

**THE RELATIONSHIP BETWEEN INTERNAL AUDIT AND CORPORATE  
GOVERNANCE OF REGULATORY AUTHORITIES IN KENYA**

**BY**

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## **DECLARATION**

I hereby declare that this research project is my own creation and has not been submitted for scholarly work at any other institution.

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**Date**.....

## **DEDICATION**

This project is dedicated first, to the Almighty God for giving me sufficient resources, grace and guidance to complete this project.

Secondly, my family members for the love, support, prayers and unwavering backing when the going got tough. My father always reminded me that the road to success is a treacherous one, my mother always prayed that I would find the necessary strength to overcome obstacles and my younger sister for always supporting me throughout the process in every possible way.

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## **LIST OF ABBREVIATIONS**

**CA** - Communication Authority of Kenya

**IA** – Internal Audit

**IRA** - Insurance Regulatory Authority

**IT** – Information Technology

**KEPHIS** - Kenya Plant Health Inspectorate Services

**PFM** - Public Financial Management

**SASRA** - Sacco Societies Regulatory Authority

**SCAC** - State Corporations Advisory committee

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## **ABSTRACT**

Audits are essential elements with regards to corporate administration and governance and their aptitude in control has an essential commitment in guaranteeing the adequacy and precision of financial information produced by the organisation. Various studies have been done before to show effectiveness of internal audit on advancing of corporate governance. The vast majority of these past studies concentrated on setting up the relationship that exists between corporate governance and organisational performance, however the relationship between internal audit and corporate governance has not been completely exhausted. The objective and target of the research study was to show that there exists a relationship between internal audit and corporate governance focusing on the regulatory authorities in Kenya. The study embraced a descriptive and inferential research plan. The focus population of this study was all the 44 government regulatory authorities in Kenya. The study utilized population sampling technique to choose one individual from the top managerial staff like directors from each of the regulatory authorities which gave an aggregate of 44 directors. The research study additionally utilized random sampling method to choose 2 staff individuals from the internal audit offices of every regulatory authority in Kenya. Primary data was gathered via semi-structured survey questionnaires. Quantitative information acquired was examined through inferential measurements utilizing help of an instrument known as (SPSS) or in full Statistical Package for Social Sciences series 20. The results were displayed utilizing rates of percentage, tables and frequencies. Moreover, research findings uncovered that administrative controls, inside controls, bookkeeping data, correspondence and operational approaches were extremely effective in the organisations. The study found that risk assessment was excellent in the organisations. It was also found that the audit committee monitors financial and compliance activities of management and ensures that meetings are held during the financial year to discuss matters arising. The study noticed that the corporate governance properties of accountability, transparency, independence, fairness, social responsibility and discipline had greatly improved within the organizations. To guarantee adoption and compliance with laws, controls and regulations the study suggests consistent review of the internal auditor's report by the audit committee to enhance transparency in the internal audit procedures and process.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 The Background of the study**

According to the Internal auditors association of the UK (1999), they defined internal audit function is described as a free and fair outlook with objective assurance where the role of consulting is properly designed to upgrade the operations of an organisation. Internal audit helps an organisation accomplish set objectives and focuses through efficient and even taught approach used to do assessment and enhance risk identification and mitigation. This definition delineates three areas whereupon internal audit work looks to enhance, that is risk identification and mitigation, internal controls and the corporate governance procedures. It in this manner that any enhancements in the execution of internal audit is an element of these three areas. It aids an organization to fulfil its set objectives and goals through a procedure of assessing the level of dependability and guaranteeing transparency of information is attained, abidance with the set controls is regarded, protecting of investor's resources and, guaranteeing conservative and effective utilization of assets is upheld by the management.

Peters (2004), takes note that internal audit is a key self-administrative component with noteworthy oversight obligations over monetary reporting and control. The improvement in internal audit function over the years achieved to change the use of internal audit information. Before, internal audit work force was generally seen as aides of bookkeepers and external auditors, yet of late the internal audit work has outgrown that tag and is

positively observed as independent oversight, which is upgrading an imperative part in the coordinating and controlling of elements within an organisation.(Rolandas, 2005).

The idea of corporate administration and governance is old however it was not until the nineteenth Century that it picked up significance. This as it was seen by Solomon (2007) was because of expanded interest for accountability and responsibility. The cutting edge procedure of corporate governance changes can be said to have begun in Great Britain with the foundation of the main corporate governance board of trustees; the Cadbury advisory group on the Corporate Governance with emphasis on the financial aspect in 1991 set up by the conservative government. (Mutisya, 2006). Great governance is an essential idea for a nation's formative needs and is identified with the need to make fundamental monetary policies that are critical for the development of economies through, a compelling open public administration, administrative controls, straightforwardness of money related issues and lawful responsibility.

### **1.1.1 Internal Audit**

A straightforward and more conventional meaning of internal auditing is described as: an autonomous check and verification of components set up inside an organisation to look at and assess its daily activities. Later on, the new Institute of Internal Audit (IIA,2001), described internal audit as means of helping the organisation meet its targets through the confirmation of procedures and autonomous verification intended to include objective assurance and improve the operations of an organization. Internal audit seeks to guarantee the organisation meets its set targets by combining a methodical and taught way to deal with risk management, control, and good governance

As indicated by this description the real extent of the auditors work is making certification to the organisation and giving specialist assurance to the general administrators of the corporate governance (Moelle, 2004). By giving autonomous and independent opinion and conclusions with respect to the operation, capacity, framework and prosperity of the firm the IA can give audit and assurance services hence contributing to proper corporate governance.

### **1.1.2 Corporate Governance**

This refers to the arrangement of control and activity execution checks of top tier managers. Organizations today are encountering new pressure at the level of corporate governance which has necessitated the setup of organisation boards, to oversee the institutional application of investors' assets and other ownership interest (Schermerhorn, 2002). Corporate governance incorporates procedures embraced by the organization and traditions kept up after some time. It similarly incorporates strategies and laws influencing how a corporation is managed and controlled. It can also be seen as a comprehension of connections among partners within an outside the organisation and the arrangement of objectives for which the enterprise is represented. The foremost partners incorporate diverse shareholders, both top and middle level administration and the executives (Harford, 2012).

Hodgetts (2006), affirms that corporate governance is a framework whereby organisations are put under bearings and controls. The Corporate governance structure plainly characterizes the dispersion of rights and duties among various departments and employees inside the organisation and in this manner gives a structure through which the organization objectives are met and method for meeting those targets. Business

administration or corporate governance are the procedures applied to execute appropriate corporate practices within the organization so as to upgrade its operations and flourish the organisation. It also includes sound bookkeeping with a definitive goal of increasing investors' wealth, though assessing the importance of the different shareholders within the firm (Capital Markets Authority, 2002).

### **1.1.3 Effect of Internal Audit on Corporate Governance**

The internal auditors are indispensable elements of corporate governance and their skills in regulation has an essential commitment in guaranteeing the respectability and dependability of the monetary accounts and reports produced (Davidson, 2005). Internal audit has developed from a capacity that focuses on money related and bookkeeping issues to a capacity that spotlights the extensive variety of all organisation's activities and turns into a fundamental part of the governance structure. Its part is to help all people and different personnel inside the organization achieve all their responsibilities through giving required proposals, assessments and data (Carcello, 2005).

The connection between the procedures of internal audit and corporate governance is that they influence a wide range of monetary movement and those suggestions and consequences of the communication have changed throughout the years. Internal auditing has risen to involve open concern about dealings in the organisation hence supporting corporate governance. Internal auditing is included in a considerable lot of the present discussions occurring on corporate governance practices (Internal auditors are indispensable parts of corporate administration and their skill in control has an essential commitment in guaranteeing the respectability and dependability of the financial statements produced (Davidson, 2005). Internal audit has developed from a capacity

which targets money related and bookkeeping issues to a function that spotlights all the extensive activities in an organisation and turns into a fundamental part of the administration structure. Its part is to help all people and different personnel within the organization to meet their responsibilities through giving required proposals, assessments and data (Mordelet, 2009). The ethical measure associated with any profession is basic to the general public (American association of professors, 1995). As indicated by Armstrong (1993), the lack of emphasis on ethics and morals may lead to numerous financial problems that can have sweeping monetary impacts and result to the broad budgetary distress. Moral qualities are crucial for the internal auditors due to the imperative reasons above.

#### **1.1.4 Regulatory Authorities in Kenya**

A regulatory body is a powerful entity or government organization in charge of practicing self-sufficient regulation over some region of human activity in an administrative or supervisory role (Dias, 2010). Regulatory authorities deal in the area of regulatory law, direction or rulemaking, arranging and implementing guidelines as well as controls and forcing supervision or oversight for the advantage of people in general. Some independent regulatory authorities perform examinations or reviews, and others may fine the related parties and request certain measures.

Regulatory authorities are generally set up to implement principles of well-being or to supervise utilization of public assets and manage trade (Kimani, 2004). The following are examples of authorities in Kenya; Communication Authority of Kenya (CAK) which is in charge of encouraging the improvement of the Information and Communications sectors, the Sacco Societies Regulatory Authority (SASRA) is the administrative body with

responsibility of managing deposit-taking Sacco Societies (Savings and Credit Cooperatives Societies) in Kenya. The Insurance Regulatory Authority (IRA) has the sole power of regulating the insurance industry. Kenya Plant Health Inspectorate Services (KEPHIS) is an administrative administration that shields Kenya's agribusiness from diseases that could affect the economy of the country and human health.

## **1.2 Research Problem**

In the modern global economy, internal auditing has been set up as a vital way for the correct administration of any business monetary assets. Simultaneously, corporate governance has received wide attention of late both practically speaking and in scholarly research due to the real accounting and reporting embarrassments and substantial scale of corporate disappointments seen locally and abroad. Recent corporate outrages and profit restatements have brought about an expanded accentuation on the requirement for solid corporate governance to guarantee monetary reporting excellence. (Cohen, 2004).

Regulatory authorities in Kenya have gone under a lot of reforms through government task forces in order to make them more efficient, effective in the performance of their mandate and to reduce the financial burden of the corporations on the public coffers. Regulatory authorities are the major culprits on this as they usually rely on government support for their survival. Their main source of revenue is the levy of license fees and other regulatory charges. The regulatory authorities have been facing irregularities when it comes to internal audits. Mwaura (2007), notes that in Kenya myriad of difficulties relating to corporate governance range from blunders, slipups to utter corruption. The origin of the issue ranges from focused possession, weak incentives, deprived safeguarding of smaller stakeholders, to poor management information systems. This



begs the question as to whether the management had put in place effective monitoring mechanisms which includes setting up an effective, independent internal audit function.

Sigowo (2010), conducted a survey of the purpose of internal audit and how it promotes corporate governance in Sacco's. He found that to promote the independence of the internal audit function, it should report to the board and audit committee. Similarly, Kibet (2008), tried to establish the link of the internal audit departments in the advancement of proper corporate administration or governance with a target of state owned organisations. The findings indicated that, in order to enhance the independence of the internal audit function, it should report to the board or the audit committee and that internal audit staff should be separated from the audit committee.

Muriungi (2010), carried out an exploration on the relationship between auditing and performance with a focus on state corporations in Kenya. The study revealed that without auditing, performance will be negative (losses). However, an increase in auditing activities as indicated by audit committees, internal controls, accountability, transparency, auditor's independence will make a positive impact on the performance of a company. Similarly, Mutave (2014), did a research on the relationship between internal audit function which focused on the microfinance institutions in terms of their corporate governance structures in the country. The study found out that risk management had a major effect on the level of corporate governance within deposit taking place in the microfinance institutions in Kenya followed by internal controls, compliance, consulting and audit committee had the least effect respectively.

Njoroge (2012), did a study on the different dynamics that influenced the effectiveness of internal audit which is used as a mechanism for corporate governance. The research was based on a case study of University of Nairobi. It found out that there were different factors contributing to effectiveness of internal audit processes. The studied elements included specialized know-how of internal auditors, the excellence of their results and the organizational impartiality.

From the above studies little has been done on the relationship between internal audit and corporate governance of regulatory authorities in Kenya; therefore the study tried to find out if indeed there is a relationship between internal audit and corporate governance of regulatory authorities in Kenya?

### **1.3 Objective of the study**

To find out if a relationship between internal audit and corporate governance in regulatory authorities in Kenya exists.

### **1.4 Value of the study**

Audit committee attached to boards of directors who are interested in the performance of internal audit benefited from this study by understanding ways on how to make internal audit effective. They benefited from the results of this study since it informed them on how to increase the effectiveness of the system.

To the government and the policy makers, the study helped them in making policies that are consistent with the good corporate governance practice. In their regulatory roles, the

study helped them in assessing the scope to which regulatory authorities have implemented good corporate governance.

To the academicians and scholars, the study significantly contributed to the internal auditing debate. The study contributed to the current study materials regarding the effect of internal audit to corporate governance.

This study also contributed towards bridging the existing gaps in the field of corporate governance. It stimulated other scholars to initiate more studies.

The researcher benefited from the study since he is in the profession

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The second chapter displayed a survey of comparative and interrelated writing materials related to how effectiveness of internal audit advances proficient corporate governance in various regulatory authorities in Kenya as exhibited by various specialists, researchers, experts and writers. The section additionally gave the theories supporting the study.

### **2.2 Theoretical Review**

This part examined the multiple literature theories that were employed in documenting the study on the effectiveness of internal audit and how it promotes corporate governance in regulatory authorities in Kenya. The study was directed by the following theories; agency theory, stakeholders' theory and stewardship theory.

#### **2.2.1 The Agency Theory**

Meckling and Jensen (1976), studied the concept of a corporation and explained that the agency relationship is a contract whereby people engage other individuals in order to perform different service on their behalf. The scholars who proposed explicitly, for this theory to were Stephen Ross and Barry Mitnick stating that management support and independence for a company can be effective. Ross is the scholar responsible for coining the economic theory of agency, meanwhile Mitnick pioneered the institutional theory of agency. Ross was the first to introduce the study of agency regarding complications of compensation contracting.

Mitnick (2006), defined the awareness in which companies form around agency, and that the companies also grow and change to deal with agency which responds to the indispensable failures relating to agency relationships. The conduct will not occur because even if it is preferred by the principal but it does not pay to make it perfect. People form institutions and provisions which sort out the different types of imperfections by way of managing or buffering them, adapting them, or being distorted the imperfections. Therefore, to entirely comprehend agency, we need both the incentives and the institutional structures (Mitnick, 2006). From an agency perspective, the importance of robust governance arises from the need to align the interests of management with other shareholders in the firm to reduce agency costs and increase the internal audit department effectiveness.

In order to enhance corporate governance, several methods can be established to gauge managements' commitment and these include instituting an independent board of directors, an independent chairperson to the board, and an effective audit function. Davidson, Goodwin-Stewart and Kent, (2005) define the multifaceted relations between these governance mechanisms as the corporation governance montage.

### **2.2.2 Stakeholders Theory**

Stakeholder theory featured in the management discipline of the 1970's. It was later advanced by Freeman (1984) who incorporated corporate accountability and responsibility to different stakeholders. Wheeler et al, (2002) argument's on stakeholders' theory coined combinations of sociological and structural elements. Stakeholders' theory

is however more of a wide researcher theory. This is because it incorporates philosophy, ethics and political theory. It also includes other disciplines like organizational science.

According to Freeman (1999), a stakeholder is any group directly attributable to a certain organization's achievements. It is unlike agency theory where managers work and serve stakeholders. Stakeholder theorists propose that all companies have a well laid out network of stakeholders to serve including merchants, employee personnel and other business partners. He also explained that the group of networks is crucial other than ownership-management-employee relationship which is in the agency theory.

According to Ansoff (1965), set goals might be attained through harmonizing the contradictory welfares of the several stakeholders. Hence, a central facet of stakeholder theory is to recognize that other parties besides the shareholders of a company are also important and that the organization owes them a fiduciary duty to maximize their interests as well. All stakeholders are pertinent if their outlay has been subjected to any form of risk through the business operation (Clarkson, 1995). Therefore, the ethical viewpoint of stakeholder theory is that all stakeholders have a right to fair treatment, and that managements' main objective should be to maximize stakeholder value by minimizing costs, enhancing employee satisfaction and contributing to the well-being of the society from which it draws its resources. (Deegan, 2004).

### **2.2.3 Stewardship Theory**

Stewardship theory has a strong connection with psychology studies and sociology studies. It is articulated by Donaldson (1997), who states that a steward is in the business of protecting and maximizing shareholders' wealth using organizational performance.

This is because; the steward's utilization purposes are maximized. In this regard, the stewards are executive management and top level managers in a company working for shareholders, protecting their investments and making profits for them. It is unlike agency theory because stewardship theory puts emphasis not on individualist concept (Davis & Donald, 1991), but on the role of the administrators and managers who act as the wardens who integrate objectives in a company. The stewardship theory point of view suggests that stewards are satisfied when firms succeed and maintain profitability.

Agency theory sees the employees as someone who is willing to suppress he's own ambitions for the benefit of the firm targets and objectives (Agyris, 1973). (Donaldson & Davis, 1991) expounded that executive managers are required to perform autonomously to ensure shareholders' returns and profits are maximized. Fama (1980), noted that managers and top level executives were willing to spend their lifetimes honing their skills so as to been seen as worthy stewards. Shleifer and Vishny (1997), claim that its very important to all the people charged with governance to bring favourable profits to shareholders so as to ensure they acquire more projects due to a good reputation.

The steward's theory implies that there is a potential undesirable impact due to separation of roles between chairperson and the Chief Executive Officer. Their functions ought to be combined to help enhance performance of the organization. The emphasis of the steward theory is in the questioning of agency theory's negative assumptions about the actual nature of a human being. MacGregor's contrasts the theory X and theory Y management. In the process the theory implies governance difficulties don't lie in self-interest of top tier management rather it lies in assumptions that the stakeholders have their own self-

interest motives. The problem in this assumption states that a negative investor may weaken the leadership of a firm.

### **2.3 Empirical Review**

Mutave (2014), did a study showing the relationship of internal audit and the effect on corporate governance on financial institutions in the country. The study used a descriptive design. He focused on 9 licensed deposit taking financial institutions in Kenya. The research targeted the heads of internal audit and company secretaries of 9 institutions. The researcher gathered primary data the emerging developments in the microfinance institutions. Questionnaires with structured questions were used to collect information. The kind of study carried out was quantitative in nature and it used descriptive statistics for analysis. The researcher also used a multivariate regression analysis in order to know the relationship between the independent and dependent variables. The revealed that risk management, internal controls, compliance and consulting and audit committee had a massive effect on corporate governance in the institutions.

McGimpsey (2014), tried to figure out how internal audit is adjusting in a dynamic sphere of organization management. They sampled 40 governments and private sectors organization in Canada and United States of America. Information was collected through interviews and review of documentary evidence. The results of the study were: audits are becoming more cost effective by being risk driven; for internal audit to be effective senior management must clearly signal to the rest of the organization its supports for internal audit; Internal audit practices were continuously evolving from just identifying



control shortcoming to management and finally internal audit function had adapted technology to aid in continuous monitoring of the organization data online.

Njoroge (2012), carried out a study on the factors contributing to efficiency of internal audit function which acts as a mechanism of corporate governance in public universities in Kenya: The study was based on a case study of the University of Nairobi. The study had a target population of 40 responds who were internal audit staff. It revealed that certain elements contribute to the efficiency of internal audit function. The various factors include specialized aptitude of internal auditors, the excellence of auditing, and independence of an organizational, career development of top managers.

Muriungi (2010), researched on the relationship between auditing and the performance of Kenyan state corporations. The study had a main objective of investigating the relationship between auditing and the performance of state corporations. The research sampled 10% of the 133 parastatals audited by KENAO. The primary data was assembled via structured questionnaires. Regression was used to establish the relationship between auditing and performance of a firm financially. Muriungi's research revealed that without auditing, the company was on the edge of falling into losses. On the other hand an increase in auditing practices which were meant to improve the audit committees, the various internal controls, transparency and independence would improve the performance.

Sigowo (2009), did a study on the purpose of internal audit in the process of upholding corporate governance in a Sacco. The researched employed the exploratory research approach and the primary data was gathered via the questionnaire method. The target

population studied was 4,200 SACCOs which are registered by Kenya. The data was split into a sample of 20 employee in SACCOs based in Nairobi. In the process of gathering the information, twelve responses were received which represent 60% of the set sample size. The research revealed that to promote the independence of internal audit functions there is need to report to the audit committee. It was also revealed that major purpose of internal audit relates to assessing the efficiency of in-house controls, provide the necessary assurance about the achievement of the set objectives in the firm in order to achieve reliability of financial reporting and compliance the set regulations.

Kibet (2008), steered a study relating to the function of internal audit in the process of promoting corporate governance in state-run corporations. The research employed exploratory research and the data was collected using a questionnaire. The population comprised of all state owned enterprises headquartered in Nairobi. Twenty nine responses were received representing sixty seven percent of the sample size. A majority of state owned enterprises have set up internal audit departments and established audit commissions. The study established that to enhance the independence of internal audit role, it is supposed to report to the audit committee and that internal audit staff should be dismissed upon approval of audit committee.

## **2.4 Determinants of Corporate Governance**

There are several elements of corporate governance. The most important determinants for corporate governance are discussed in this section. These are control activities, compliance and consulting, risk management and audit committees.

### **2.4.1 Control Activities**

In reference to the Commissioner of all National Banks (2001), control activities are the rules and measures formed so as to aid an organization's employees perform management's instructions at each department satisfactory. These actions help management certify that the essential control risks are in operation to ensure an organization attains its set targets (Brune, 2000).

The comptroller of New York (2009), described control activities as components both manually and automatically applied which aid in the identification, prevention or reduction of the risks that can curtail achievements of the organization's set targets. According to Walker (2009), different control activities will occur at various levels and functions of an entity. The activities encompass a number of activities including sanctions, approvals, confirmations and different reconciliations. It also includes performance reviews, maintenance of security and maintenance of different related records that provides evidence of execution of the set activities and proper documentation. (Rolandas, 2005).

Corporate governance developments have reaffirmed the role of the board of directors in the process of ensuring that the internal controls designed within an organization are operating efficiently and effectively in order to enhance the organization's success.. Therefore, the internal audit function plays a crucial role in ensuring that the board is supported in carrying out its mandate of overseeing the operating effectiveness of the internal controls framework designed and ensuring that qualified personnel are charged with the role of performing the controls.

### **2.4.2 Compliance and Consulting**

The internal auditing profession is administered by the international standards on internal audit used to guide the function of internal auditing. International standards applied in internal auditing (2008), describes the role, power, and accountability of internal audit function as one that should be formally explained in an internal audit charter. This is because it must be consistent with the internal auditing standards, code of ethics, and different standards. It must from time to time review and upgrade the internal audit charter and the senior management must approve the changes made.

The investigation of Roe (2004), had a basis on the internal audit and how it had an impact on governance of the corporate. He investigated the internal audit work as a frontline defense to the non-existence proper governance of the corporation and money related reporting. Enough support from the top tier management will ensure that the Audit Committee is best placed to gather knowledge on unsatisfactory bookkeeping procedures and non-existence of robust controls internally. Roe's study established that internal audit need to have a broad scope of the organization's dealings so as to be effective. Internal audit has to assume a noteworthy part in checking for governance compliance within the entity. Thus, the Chicago internal auditors have found it necessary to move past the primary stages and have turned out to be overwhelmingly occupied with compliance checking (Thompson, 2003).

The relationship between internal and external auditors ought to be one of common support and participation keeping in mind the end goal to fortify the general audit excellence and systems of corporate governance (Gramling & Myers, 2003). They

expounded that corporate governance was assisted by internal audit through evaluating the organization's set of principles and morals guidelines to guarantee they are present and conveyed to workers.

### **2.4.3 Risk Management**

The internal audit assumes a one of a kind part in corporate administration by observing authoritative dangers and guaranteeing that hierarchical procedures are proficient and viably controlled. For instance, several researches established that the availability of an internal audit department, deterrently affects money related reporting abnormalities and fraud. Gordon and Smith (1992) established that a control capacity, which was supported by internal audit, led to improved execution in the organization. The investigation of Spira and Page (2003) investigates the progressions because of the crucial redefinition of the Turnbull rules about internal guidelines as well as controls acting as properties of corporate governance as seen in the United Kingdom. Consequently, risk had been seen as fundamental to the corporate governance and become associated with the idea of internal audit. The importance has however changed.

Internal control was under the spotlight, partially due to the documentation of business problems and partially due to shifting towards professionalization of the internal audit function. The study uncovered in corporate administration , risk administration has turned out to be firmly affiliated to controls internally which proposes the degree to which risks are regulated has now been identified as a type of responsibility, as opposed to its objective – considered as a guide against which an estimation of the performance is being predetermined. In this way, the redefinition gives the management a new vision of risk

management as a feature of their accountability. This also ensures that the correct responses to the identified risks are put in place. (Spira & Page, 2003).

#### **2.4.4 Audit Committees**

The Audit committee has also been subject to numerous studies on effectiveness of internal audit since it's one of the variables. More specifically, Zhang et al. (2006), did a study expounding on the association of the following three elements after the Sarbanes-Oxley verdict in the United States: disclosure of internal audit matters, the independence and autonomy of the auditor and the quality made possible by existence of an audit committee. He analysed over 200 companies which proved that there was a significant relationship between the quality of audit committee and the performance of those firms. Audit committee generally enhance the operations of an organisation through reviewing work from the internal auditors and communicating those results to all stakeholders which ensures harmony prevails. They are also very good since they aid meeting of objectives and targets (Schermerhorn, 2002).

#### **2.5 Conceptual Framework**

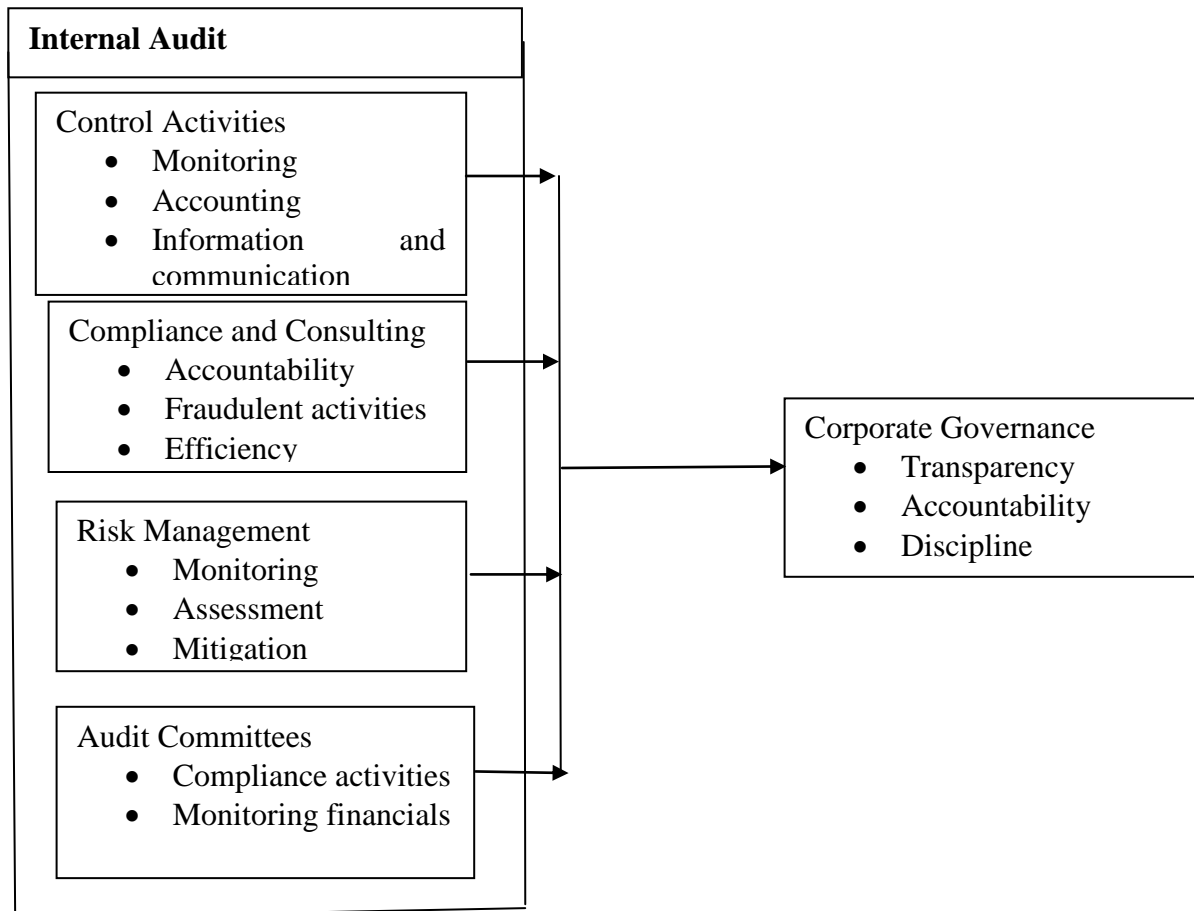
Conceptual framework is the system of components (variables) employed by the researcher to attain the set purpose of the study, Mugenda & Mugenda, (2003). They defined a variable as a measurement element that varies with relation to a constant element, Mugenda & Mugenda, (2003). They described an independent variable as variable that is used by the researcher to manipulate a dependent variable to obtain findings, (Kombo & Tromp 2006), defined an independent variable as an element which was totally not influenced by any other element but a dependent variable was highly influenced by other elements existing within the same sphere; Mugenda & Mugenda,

(2003).The variables discussed above are presented on figure 2.1 below highlighting the independent and dependent variables. The independent variables in this study are control activities, compliance and consulting, risk management, and audit committees while the dependent variable is corporate governance.

**Figure 2.1 Conceptual Model**

**Independent Variables**

**Dependent Variables**



**Source: Researcher**

## **2.6 Summary of the Literature Review**

The theories highlighted in this chapter have made it very clear that the agency theory supported the notion of internal audit serving as a critical tool for checking on corporate administration and governance of top tier managers as an agent of shareholders. However, the stewardship theory gave a totally dissimilar view in that the top managers at any organisation need to ensure that they are good stewards to the shareholders



investments. From previous research studies it's revealed that the interrelationships between the management, audit committee and internal audit function signify the level of corporate governance in organizations. It is also noted that internal audit supports management in review of internal controls adequacy and risk management. Additionally, majority of the studies were either done on corporate governance practices or on internal audit and risk management. In addition, the majority of the studies were done in developed economies hence leaving scarce literature in regulatory authorities.

Similar studies to the current one include the relationship between auditing and the performance of different Kenyan state corporations by Muriungi (2010), explored the relationship between internal audit and corporate governance by Paape (2002). Therefore, no comprehensive study has been carried out to specifically explain the research problem. Hence this study sought to bridge the gap and find out if there is a relationship between internal audit and corporate governance of regulatory authorities in Kenya.

## **CHAPTER THREE:RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter looks at the methodology that was employed by the researcher to conduct the project. It additionally shows the kind and origin of the data, the target population and sampling techniques and methods that were utilised to obtain the sample selected. It also shows how the data was gathered and put through analysis.

### **3.2 Research Design**

The research adopted a descriptive research design. Mugenda and Mugenda (2003) defines descriptive research design as a methodical, empirical inquiry in which the researcher has no direct control of the independent variables since they have already occurred or because the independent variable cannot inherently be influenced. According to Schindler (2003), this design is suitable because it seeks to define the features of definite sets of people or groups and make a prediction. Descriptive studies aim to determine the regularity and frequency with which one element happens or the relations existing between certain variables (Bell & Bryman, 2003). Hence, the research approach chosen was suitable for this project, since the researcher planned on collecting comprehensive data through descriptive techniques.

### **3.3 The Target Population**

As per Ngechu (2005) definition of population is that it a collection of properly demarcated or group of individuals, components or households that are being put under study. The targeted populace of this study was all the 44 government regulatory

authorities. The study used census method to select all the 44 government regulatory authorities. This included the staff members and board of directors in internal audit offices at the 44 government regulatory authorities. According to Kothari (2004) target population is the process of methodically obtaining and recording all information available about all elements present in the population under the study. The study used population sampling method to select one of the members of the board of directors from each government regulatory body which gave a total of 44 directors. According to Kothari (1985) census is the procedure of systematically obtaining and recording information about all the members of a given population. In addition, the study also used random sampling method to select 2 staff members from the internal audit offices of each government regulatory body. According to Larson (2014), a random method is an excellent form of sample selection because it ensures that every single element has the same chance of being selected.

### **3.4 Data Collection**

This particular study used questionnaires as the principal tool for collection of data. The questionnaires contained both structured and unstructured questions. Kothari (2004), terms the questionnaire as the most ideal because it can acquire a lot of information in reasonable time. Primary data was collected using a structured questionnaire. The questionnaires were dispersed by the researcher mainly through email. Drop and pick later technique was also used in cases of non-response to emails. The questionnaire method enhanced uniformity in the way questions were structured and responses thereof. The structured questions were presented using the Likert Scale, which enabled respondents to share their opinions using a scale of 1-5. The questionnaire contained two

sections. The first section discussed respondents' demographic information while the second section discussed the study independent variables which comprised of control activities, management support, risk management and audit committees.

#### **3.4.1 Data Validity and reliability**

The term validity refers to when components measure what they are proposed to gauge (Brotherton, 2008). The researcher utilized content legitimacy to look at whether the instruments addressed the exploration and research questions. Changes and increases to the research instruments conferences and dialogs with the supervisor were done to understand the research information legitimacy. Mugenda & Mugenda (2003), characterized data validity as a measure of how much data gathered utilizing a specific apparatus speak to a particular space of pointers or substance of a specific subject. Data validity of the research device is enhanced through master judgment. Data validity alludes to whether an instrument gives satisfactory scope of a subject.

Reliability is a measure of how much an examination devices yields reliable results after several trials (Cooper & Schindler, 2006). Unwavering quality alludes to the consistency of the exploration information and the degree to which studies can be repeated. To guarantee a high level of reliability of instruments and devices in this study, the researcher personally gathered the information and just in insignificant cases was he helped was to gather research data through well prepared and persuaded associates. Test-retest method of unwavering quality testing was incorporated whereby the pilot questionnaires were handed twice to the respondents, with a week's interim, to take into consideration dependability and reliability. For unwavering quality, the specialist utilized

inward consistency measure known as Cronbach's Alpha ( $\alpha$ ) which shows the degree to which an arrangement of estimation things could be dealt with as measuring a solitary inert variable. Reliability gives a measure of the inside consistency and uniformity of the components including the scale (Sekaran 2005).

### **3.5 Data Analysis**

Data analysis, as indicated by Mugenda & Mugenda (2003), includes inspecting, cleaning, transforming, and modelling data with the aim of outlining the information gathered and sorting it out in such a way to meet the exploration and research question targets. The operations performed incorporate altering, coding, characterizing and arranging the outcomes. It additionally involves sorting, requesting, controlling and outlining information, to discover answers to the examination questions postured. Before the real examination of information utilizing SPSS, information was cleaned, altered, affirmed for precision and coded. These procedures are critical to discover that the gathered information is all around sorted out in a way that guarantees appropriate examination (Mugenda & Mugenda, 2003). The quantitative information was analysed through SPSS. The discoveries and outcomes were exhibited utilizing tables, frequencies and rates of percent.

#### **3.5.1 Analytical model**

Analytical models are mathematical formulas that are closed in nature that means that the answer to the equation can be expressed as a mathematical analytical function. In addition the study used multiple regression analysis represented by the following equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where;

$Y$  = Corporate governance – (Measured by discipline, transparency, independence, accountability, responsibility, fairness, social responsibility)

$B_0$  = this is the Y-intercept which is a constant

$X_1$  = Control activities – (measured by monitoring, internal controls, accounting information and communication)

$X_2$  = Compliance and consulting – (measured by promoting accountability, fraudulent activities, effectiveness and efficiency of operations, operational and financial performance)

$X_3$  = Risk management – (measured by risk identification, risk assessment, risk mitigation and risk monitoring)

$X_4$  = Audit Committees – (measures whether: the Board of Directors has an Audit Committee responsible for monitoring financial and compliance activities of management)

$\epsilon$  = error variable which represents all the factors that affect the dependent variable but are not included in the model.

### **3.5.2 Test of Significance**

The results have shown to be around the 0.05 level, implying that the significance value should be no higher than 0.05 level. The Pearson Product Moment Correlations Coefficient was used to test the direction and magnitude of the relationship between the dependent and independent element variables at 95% confidence level (Kothari, 2004).

The model significance was tested using the analysis of the variance (ANOVA), at 95%

confidence. The one-way ANOVA was used to establish whether there exists any significant variations between the study variable.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

### 4.1 Introduction

This chapter details the data analysis and results of the research problem. It will offer an in depth data analysis and result explanation of the research problem. The data analysis will use the regression model find out if a relationship between internal audit and corporate governance in the regulatory authorities in Kenya exists.

### 4.2 Demographic information

This study embarked on identifying demographic information in order to determine whether there was existence of relationship between internal audit and corporate governance in regulatory authorities in Kenya. Demographic information of the respondents included gender, age and length of service.

#### 4.2.1 Gender

**Table 4.1: Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage %</b>
Male	60	55
Female	50	45
<b>Total</b>	<b>110</b>	<b>100</b>

#### **Source: Research Findings**

The study solicited to examine the gender of the respondents. Using the research findings above, majority of the respondents as shown by 55% were male while 45% were female. This shows that the respondents were fairly distributed in terms of gender.



#### 4.2.2 Respondents Age

**Table 4.2: Age of the Respondents**

Age	Frequency	Percentage
Below 20 years	17	15
20-30 years	20	18
31-40 years	36	33
41-50 years	23	21
50 years and above	14	13
<b>Total</b>	<b>110</b>	<b>100</b>

**Source: Research findings**

The study solicited to find out the age of the respondents. Majority of the respondents as shown by 33% were aged between 31-40 years, 21% were aged between 41-50 years, 18% were aged between 20-30 years, 15% were below 20 years whereas 13% were 50 years and above. This shows that the respondents were fairly distributed in terms of their age and they would answer the questions with ease.

#### 4.2.3 Length of Service

**Table 4.3: Length of Service**

Age	Frequency	Percentage
0-5 years	12	11
6-10 years	20	18
11-15 years	18	16
16-20 years	32	29
21 years and above	28	26
<b>Total</b>	<b>110</b>	<b>100</b>

**Source: Research findings**

The study solicited to establish the experience in number of years. The study showed that majority of the responses received stood at 29% for those who had worked in the organizations for a period between 16 – 20 years, 26% had worked for 21 years and above,

18% had worked for a period between 6 – 10 years, 16% had worked for a period between 11 – 15 years whereas 11% had been in the organisation for a period below 5 years. This ensured credibility of the information obtained.

### 4.3 Internal Audit and Corporate Governance

#### 4.3.1 Effectiveness of Control Activities

**Table 4.4: Control Activities**

Control Activities	Ineffective	Slightly effective	Moderately Effective	Effective	Very effective	Mean	Std Deviation
Accounting information and communication	1	3	9	29	68	4.45	0.25
Managerial controls	2	0	7	31	70	4.51	0.26
Operational policies	0	4	15	20	71	4.43	0.25
Information sharing regulations	3	7	12	33	55	4.18	0.19
Internal controls	2	5	10	12	81	4.50	0.30
Monitoring	2	5	10	35	58	4.29	0.21

**Source: Research findings**

The respondents strongly agreed that; managerial controls, internal controls, accounting information and communication and operational policies were very effective as shown by a mean of 4.51, 4.50, 4.45, and 4.43 respectively. Others stated that monitoring and information sharing regulations were effective as shown by a mean of 4.29 and 4.18.

This findings are similar with earlier findings by Prawitt et al., (2006) who noted that the principal role of the internal audit function of an organization as far as corporate

governance is concerned is to monitor organizational risks and ensure that the internal controls designed are sufficient to enhance operational effectiveness of the processes that have been established.. On the same risk assessment, assess values and ethics within the organization, assess the performance and unplanned and informal reviews of other areas of concern, including high levels of risk were effective.

#### 4.3.2 Level of Compliance and Consulting

**Table 4.5: Compliance Consulting**

<b>Compliance and Consulting</b>	<b>Very low</b>	<b>Slightly low</b>	<b>Moderate</b>	<b>High</b>	<b>Very high</b>	<b>Mean</b>	<b>Std Deviation</b>
Promoting accountability	0	2	10	13	85	4.64	0.32
Reviews operational and financial performance	3	5	15	21	66	4.29	0.23
Ensure efficiency of operations	2	7	9	29	63	4.30	0.22
Laws and regulations compliance	0	2	7	20	81	4.63	0.30
Appraisals	4	6	11	19	70	4.32	0.30
Provision of timely accounts reconciliation	1	1	8	25	75	4.56	0.28

**Source: Research findings**

Using the research findings above, majority of the respondents were in agreement that the level of promoting accountability, laws and regulations compliance, and provision of timely accounts reconciliation were very high as shown by a mean of 4.64, 4.63, and 4.56 respectively. Others agreed that appraisals were high, ensures efficiency of operations and reviews operational and financial performance as shown by a mean of 4.32, 4.30 and 4.29 respectively.

This findings concur with Roe (2004) who did a study that explored the impact on corporate governance by existence of a free and fair internal audit department and found that compliance and consulting in the internal audit act as frontline defence in situations whereby there is a deprived governance of the organisation and poor financial statement issuance. Further internal auditing ensure efficiency and effectiveness of operations within the organisation which leads to deterrence of frauds and embezzlement of company resources.

#### 4.3.3 Risk Management Strategies

**Table 4.6: Risk Management Strategies**

<b>Risk Management</b>	<b>Poor</b>	<b>Below Average</b>	<b>Fair</b>	<b>Good</b>	<b>Excellent</b>	<b>Mean</b>	<b>Std Deviation</b>
Risk identification	1	3	6	12	88	4.66	0.33
Risk assessment	0	5	7	33	65	4.43	0.24
Risk mitigation	2	4	8	29	67	4.40	0.24
Risk monitoring	0	0	11	14	85	4.67	0.32
Assess communication of risk	3	6	9	22	70	4.36	0.25

**Source: Research findings**

The research solicited to establish the extent to which the respondents were in agreement with the following statements relating to risk management strategies. Using the study findings above, most of the respondents pointed that risk monitoring and risk identification were excellent as shown by a mean of 4.67 and 4.66. Others agreed that risk assessment, risk mitigation and assess communication of risk were good as shown by a mean of 4.43, 4.40 and 4.36 respectively.

The findings are in line with Claudia (2009) who came to the conclusion that there was need for organizations to reveal to the stakeholders any risks and assessment thereof

#### 4.3.4 Audit Committee

**Table 4.7: Audit Committee**

<b>Audit Committee</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Moderate</b>	<b>Agree</b>	<b>Strongly Disagree</b>	<b>Mean</b>	<b>Std Deviation</b>
Reviews the effectiveness of the internal audit function	1	0	7	23	79	4.62	0.30
Monitors financial and compliance activities of management	2	5	4	19	80	4.54	0.30
Provides an independent and supportive environment	5	3	9	25	68	4.34	0.24
Ensures that some meetings are held on key dates within the financial and audit period	0	4	11	17	78	4.53	0.29
Ensures that its activities are consistent with leading practice	2	7	5	15	81	4.50	0.30

**Source: Research findings**

Audit Committee is a main player of governing corporates and the project investigated the impact on this control variable by the internal audit element. From the study findings most respondents agreed that the Audit Committee reviews the effectiveness of the internal audit function as shown by a mean of 4.62, it monitors financial and compliance activities of management as shown by a mean of 4.54, it ensures that some meetings coincide with key dates within the monetary reporting period to discuss the audit matters as shown by a mean of 4.53, it ensures that its activities are consistent with leading

practice as shown by a mean of 4.50 and it provides an independent and supportive environment as shown by a mean of 4.34.

The findings concur with (Jeong & Park, 2004) who asserted that among other things, the audit committee essentially have to comprehend the strategy of the auditors, and accept that it responds to audit risks, and ensure the auditors exercise correct professional scepticism. Auditors are objectivity and independent is key. Audit committees should also be involved and should disclose the matters arising.

#### 4.3.5 Attributes of Corporate Governance

**Table 4.8: Corporate Governance**

<b>Corporate Governance</b>	<b>Greatly decreased</b>	<b>Decreasing</b>	<b>Constant</b>	<b>Improved</b>	<b>Greatly improved</b>	<b>Mean</b>	<b>Std Deviation</b>
Discipline	0	0	15	31	64	4.44	0.24
Transparency	2	4	7	19	78	4.51	0.29
Independence	5	3	10	17	75	4.40	0.27
Accountability	3	1	5	14	87	4.64	0.33
Fairness	4	5	8	12	81	4.46	0.30
Social responsibility	0	0	1	41	68	4.60	0.28

**Source: Research findings**

The research wanted to investigate the magnitude to which respondent's rate corporate governance attributes in the organizations. From the findings, most of the respondents pointed that accountability, social responsibility, transparency had greatly upgraded as shown by a mean score of 4.64, 4.60 and 4.51 respectively. Others agreed that fairness,

discipline and independence had improved as shown by a mean score of 4.46, 4.44 and 4.40 respectively.

#### **4.4 Regression Analysis**

To ascertain that there was a relationship between internal audit and corporate governance in regulatory authorities in Kenya the study applied a regression analysis. The regression equation is as follows: variables  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$ ; where  $Y$ = Corporate governance,  $\beta_0$  = the constant,  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  = are the regression coefficients of these independent variables respectively;  $x_1$ = Control activities,  $x_2$ = Compliance and consulting,  $x_3$ = Risk management,  $X_4$  = Audit Committee and  $\epsilon$ = error term. Responses from the respondents were utilised in the measurement of each of the variable on the three independent variables. The Table 4.9 below exhibits the findings:

**Table 4.9 Regression Coefficients**

### Coefficients<sup>a</sup>

Model	Not standard Coefficients		Standard Coefficients	t	Sig.
	B	standard Error	Beta		
1	(Constant)	.966	.316	3.057	.005
	Control activities	.313	.115	.296	.020
	Compliance and consulting	.286	.109	.256	.013
	Risk management	.212	.099	.412	.003
	Audit Committees	.156	.026	.141	.000

a. Dependent Variable: Corporate Governance

**Source: Research findings**

The regression equation was established as:

$$Y = 0.966 + 0.313X_1 + 0.286X_2 + 0.212X_3 + 0.156X_4$$

Using, the regression model above all independent variables (Control Activities, Compliance and Consulting, Risk Management and Audit Committee) constant, other variables influencing Corporate Governance will be 0.966. It was established that ensuring the other independent variables were at 0, increasing the Control Activities by one unit will result in 0.313 increase in the Corporate Governance. Increasing Compliance and Consulting by one unit will result into 0.286 increase in Corporate Governance, a unit increase in Risk management will result into 0.212 increase in Corporate Governance, while a unit increase in Audit Committees will result into 0.156 rise in the Corporate Governance of regulatory authorities in Kenya. This infers that Control Activities affects Corporate Governance of regulatory authorities most followed by Compliance and Consulting, Risk Management and Audit Committee. The results also proved a significant relationship existed between the corporate governance of regulatory authorities with the independent variables; Control activities ( $p=0.02<0.05$ ), Compliance



and Consulting ( $p=0.01<0.05$ ), Risk Management ( $p=0.003<0.05$ ) and Audit Committee ( $p=0.000<0.05$ ). The significance stood at  $\text{Alfa}=0.05$ . Using the above findings, all the predictors were favorable in relation to corporate governance of regulatory authorities. This finding is consistent with that of Gordon and Smith (2011) who noted that existence of control functions, implemented by internal auditors, enhanced organization performances.

**Table 4.10 Regression Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863 <sup>a</sup>	.745	.726	.015

a. Predictors: (Constant), Control Activities, Compliance and Consulting, Risk Management, Audit Committee

**Source : Research findings**

This study utilized the R square. The R Square is referred to as the coefficient of determination and it guides us on the corporate governance of regulatory authorities varied with Control Activities, Compliance and Consulting, Risk Management and Audit Committee. Looking at the four independent variables it explained 74.5% of the variables affecting corporate governance of regulatory authorities as epitomized by the R Squared. Hence all the other variables not involved in this research contribute 25.5% of the variables affecting corporate governance of regulatory authorities. This findings are in agreement with (Schermerhorn, 2007) he identified risk management plays a significant role in a corporate governance of regulatory authorities.

**Table 4.11 Anova<sup>a</sup>****ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	99.56	4	24.89	25.22	.000 <sup>b</sup>
Residual	103.64	105	.987		
Total	203.19	109			

a. Dependent Variable: CORPORATE GOVERNANCE

b. Predictors: (Constant), Control Activities, Compliance and Consulting, Risk Management, Audit Committee

**Source : Research findings**

The study employed the use of ANOVA to analyse the regression model ( $p=0.000 < 0.05$ ). The model was statistically significant in predicting how Control Activities, Compliance and Consulting, Risk Management and Audit Committee affect Corporate Governance. The regression model had a confidence levels of 95%. From the results above which used the F-test measurement, the F value was at 25.22 where; f value stood at  $\alpha = 0.05$ , the degrees of freedom relating to the numerator and denominator was 4 and 105 respectively. According to Freeman (1984) this model can be used for estimation purposes.

**4.5 Interpretation of the Findings**

On effectiveness of internal audit control activities, the study found that managerial controls, internal controls, accounting information, communication and operational policies were very effective. The study further found that monitoring and information sharing regulations were effective. This findings are similar with earlier findings by

Prawitt et al., (2006) who concluded that internal audit plays a key role in the management of an organisation due to risk mitigations through proper set up of controls. On the same risk assessment, assess values and ethics inside the organisation, assess the performance and unplanned and informal reviews of other areas of concern, including high levels of risk were effective.

Under the level of compliance and consulting, the study findings indicated that the level of promoting accountability, laws and regulations compliance, provision of timely accounts reconciliation were very high in the organizations. The findings also indicated that appraisals were high, they ensured efficiency of operations and also reviews operational and financial performance in the organizations. This findings concur with Roe (2010) found that compliance and consulting in the internal audit function as a frontline defence against deprived corporate governance and reports of the financial performance. Further internal auditing ensure efficiency and effectiveness of operations transparency of financial and structural information and provides information on large scale organisation irregularities and embezzlements.

On risk management strategies, the study found that risk monitoring and risk identification were excellent in the organizations. It was further found that risk assessment, risk mitigation and assess communication of risk were good in the companies. The findings are in line with Larcker (2009) who indicated that the process of risk management and the results of risk assessments should be appropriately disclosed by the organisation to all the relevant parties.

Audit Committee is a main player of corporate governance and the study found that the Audit Committee reviews the effectiveness of the internal audit function, monitors financial and compliance activities of management and ensures that some meetings are held to discuss matters arising. The study further found that it ensures that its activities are consistent with leading practice and provides an independent and supportive environment in the organizations. The findings concur with (Jeong & Park, 2009) who asserted that among other things, the audit committee needs to be free from management influence and apply the necessary audit strategy. Audit committees should consider meeting the engagement quality control review partner (second partner reviewer) as part of the audit process to understand what they did to ensure quality and address any issues that arose.

Prediction by regression model indicated that ensuring that all the other independent variables were at zero a unit increase in Control Activities will result into 0.313 increase in the Corporate Governance. An increase in Compliance and Consulting will result into 0.286 increase in Corporate Governance, unit increase in Risk management will result into 0.212 increase in Corporate Governance and a unit increase in Audit Committee will result into 0.156 increase in the Corporate Governance of regulatory authorities in Kenya. This infers that Control Activities affects Corporate Governance of regulatory authorities most followed by Compliance and Consulting, Risk Management and Audit Committee. This finding is consistent with that of Gordon and Smith (2011) who found that a control function, such as that performed by internal audit, can lead to better firm performance.

## **CHAPTER FIVE: SUMMARY ,CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter is a summary of findings, recommendations and conclusion have been established in the quest for establishing the relationship between internal audit and corporate governance in regulatory authorities in Kenya.

### **5.2 Summary**

The findings, the study established that managerial controls, internal controls, accounting information, communication and operational policies were very effective in the organizations. They further established that monitoring and information sharing regulations were effective. The study findings revealed that the level of promoting accountability, laws and regulations compliance, provision of timely accounts reconciliation were very high in the organizations. The findings also indicated that appraisals were high, they ensured efficiency of operations and also reviews operational and financial performance in the organizations.

On risk management strategies, the study found that risk monitoring and risk identification were excellent. It was further found that risk assessment, risk mitigation and assess communication of risk were good in the companies. From the research findings, it was established that the audit committee is a main player of corporate governance. The study found that the audit committee reviews the effectiveness of the internal audit function, monitors financial and compliance activities of management and ensures that some meetings are held to discuss arising issues. The study further found that

it ensures that its activities are consistent with leading practice and provides an independent and supportive environment in the organizations.

Prediction by regression model indicated that by ensuring that all the other independent variables were at zero a unit increase in Control Activities will result into 0.313 increase in the Corporate Governance. A unit increase in Compliance and Consulting will result into 1 0.286 increase in Corporate Governance, unit increase in Risk management will result into 0.212 increase in Corporate Governance and a unit increase in Audit Committee will result into 0.156 increase in the Corporate Governance of regulatory authorities in Kenya. This infers that Control Activities affects Corporate Governance of regulatory authorities most followed by Compliance and Consulting, Risk Management and Audit Committee.

### **5.3 Conclusion**

On the effectiveness of control activities, the study concluded that managerial controls, internal controls, accounting information, communication and operational policies were the most effective. In regards to compliance and consulting, the study found that the level of promoting accountability, laws and regulations compliance, provision of timely accounts reconciliation were very high in the organizations. On risk management strategies, it can be concluded that risk monitoring and risk identification were excellent.

Likewise, the audit committee strongly played a complementary role by effectively reviewing the effectiveness of the internal audit function, monitoring financial and compliance activities of management. They also ensured that its activities were consistent

with leading practice and provided an independent and supportive environment in the organizations.

The study further concluded that the corporate governance attributes of accountability, transparency, independence, fairness, social responsibility and discipline had greatly improved within the organizations. From the regression, the study concludes that control activities had the greatest effect on corporate governance within the regulatory bodies in Kenya followed by compliance and consulting while risk management and audit committee had the least effect.

#### **5.4 Recommendations for Policy and Practice**

To guarantee obedience with laws and guidelines the study recommends constant review of the internal auditor's report by the audit committee to ensure transparency and integrity in the auditing process in the regulatory bodies in Kenya. The study also recommends the need for the audit committee to monitor both the internal and external auditing processes to ensure that proper regulations geared towards integrity are adhered to.

From the results, the study found that the management of the regulatory bodies should be able to embrace proper audit planning so as to improve efficiency, accuracy, completeness, timeliness, convenience and clarity. This is because if the internal audit is complied with, they can create transparency and accountability in the regulatory bodies hence influence corporate governance.

Audit sector in regulatory bodies play a vital role in upholding assurance in the stewardship of assets and in those to whom the accountability of stewardship is assigned.

Therefore this study recommends auditing in all the regulatory bodies so that their performance can be improved.

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

There were numerous challenges which were met in the process of this study. There was a reluctance and lethargy by the directors chosen to participate in the questionnaires. The feedback was very slow and lengthy with insistence of setting up meetings.

Secondly, there was very little information in relation to literature review on the project's topic. The element of regulatory bodies in Kenya had not been touched on by local scholars at all.

Lastly, the feedback extracted from the questionnaire was very ambiguous from the respondents. This led to a lot of time wastage on the researcher's part.

### **5.6 Suggestion for Further Studies**

This study has enhanced the literature material and paved way for upcoming studies. It proposes that more studies be done relating to the challenges facing internal audit and corporate governance in the regulatory bodies in Kenya.

The study also suggested further research to be conducted on the relationship between internal audit and corporate governance in private institutions since this one covers the public sector.

The study also proposes that a research to be conducted showing the impact of corporate governance on the financial performance of regulatory bodies in Kenya.



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## APPENDICES

### Appendix I: Questionnaire

#### SECTION A: DEMOGRAPHIC INFORMATION

1. Gender of the respondent :

Male [   ]

Female [   ]

2. Age of the respondent

< 20 years [   ]

20-30 years [   ]

31-40 years [   ]

41-50 years [   ]

50 years and above [   ]

3. length of service in the organization

0-5 years [   ]

6-10 years [   ]

11-15 years [   ]

16-20 years [   ]

21 years and above [   ]

#### SECTION B: INTERNAL AUDIT AND CORPORATE GOVERNANCE

4. How would you describe the effectiveness of the following internal audit control measures in your organization? Use a scale of 1-5 where 5= very effective, 4= effective, 3 = moderately effective, 2= slightly effective and 1= ineffective

Control Activities	1	2	3	4	5
Accounting information and communication					
Managerial controls					
Operational policies					
Information sharing regulations					
Internal controls					
Monitoring					

5. How would you describe the level of compliance and consulting in your organization? Use a scale of 1-5 where 5= Very high, 4= High, 3 = moderate, 2= slightly low and 1= Very low

<b>Compliance and consulting</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Promoting accountability					
Reviews operational and financial performance					
Ensure efficiency of operations					
Laws and regulations compliance					
Appraisals					
Provision of timely accounts reconciliation					

6. How would you describe the quality risk management strategies in your organization? Use a scale of 1-5 where 5= Excellent, 4= Good, 3 = Fair, 2= Below average and 1= Poor

<b>Risk Management</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Risk identification					
Risk assessment					
Risk mitigation					
Risk monitoring					
Assess communication of risk					

7. Please indicate your level of agreement with the following statements as regards the Audit Committee in your organization? Use a scale of 1-5 where: 1-Strongly disagree; 2-Disagree; 3-Moderate 4-Agree; 5-Strongly agree

<b>Audit Committee</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Reviews the effectiveness of the internal audit function					
Monitors financial and compliance activities of management					
Provides an independent and supportive environment					
Ensures that some meetings coincide with key dates within the					

financial reporting and audit cycle					
Ensures that its activities are consistent with leading practice					

### SECTION C: CORPORATE GOVERNANCE

8. How would you rate the following attributes of corporate governance in the last five years?

	<b>Greatly improved</b>	<b>Improved</b>	<b>Constant</b>	<b>Decreasing</b>	<b>Greatly decreased</b>
Discipline					
Transparency					
Independence					
Accountability					
Social Responsibility					
Fairness					
Social responsibility					

Thank you for your responses and comments

## **Appendix II: Government Regulatory Authorities in Kenya as at 2015**

1. The Medical Practitioners Board
2. The pharmacy and poisons Board
3. Capital Markets Authority
4. Water Resources Management Authority
5. Retirement Benefits Authority
6. National Environment Management Authority
7. Water Services Regulatory Board
8. Tourism Regulatory Authority
9. Kenya National Highways Authority
10. Transition Authority
11. Kenya Film Classification Board
12. Water Services Regulatory Board
13. Kenya Film Commission
14. Communication Authority of Kenya
15. Information and Communication Technology Authority
16. Insurance Regulatory Authority
17. Central Bank of Kenya
18. Sacco Societies Regulatory Authority
19. Betting Control and Licensing Board
20. Kenya Bureau of Standards
21. Kenya Plant Health Inspectorate Services
22. Public Service Commission
23. Public Procurement Oversight Authority
24. Energy Regulatory Commission
25. Policyholders Compensation Fund
26. Central Depository & Settlement Corporation Ltd
27. Cotton Development Authority
28. Digital Kenya Secretariat
29. Kenya Deposit Insurance Corporation
30. Kenya Industrial Property Institute



31. Kenya Maritime Authority
32. Kenya Rural Roads Authority
33. National Construction Authority
34. National Environment Tribunal
35. Nursing Council of Kenya
36. Policyholders Compensation Fund
37. Radiation Protection Board
38. Rural Electrification Authority
39. Kenya Wildlife Service
40. Competition Authority of Kenya
41. Kenya Road Board
42. Kenya Airports Authority
43. Salaries and Remuneration Commission
44. Kenya Civil Aviation Authority

Source: Kenya Business Directory