received from external audits in order to follow up on the implementation of the recommendations while 15% indicated that it will benefit CDF to high extent and 10% to fairly high extent. 50% of the respondents indicated that IAF function will benefit CDF to great extent in reviewing and evaluating achievement of specific objectives as outlined in the accountability and performance of government contracts, while 35% indicated that it will benefit CDF to high extent as 15% indicated that It will benefit CDF to fairly high extent.

Lastly but not least 85% of the respondents indicated that IAF will benefit CDF to great extent in preparing final accounts and submitting audit written report findings and making recommendations for the improvement of operations as opposed to 15% who indicated that it will benefit CDF to high extent.

Table 4.3 Extent of benefits of IAF functions.

Internal audit function	No extent %	Moderate extent	Fairly high extent	High extent %	Great extent %	Total %
a) Develop, implement, and evaluate internal control framework for preventing and detecting irregularities.	-	-	-	15	85	100
b) Analyze data for evidence of deficiencies and weaknesses in internal controls, duplication of effort, extravagance and fraud.	-	-	10	15	75	100
c) Evaluate progress and status of steps taken to address External Audit Comments and follow up implementation recommendations	-	-	10	15	75	100
d) Review and evaluate achievement of specific objectives as outlined in the accountability and performance government contracts.	-	-	15	35	50	100
e) Prepare final accounts and submit audit written report findings and make recommendations for the improvements of operations	-	-	-	15	85	100

Source: Research findings

#### 4.7 Need for Internal Audit Charter in CDF

The study sought to establish whether respondents needed the internal Audit charter to facilitate the promotion of accountability and good management. The results of the analysis revealed that 90% of the respondents indicated that they needed internal Audit



Charter for effective functioning of the internal audit function. 10% of the respondents as shown in the table below never needed it.

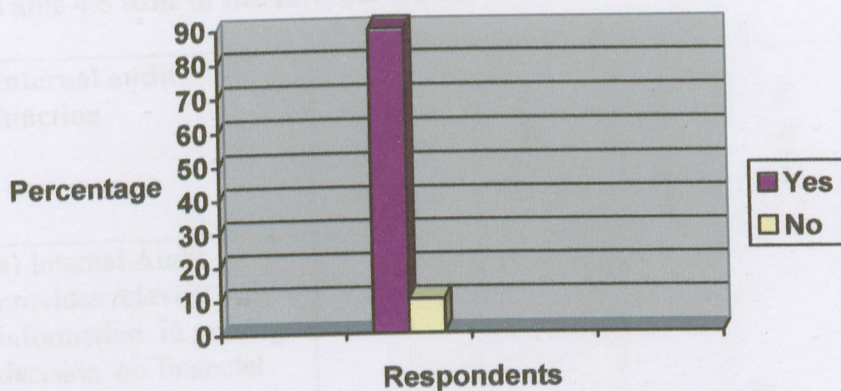
An Internal audit charter empowers the IAF and typically provides internal audit to have full, free and effective access to all records, documents and employees of the organization and for internal audit to have direct access to chairman of the audit committee. It sets out the reporting lines and establishes the independence status of the internal audit function and its personnel. The respondents who indicated that don't need audit charter could be an indication that they don't want CDF to function optimally and hence not ready to assist the management in exercising leadership in directing the entity in a transparent, accountable and responsible manner.

**Table 4.4: Need for Internal Audit Charter**

Responses	Frequency	Percentage (%)
Yes	18	90
No	2	10
Total	20	100

Source: Research findings

**Figure 4.3: Need for Internal Audit Charter**



Source: Research findings

#### 4.8 Role of Internal Audit in CDF

The respondents were asked to indicate the extent they agreed on the internal Audit role in their CDF. The results of the data analysis in the table 4.5 below shows that 90% of the respondents strongly agreed that internal audits are usually performed with emphasis on the risk and control while 10% were in different. This means the CDF's risks will be minimized.

**Table 4.5 Role of the Internal Audit.**

<b>Internal audit function</b>	<b>Strongly disagree %</b>	<b>Disagree %</b>	<b>Indifferent %</b>	<b>Agree %</b>	<b>Strongly agree %</b>	<b>Total %</b>
a) Internal Audit provides relevant information in making decision on financial matters	-	-	5	60	35	100
b) Internal Audit is able to influence key management decisions on matters within its expertise.	-	-	10	45	45	100
c) Internal Audits are usually performed with emphasis on the risk and control	-	-	10	-	90	100
d) Internal Auditors freely choose any transactions areas of interests for audit	-	-	-	10	90	100
e) Internal Audit task provide management with advice on means of reducing cost, improving efficiency and effectiveness.	-	-	10	15	75	100

**Source: Research findings**

In this study 90% of the respondents strongly agreed that internal Auditors freely choose any transactions on areas of interest for audit as opposed to 10% of the respondents who agreed. This means that internal audit will play a significant role to promote accountability and good management. 90% of the respondents also strongly agreed that internal audits are usually performed with emphasis on the risk and control as opposed to 10% of the respondents who were indifferent.

75% of the respondents strongly agreed that internal audit tasks provide management with advice on means of reducing cost, improving efficiency and effectiveness while 15% agreed as opposed to 10% who were indifferent.

45% of the respondents strongly agreed that internal audit is able to influence key management decisions on matters within its expertise as opposed to 45% of the respondents who agreed and 10% of the respondents who were indifferent. Finally only 35% of the respondents strongly agreed that internal audit provides relevant information in making decisions on financial matters while 60% of the respondents agreed and 5% of the respondents were indifferent. These scenarios clearly indicate that the activities of IAF play a very important role in addressing broader management and governance issues.

#### 4.9 Internal Audit Function as a tool of Promoting Accountability and Good Management

Respondents were asked to indicate whether IAF was a sufficient tool for accountability and good management in CDF.

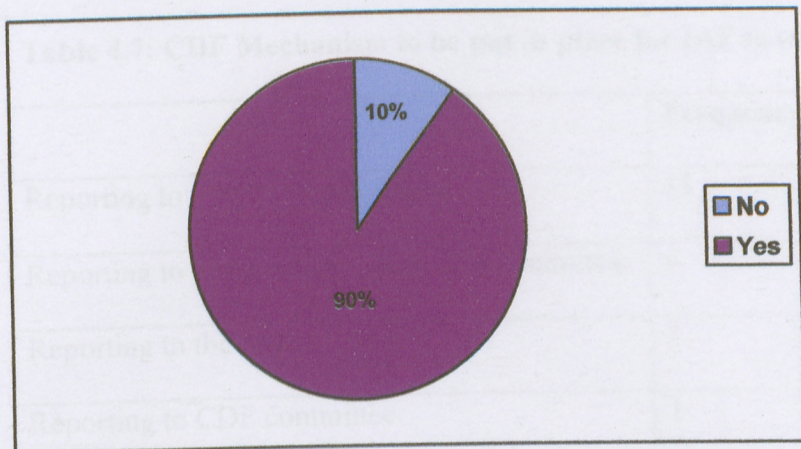
The results of the data analysis in the table 4.6 and the figure 4.4 below show that 90% were of the opinion that IAF was a good tool in promoting accountability and good management while 10% were not for it.

**Table 4.6: IAF as a tool of promoting accountability and good management.**

	Frequency	Percentage (%)
Yes	18	90
No	2	10
Total	20	100

Source: Research findings

**Figure 4.4: IAF a tool of promoting accountability and good management**



**Source: Research findings**

#### **4.10 Mechanisms will be put in place by CDF to ensure the Success of IAF**

The study sought to establish the mechanism that will be put in place by CDF to ensure the success of IAF. The results of the analysis revealed that 55% of the respondents indicated that the IAF should be reporting to CDF National board while 30% of the respondents said that parliamentary Accounts committee should closely monitor the performance of IAF.

The table below shows that 2% of the respondents wanted the IAF to be reporting to CDF committee while 1% of the respondents wanted IAF to be answerable to the Member of Parliament.

**Table 4.7: CDF Mechanism to be put in place for IAF to succeed.**

	Frequency	Percentage (%)
Reporting to CDF National Board	11	55
Reporting to parliamentary Accounts committee	6	30
Reporting to the M.P	2	10
Reporting to CDF committee	1	5
Total	20	100

**Source: Research findings**

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS RECOMMENDATIONS AND LIMITATIONS

#### 5.1 Introductions

This chapter comprises of the summary of the research findings, conclusions, limitations of the study and recommendations.

#### 5.2 Summary

From the analysis, it was observed that all the CDFs (100%) did not have internal audit department.

The study also discovered that 100% of the respondents wanted the establishment of IAD in the CDF to enhance accountability and good management. In this study 50% of the respondents indicated that IAD in promoting accountability and good management will function reasonably well while 30% said IAD will function excellently, 10% function moderately and 10% percent poorly.

On the extent of IAD functions in promoting accountability and good management, majority of the respondents indicated that IAD will benefit CDF to great extent in preventing and detecting irregularities thus promote accountability and good management.

The study further disclosed that 90% of the respondents wanted the internal audit charter for effective functioning of the internal audit function.

On the role of internal audit, on average the majority i.e. 69% of the respondents strongly agreed that IAF will play a significant role in promoting accountability and good management

The study also revealed that 90% of the respondents were of the opinion that IAF was a sufficient tool in promoting accountability and good management in CDF. .

The mechanisms CDF will put in place for IAD to succeed, the majority of the respondents that is more than 80% indicated that IAD should report either to CDF National Board or Parliamentary Accounts Committee.

### **5.3 Conclusions**

The objective of the study was to establish the role of internal audit department on accountability and good management in CDF in Nairobi province constituencies. The findings indicate that internal audit department contributes to the promotion of accountability and good management. Accountability and good management is about promoting fair, efficient and transparent administrations of CDF to meet its established and defined objectives. It is about promoting systems and structures of operating and controlling operations with a view to achieving long term strategic goals that satisfy the citizens, the government and financiers while complying with legal and regulatory and meeting environmental and society needs and an efficient process of value creating and value adding (PSICG, 2002).



Internal audit reduces costs and improves efficiency and effectiveness. It also controls risks and helps in the preparation of final account.

Therefore, IAD should be established in CDF to enhance accountability and good management.

#### **5.4 Recommendations**

The government should establish and maintain an independent, adequately resourced and completely staffed internal audit function to provide management and audit committee with ongoing assessment of the CDF's risk management, control and governance. The CDF Act 2003 should be revised to come up with CDF grass root structures such as:-

Job security tenure for CDF employees, remuneration of CDF committee and make CDF an independent entity separate from the area M.P.

#### **5.5 Limitations of the Study**

A major limitation of this study is that a questionnaire was used. Personal interviewing would have provided richer responses.

Secondly, some of the respondents considered the study as confidential hence their reluctance and non-co-operation in responding to the questionnaires submitted thus depriving the study of some required data.

Thirdly the study concentrated on the role of internal auditing in promoting accountability and good management committing other parameters such as strong legal structures with CDF.

## 5.6 Recommendations for Further Research

This study concentrated on the role of internal audit in promoting accountability and good management in CDF. The findings of this study therefore suggest opportunities for further research. For example, a research may be directed on the role of audit committee in promoting accountability and good management in CDF. This will enable conclusive and comprehensive conclusions to be made about the role of internal audit in enhancing accountability and good management in CDF. Additionally the research also recommends for further research on corporate governance practices and financial performance of CDF. Finally it also recommends a research on the role of balanced score card in promoting accountability and good management in CDF.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

#### MBA RESEARCH REPORT

I am a graduate student at the University of Nairobi. I am **conducting role of Internal Audit in promoting accountability and good management in constituency development fund in Nairobi province constituencies.**

The study is for the purpose of a research project, a requirement of the Masters of Business Administration degree programme. Your constituency has been selected to be included in the study. I kindly request you to assist me by filling the attached questionnaire. The information you will provide make useful contribution to the study. I assure you that the information will be treated in strict confidence and at no instance in the report your constituency be referred to by name. To enable me to complete my project, I will pick up the questionnaire two days after leaving it. I hope in that period, you shall have found the time to complete the questionnaire.

Your maximum cooperation will be greatly appreciated.

Thanks in advance.

Yours faithfully,

KEYA C. T. THOMAS

MBA STUDENT

## APPENDIX II: QUESTIONNAIRE

### Role of Internal Audit in Promoting Accountability and Good Management in Constituency Development Fund in Nairobi Province Constituencies.

Please answer the following questions

#### SECTION A: GENERAL INFORMATION

1. Name of your constituency.....

#### SECTION B: INTERNAL AUDIT FUNCTION AND ROLE

1. Does your CDF have an Internal Audit Department? (please tick)
- Yes [ ] No [ ]
2. Do you think your CDF needs internal Audit department to enhance accountability and sound management? (please tick)
- Yes [ ] No [ ]
3. If established, how well do you think the internal Audit department will function in your CDF in promoting accountability and good management?
- Poorly [ ]
- Moderately well [ ]
- Reasonably well [ ]
- Excellent [ ]
4. If established, which of the following Audit functions you think will be of benefit in promoting accountability and good management in your CDF.

(The scale ranges from No extent to Great extent. Please insert the values attached to each extent after the statement posed)

**Ratings** No Extent    Moderate Extent    Fairly High Extent    High Extent    Great Extent.

**Scale**            1                    2                    3                    4                    5.

STATEMENT POSED	SCORE
a) Develop, implement and evaluate internal control framework for preventing and detecting irregularities such as fraud, theft dishonesty and negligence as well managing, and profiling organizational risk factors.	
b) Analyze data for evidence of deficiencies and weaknesses in internal control, duplication of effort, extravagance, fraud or lack of compliance with approved policies and government regulations pertaining to the procurement and disposal of public property.	
c) Evaluate progress and status of steps taken to address any current and past audit comments received from all external audits in order to follow up on the implementation of the recommendations.	
d) Review and evaluate the progress made in achieving specific objectives as outlined in the accountability and performance contract signed with the government and report findings to management.	
e) Prepare and submit written reports of findings concerning scope of audit and make recommendations for the improvement of operations.	

5. The Internal Audit Charter is the formal document that specifies the internal auditor's authority and responsibilities. The charter is important to management, the people being audited and the audit staff. Do you think your CDF needs an internal audit charter? (Please tick)

Yes            [   ]                    No            [   ]

6. To what extent do you agree with the following statements on Internal Audit Role if established within your CDF? (*The scale ranges from strongly agree to strongly disagree. Please insert the values attached to each extent after the question posed*).

<b>Ratings</b>	Strongly agree	Agree	Indifferent	Disagree	Strongly disagree
<b>Scale</b>	5	4	3	2	1

**Internal Audit Role**

<b>Internal Audit Function</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a) Internal Audit provides relevant information in making decisions on financial matters.					
b) Internal Audit is able to influence key management decisions on matters within its expertise.					
c) Internal Audit are usually performed with emphasis on the risk and control					
d) Internal Auditors freely choose any transactions or area of interest for audit.					
e) Internal audit task provide management with advice on means of reducing cost, improving efficiency and effectiveness.					

7. Internal Audit function is sufficient as a tool of promoting accountability and management since if things went wrong for example in the CDF it will be the first to blow the whistle. (Please tick). Yes [ ] No [ ]

8. What mechanisms will be put in place by CDF to ensure that the internal audit department succeeds?.....

**Thank you for your Cooperation!**

## APPENDIX III: CONSTITUENCIES

### Constituency

001 M AKADARA

002 KAMUKUNJI

003 STAREHE

004 LANGATA

005 DAGORETTI

006 WESTLANDS

007 KASARANI

008 EMBAKASI

Source: IIEC 2010