THE EFFECTIVENESS OF INTERNAL AUDIT IN PROMOTING GOOD GOVERNANCE IN THE PUBLIC SECTOR IN KENYA

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DECLARATION

This research project is my original work and has not been presented to any university for any award or anywhere else for academic purposes.

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

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ABSTRACT

In attempting to adequately discharge their responsibilities, internal auditors often find themselves in an anomalous position. For instance, they report to senior management within the organization, but they are expected to review the conducts and effectiveness of the management in objective manner. While internal audit can be used in order to assist management in order to instill a strong ethical tone in the entire organization, a poor attitude by the management can make it hard for the internal auditor to uphold ethical behavior. Conflicts in different internal auditing roles in enhancing corporate governance have not gone away with contradicting opinions on how internal audit affect the corporate governance with some citing a positive effect and some saying it has very minimal effect if any.

The objective of this study was to establish the effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries. A descriptive cross-sectional design method was preferred for this study. The target population of this study targeted the CIA of all the 44 government ministries. The study collected both primary on the current state of affairs of government ministries. The main instrument for data collection was questionnaires with both structured and open ended questions. The research is both quantitative and qualitative in nature. This implies that both descriptive statistics and conceptual content analysis was employed. The researcher also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable.

The study found that internal control had the greatest effect on corporate governance within Kenya government ministries followed by risk management while compliance and consulting had the least effect. The study recommends that in order for the government to be effective in its operation and service delivery they should recognize contribution of internal auditing. Additionally, the study recommended that for the ministry to be effectively mitigate risk they should institute internal auditing in its operation. The study also recommended that all ministries should institute internal control in its operation to ensure effective operation. Likewise the study recommended that government ministries to accept internal auditing as a tool for effective internal control so as to realize their objectives set with ease.

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LIST OF ABBREVIATIONS

CIA	-	Chief Internal Auditors
IAD	-	Internal Audit Department
IIA	-	Institute Internal Auditors
OECD	-	Organization for Economic Cooperation and Development
PFM	-	Public Financial Management
SEC	-	Securities and Exchange Commission
SOEs	-	State Owned Enterprises
SOX	-	Sarbanes-Oxley
SPSS	-	Statistical Package for Social Sciences
UK	-	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Well performing internal audit function is one of the strongest means to monitor and promote good governance system in an organization. Internal auditing is an integral part of the corporate governance mosaic in both the public and the private sectors (Cohen *et. al.*, 2002). As a result, in many countries it has received an increasing attention as an important component of government financial management and as a tool for improving the performance of the government sector. According to the professional guidance of the Institute Internal Auditors (IIA), public sector governance encompasses the policies and procedures used to direct an organization's activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner.

Good governance is considered as a tool that is used in order to achieve strategy of an organization (Belay, 2007). Thus, a growing number of finances restatements by government institutions joined with allegations of financial statement fraud and lack of accountable corporate governance of many government departments has helped to grinded the ever increasing attention on corporate governance in wide-ranging and the audit committee in particular. As a result, the function of the committee had changed over years (Rezaee & Olibe, 2003). Other recent research shows the assurance, compliance and consultant roles of internal auditing are now being recognized at board level in many organizations as valuable contributors to good governance practices.

1.1.1 Internal Auditing

According to Institute of Internal Auditors (IIA) (2009) internal auditing can be defined as a self-governing, objective and consulting activity that is designed in order to add value and develop the operations of an organization. It helps an organization to carry out its objectives by bringing an organized, disciplined approach in order to assess and develop the effectiveness of risk management, control and governance processes. Thus, internal auditing is being performed by professionals with a thorough understanding of the business culture, systems and processes, the internal audit activity which offers guarantee that internal controls in place are sufficient in order to alleviate the risks, governance processes are helpful and competent, and organizational goals and objectives are being met (IIA, 2004). This definition suggests that internal audit has undergone a paradigm shift from an emphasis on accountability about the past to improving future outcome which help auditees operate in more effective and efficient manner (Nagy & Cenker, 2002).

Internal auditing is a profession and activity involved in advising organizations regarding how to better achieve their objectives through managing risks and improving internal control. Internal auditing involves the utilization of a systematic methodology for analyzing business processes or organizational problems and recommending solutions. The main role of the internal audit function is to guarantee that management official controls are being applied in effective manner. The internal audit function, even though not obligatory, subsists in most private enterprise or corporate entities, and in government including federal, state, country and city governments. The task, quality and strong point of an internal audit function may be different extensively within the approach of top executives and traditions of companies and organizations. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

1.1.2 Concept of Corporate Governance

While corporate governance has been reflected upon since the beginnings of the modern corporation (Kim and Nofsinger, 2007), it certainly has received increased attention and scrutiny over the last two decades. In this period, corporate governance issues have become important not only in the academic literature, but also in public policy debates. Corporate governance issues are in general receiving greater attention as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low investment capital (Mordelet, 2009).

Corporate governance ranges throughout countries and firms. A higher quality of corporate governance allows firms to gain access to capital markets more easily, which is greatly significant for firms, which mean to boost their funds. Simultaneously, Cohen and Hanno (2000) using the Public Oversight Board's perspective, defined corporate governance as "those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process". This view of governance focuses on the control environment and control activities.

However, the best way to define the concept is to adopt the definition shared by the Organisation for Economic Cooperation and Development (OECD, 2004) countries: "Corporate governance is the system by which a business corporation (or a nonprofit organisation) is directed and controlled, at its senior level, in order to achieve its objectives, performance and financial management, but also accountability, integrity and openness".

More recently, Roe (2004) defines corporate governance as the relationships at the top of the firm-the board of directors, the senior managers, and the stockholders. In his opinion institutions of corporate governance are those repeated mechanisms that allocate authority among the three and that affect, modulate and control the decisions made at the top of the firm. The above definition of corporate governance indicates idea of objectives correspondence, incentives, monitoring and control.

1.1.3 Effect of Internal Audit on Corporate Governance

In the past, managers in the public sector had a narrower range of expectations for the role of internal audit than managers in the private sector. This explains why the internal audit function in the public sector was dominated by pre-payment audits. Thus internal auditors devoted most of their time to the checking on individual transactions before the payments were made. However, in recent years internal auditing has assumed a strategic dimension and that underscores why it has become an essential component of public sector governance and financial management reforms in many developing countries (Barrier, 2003).

It is now generally accepted that the correlation between internal auditing and corporate governance affects all kinds of economic activity and that the perceived implications and consequences of this interaction have changed considerably in the recent years. Internal auditing and corporate governance have now become a matter of major public concern. Internal auditing is involved in many of the current discussions taking place on corporate governance practices (Mordelet, 2009).

The ethical standing of any profession is critical to its reception in the society (Mintz, 1995). According to Armstrong (1993), ethical conduct focus at the center of each cause for survival of work. This is the cause for the auditing profession where in ethical failings can have far-reaching economic influences and result to the extensive financial agony. Ethical values are fundamental for the internal auditors because of two important reasons. First, internal auditors are regularly faced with various ethical problems which can confront their standards (Goodwin & Yeo, 2001). They may face cases which involve and oblige them to speak out and this is not always simple, for the most part when pressure is being exercised by senior management to go with the flow and not to make waves (Thompson, 2003). Second, with the existing emphasis on corporate governance, it is becoming more and more familiar that internal auditors can play a key function in increasing business ethics and corporate honesty (Moelle, 2004). As one of the important keystones and foundations of corporate governance, internal auditors are anticipated to work with audit committees, boards and senior management to assist put the right tone at the top and helps to guarantee that ethical behavior flows down all the way through the ranks to lower level employees.

1.1.4 Kenyan Public Sector

Kenyan public sector is a government sector that offers services to all the citizens either directly (through the public sector) or by financing private provision of services. The term is associated with a social consensus (usually expressed through democratic elections) that certain services should be available to all, regardless of income. Even where public services are neither publicly provided nor publicly financed, for social and political reasons they are usually subject to regulation going beyond that applying to most economic sectors.

A public service in Kenya the characteristics of a public good (being non-rivalrous and non-excludable), but most are merit goods, that is, services which may (according to prevailing social norms) be under-provided by the market. Therefore, the public sector in Kenya provides those services that cannot be left in the hands of individual entrepreneurs.

1.2 Statement of the Problem

Within the globalized economy, internal auditing is established as an essential means for the exact management of any business economic resources. Simultaneously, corporate governance has received wide attention in recent years both in practice and in academic research because of the major accounting scandals and large-scale corporate failures. Recent corporate scandals and earnings restatements have resulted in an increased emphasis on the need for strong corporate governance to ensure financial reporting quality (Cohen et al., 2004; Carcello et al., 2005).

In attempting to adequately discharge their responsibilities, internal auditors often find themselves in an anomalous position. For instance, they report to senior management within the organization, but they are expected to review the conducts and effectiveness of the management in objective manner. While internal audit can be used in order to assist management in order to instill a strong ethical tone in the entire organization, a poor attitude by the management can make it hard for the internal auditor to uphold ethical behavior. This can be observed in situations and problems that are connected with the whistle-blowing, particularly when the internal job security or threatened progress of the internal auditor (Arnold & Ponemon, 1991).

Conflicts in different internal auditing roles in enhancing corporate governance have not gone away with contradicting opinions on how internal audit affect the corporate governance with some citing a positive effect (Herdman, 2002; Richards, 2002) and some saying it has very minimal effect if any (Davidson et al., 2005). in Kenya, Kibet (2008) carried out a survey on the role of internal audit in promoting good corporate governance in SOEs; Kibara (2007) similarly carried out a survey of internal auditors risk management practices in the banking industry in Kenya; Keitany (2000) studied the internal audit control function and its implication for risk assessment by the external auditor and Mugo (1998) conducted a study on the scope of independence of internal auditing in publicly quoted companies in Kenya.

Over the years the public sector has been experiencing massive corruption and fraud related cases where public funds end up in the hands of corrupt individuals (Adari, 2007). More often than not, such lost funds are never recovered despite having litigations against the perpetrators. Public organizations in Kenya are faced with risks emanating from internal controls weaknesses which more often than not result to financial losses for the organizations (Njoroge, 2003). Weak internal controls also provide avenues for fraud in these organizations (Wagacha, and Ngugi, 2009). According to Wagacha, and Ngugi, these risks need to be identified and mitigated to ensure that imminent threats are controlled.

A question is left unanswered as to whether internal auditors should be among the ones to blame when organizations are at the point of collapsing. In the case of Uchumi, the external auditors were mostly accused for failure to alert the public on the financial status of the supermarket. However, according to the ISAs the role of the external auditor is not to unearth frauds and irregularities in organizations but to carry out his work with a skepticism mind and report any if they encounter. They rely on information provided by the management of which internal auditors are part of. The internal auditor should be aware of any irregularities even before the external auditor finds out. This means that the audit committee would have been made aware also through the internal audit reports. To the best of the researcher's knowledge, no study has looked on the effectiveness of internal audit to promote good governance in the public sector in Kenya. This study sought to fill this gap by looking at its effectiveness in the government ministries.

1.3 Objectives of the Study

The study sought to establish the effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries.

1.4 Value of the Study

This study may provide critical information to the various stakeholders in the corporate world.

Management in the public sector: The study may help management to appreciate the role played by internal auditing function in their organizations and understand the challenges they face in carrying out their roles and help solve them. It may enable them to know whether their investment in strong IAD is worthwhile. Governing bodies and senior management in the public sector need the services of internal audit to be effective and efficient. At the same time the legitimacy of internal audit activity and its mission should be understood and supported by senior management of government entities to enhance its effectiveness in promoting good public sector governance, control and risk management systems. Modern internal audit practice has transformed into a professional discipline of its own and as a partner to governance bodies with strategic focus of contributing towards the improvement of organizational governance and risk management strategies.

Internal auditors: The internal auditors may understand their role in organizations and the challenges they will face as they carry out these roles.

Academicians: To the academicians and scholars, the study contributes significantly to the internal auditing debate. The study will contribute to the existing literature regarding the effect of internal audit to corporate governance. Further, the study identified future research areas that will have advantage for future researchers to conduct further study in this area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on the topic of internal audit function as in the previous studies and the gaps to be filled by this research study are also explained. The specific areas covered here include the theoretical framework, internal audit and corporate governance and the empirical studies.

2.2 Theoretical Framework

2.2.1 The Agency Theory

Meckling and Jensen (1976) in their paper on the theory of the firm defined the agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Thus, for the internal audit to be effective there is need for not only their independence but also the top management support.

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

From an agency perspective, the importance of strong governance stems from the need to align the interests of management with other stakeholders in the firm in order to reduce agency costs and increase the internal audit department effectiveness. Various corporate governance mechanisms can be used to monitor the management's behaviour and these include independent directors on the board, an independent board chair, an effective audit committee and both external and internal audit. Davidson et al., (2005) describe the complex interactions between these governance mechanisms as the corporate governance mosaic.

2.2.2 Institutional Theory

According to institutional theory by Fogarty *et al*.(1997), an organisation is designed and functions to meet social expectations in so far as its operations are visible to the public. Therefore organisational internal operations, which are often complex and difficult to identify, may take second place to the issue of external legitimacy. It is suggested that the external image of the organisation may be loosely coupled with its operating processes and the kind of technology it adopts.

Fogarty *et al*. (1997) developed this, asserting that the contribution of institutional theory is in the insight that the actual accomplishments of an organisation and what its structure suggests should accomplish are often different. The organisation operates with internal processes that are not normally visible to those external to it, while other structures maintained for outsiders do not significantly add to output. Fogarty (1996) observes that scrutiny by outsiders can be avoided if the right structures are adopted by organizations. Loose technological coupling enables organizations to show success in external problems whilst allowing flexibility in operational processes. Thus the institutions should be ready to meet the high cost of adopting various technologies in the internal audit department and ensure that the staff are trained in order for the department to operate efficiently.

2.3 Internal Audit and Corporate Governance

The audit function has become an integral part of government financial management and an instrument for improving performance in the public sector. The need for good governance and accountability has compelled governments to demonstrate a stronger sense of responsibility in the use of public funds and efficiency in the delivery of services. Management of national economies today is more complex and demands greater competency and professionalism from internal auditors if they are to be able to assist government in ensuring that scarce resources are deployed more efficiently and to also effectively deal with the associated risks. Effective internal oversight and monitoring are crucial to good governance and effective Public Financial Management (PFM). Internal oversight includes the internal audit function that must be effective and should comply with generally accepted auditing standards with regards to practice and approach. The focus of internal auditing is to determine whether public funds have been spent for the purposes for which they were appropriated and thereby promoting accountability.

Internal audit undertakes reviews of individual systems and processes and consequently makes recommendations to heads of public sector entities on how internal controls could be improved. An internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Commonwealth Secretariat 2005). Van Gansberghe (2005) puts forward the case that "Management must recognize the value added role of internal audit and contribute towards its effectiveness.", and that "As internal auditing in the public sector assumes a status of professional practice, management would benefit from its recommendations in improving its decision-making and thus would be playing a more proactive and foresight role. Internal audit function provides internal consulting service to the management in public sector institutions and hence the executive arm of government for smooth and efficient functioning and for reviewing and improving its performance. It also ensures that there are efficient controls and greater transparency in the decision and policy-making processes of government functionaries and institutions in delivering services successfully and in carrying out development programs in an efficient and appropriate manner.

Public Sector controls cover all aspects of activities including financial, managerial and operational policies and are intended to safeguard assets, ensure the accuracy and reliability of financial information and promote operational efficiency. The internal audit function is in a good position to help senior management of public institutions to identify risks, suggest risk management strategies and, ultimately, provide assurance that the risks are being appropriately managed. Thus, the internal auditing function evaluates the effectiveness of public institutions in achieving agreed objectives and thereby promoting strong governance and accountability regime.

Additionally, recent speeches from SEC officials (Herdman, 2002; Richards, 2002) emphasize the significance of internal audit to a company's governance structure. The vital role that the internal audit function played in the implementation of the reporting requirements of the Sarbanes-Oxley Act of 2002 (SOX) highlights the importance of the function to maintaining strong corporate governance (Rosenstein and Rose, 2006). Deloitte (2005) noted that without internal audits' efforts and expertise in companies' organizational operations, "the business landscape would likely be littered with significantly more disclosures of material weaknesses and revelations of noncompliance with."

Based on the Audit Committee, on the one hand internal auditing contribute to corporate governance by: Bringing best practice ideas about internal controls and risk management processes to the audit committee; providing information about any fraudulent activities or irregularities (Rezaee and Lander, 1993); conducting annual audits and reporting the results to the audit committee and encouraging audit committee to conduct periodic reviews of its activities and practices compared with current best practices to ensure that its activities are constituent with leading practises (Sawyer, 2003).

From the other hand, an effective audit committee strengthen the position of the internal audit function by providing an independent and supportive environment and review the effectiveness of the internal audit function. External audit is also regarded as an important cornerstone of corporate governance, particularly with respect to the prevention and detection of fraud and errors in financial statements (Davidson et al., 2005).

2.3.1 Risk Management

The internal audit function plays a unique role in corporate governance by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled. This unique role has been noted in both research and practice. For example, studies have found that the presence of an internal audit function has a deterrent effect on financial reporting irregularities and employee theft. Gordon and Smith (1992) found that a control function, such as that performed by internal audit, can lead to better firm performance. Furthermore, Prawitt et al., (2006) found that the internal audit function moderates the level of earnings management in companies.

The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to; effectiveness and efficiency of operations, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, and contracts. Based on the results of the risk assessment, the internal auditors evaluate the adequacy and effectiveness of how risks are identified and managed in the above areas. They also assess other aspects such as ethics and values within the organization, performance management, communication of risk and control information within the organization in order to facilitate a good governance process (IIA Research Foundation, 2004).

The study of Spira & Page (2003) explores the changes due to the fundamental redefinition of Turnbull guidelines about the nature of internal control as an attributes of corporate governance in the UK. The paper focused on sociological standpoints regarding risks as well as other conceptualization in order to outline the discussion regarding the internal control and risk management within the UK corporate governance. Corporate governance replicates the power relations and political resolutions between shareholders, creditors, management and labor as they are personified in a given institutional history (Jackson 2000). For this reason, the idea of risk had become essential to corporate governance and become connected to the idea of internal control. In the process, the significance had changed.

Internal control was under assessment, partially because of well-publicized corporate failures and partially as a result of moves towards professionalization of the internal audit function. Express changes in IT and decision-making practices in many organizations were motivating moves away from strict, recognized control to situations where liability for control was being pushed down the organization hierarchy and where mistake by management could not be attained through conventional, fulfillment based internal audit. The study had been able to show an observation that within the corporate governance policy, risk management has become closely aligned with internal control which proposes the amount to which risks are administered has now been captured as a form of accountability, rather than its focus – considered as an index against which a measurement of performance is being calculated. Thus, the redefinition enables to offer a new vision of risk management as part of the accountability process, which involves an alteration which shadows the difference between responses to risk, through risk management systems and accountability of risk (Spira & Page, 2003).

2.3.2 Internal Controls

According to Cook and Wincle (1976), the Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. In this concept, by measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is directly linked to the organizational structure and the general rules of the business (Cai, 1997). In today’s business environment internal auditors are now providing *management* with a far broader range of information concerning the organization’s financial, operational and compliance activities to improve effectiveness, efficiency, and economy of management performance and activities.

The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. While management is responsible for internal controls, the internal audit activity provides assurance to management and the audit committee that internal controls are effective and working as intended. The internal audit activity is led by the CAE. The CAE delineates the scope of activities, authority, and independence for internal auditing in a written charter that is approved by the audit committee. An effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders (IIA Research Foundation, 2004).

SEC officials have repeatedly emphasized the importance of the internal audit function to the overall control structure of an organization. For example, former SEC Chief Accountant Herdman (2002) stated that an effective internal audit function is "crucial to the success of a company in stemming fraud and abuse, and in the preparation of accurate financial statements." The SEC Director of the Office of Compliance Inspections and Examinations Richards (2002) noted that internal auditors have a critical role in fraud prevention and compliance promotion. More recently, the Associate Director of the Office of Compliance Inspections and Examinations for the SEC has stated that she considers internal audit a critical component of a company's internal control structure (Gadziala, 2005).

Corporate governance developments around the world have reaffirmed the responsibility of the board in the process of ensuring the success and efficiency of the internal control framework of the company. As a result, the key role of the internal audit is vital in order to support the board in order to ensure sufficient oversight of internal control as well as in the process of doing so form in the integral aspect of the corporate governance framework of the organization. Thus the key role of the internal audits focuses on the process of assisting the board and/or its audit committee in the process of discharging its governance responsibilities by focusing on the following: an objective assessment of the existing risk and internal control framework; methodical examination of business processes and connected controls; reviews of the subsistence and value of assets; a source of information on major frauds and irregularities; unplanned and informal reviews of other areas of concern, including unacceptable levels of risk; reviews of the agreement framework and specific compliance issues; reviews of operational and financial performance; suggestions for more helpful and competent use of resources; appraisals of the achievement of corporate goals and objectives and finally advice and comment on devotion to the values and code of conduct/code of ethics of the organization (Deloitte, 2005).

2.3.3 Compliance and Consulting

The internal auditing profession is guided by the International Standards for the professional practice of Internal Auditing. According to the International Standards for the professional practice of Internal Auditing (2008), the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the code of ethics, and the standards. The CAE must periodically review the internal audit charter and present it to senior management and the board for approval.

The study of Roe (2004) focused on internal audit independence and corporate governance. The study analyzed the internal audit function as a first line protection against insufficient corporate governance and financial reporting. With suitable support from the Board of Directors' Audit Committee, the internal audit staff is in the best position to collect intelligence on unsuitable accounting practices, insufficient internal controls and unsuccessful corporate governance. The result of the study showed that the internal audit scope should be extensive to address strategic business issues as well as increasing some fulfillment audits. There is a strong support for internal audit to play a major role in monitoring in conformity in positive manner. As a result, the Chicago area internal audits groups previously have taken vital steps to move past the dialogues stages and have become vigorously engaged in conformity monitoring (Barriff 2003).

The relationship between internal and external auditors should be one of mutual support and cooperation in order to strengthen overall audit quality and mechanisms of corporate governance

(Gramling and Myers, 2003). Finally internal auditing help corporate governance by reviewing the organization's code of conduct and ethics policies to ensure they are current and are communicated to employees.

2.4 Empirical Studies

An effective internal audit function plays a key role in assisting the board to discharge its governance responsibilities. The study of O'Leary & Stewart (2007) used exploratory study; this had been done by presenting the five ethical dilemmas for 66 internal auditors. For each scenario, a key element of corporate governance was operated in order to assess its influence on ethical decision making. These were audit committee support; management truthfulness regarding different accounting policies; management integrity regarding pressure on internal audit; external auditor characteristics; and organizational code of conduct. As a result, the researcher had been able to show the different ethical decision-making related to internal audit and corporate governance.

On the other hand, Spira & Page (2003) explored the change in internal control using sociological perspectives on risk and its conceptualization to frame the debate about internal control and risk management within the UK corporate governance arena. By using this method, the paper had been able to show that progresses in corporate governance reporting requirements offer chances for the misappropriation of risk and its management by groups, at the same time, enables to evaluate the current changes in internal audit.

Keitany (2000) in his study 'the internal audit control function and its implication for risk assessment by the external auditor: A case of quoted companies' aimed to establish whether the existence of an adequate internal audit function translates into a strong internal system that can be relied upon by the external auditor. The study adopted an exploratory research design and the population was all companies active in the NSE and their external auditors. The sample was 100% of the population. Primary data was collected using semi structured questionnaires with close ended questions. The data was analyzed using descriptive statistics such as mean, standard deviations and percentages. It was concluded that though the extent of reliance of internal controls is not sensitive to the strength of internal audit departments, companies should not do away with it. This is because as a management tool, it should assist management in its day to day operations and not necessarily of relevance to the external auditor.

Kibet (2008) in his study ‘a survey on the role of internal audit in promoting good corporate governance in SOEs’ aimed to explore the role and the use of internal audit function in promoting good corporate governance in public sector enterprises and the challenges faced by the internal auditors in SOEs. The study followed an exploratory research design and the population comprised of all SOEs with government equity of over 50% located in Nairobi. A sample of 43 state corporations was selected by way of geographical location and government shareholding. Data collection was by way of questionnaires and the respondents were the heads of internal audit departments. Data collected was analyzed using the SPSS and the output presented in frequency distribution tables, pie and bar charts. The study concluded that internal audit function played a role in corporate governance.

Krishnan and Visvanathan (2005) in their study sought to address the role of audit committees and auditors in the reporting of internal control deficiencies after the passage of the SOX. The study sample comprised of firms selected from the Compliance week and covered a period from November 15, 2004 till March 1, 2005. Compliance Week reported that 164 firms mentioned internal control issues in their filings with SEC during the sample period. To represent auditor attributes the study examined size of the auditor, tenure, auditor changes, and audit fees. The study found that a higher number of meetings of the audit committee, lesser proportion of "financial experts" in the audit committee, and more auditor changes characterize firms that report weaknesses in their internal controls compared to firms with no weaknesses. Prior restatements of financial statements are also higher for firms not reporting such weaknesses. The results were robust to controlling for a variety of firm characteristics such as complexity of operations, profitability, and growth. It underscored the importance of governance characteristics beyond general firm characteristics in examining the reporting of internal control weaknesses.

Zhang, Zhou and Zhou (2006) in their paper “Audit committee, auditor independence and internal control weaknesses” investigated the relation between audit committee quality, auditor independence, and the disclosure of internal control weaknesses after the enactment of the SOX. The study concluded that Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise, as well. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

2.5 Conclusion

The audit function has become an integral part of government financial management and an instrument for improving performance in the public sector. Internal audit undertakes reviews of individual systems and processes and consequently makes recommendations to heads of public sector entities on how internal controls could be improved. The internal audit function is in a good position to help senior management of public institutions to identify risks, suggest risk management strategies and, ultimately, provide assurance that the risks are being appropriately managed.

Based on the Audit Committee, on the one hand internal auditing contribute to corporate governance by: Bringing best practice ideas about internal controls and risk management processes to the audit committee; providing information about any fraudulent activities or irregularities (Rezaee and Lander, 1993); conducting annual audits and reporting the results to the audit committee and encouraging audit committee to conduct periodic reviews of its activities and practices compared with current best practices to ensure that its activities are constituent with leading practices. Most of the reviewed literature is from the developed countries whose strategic approach and financial footing is different from that of Kenya. Thus, there is a literature gap on the subject matter in the Kenyan situation. This study therefore will seek to fill this gap by establishing the effectiveness of internal audit in promoting good governance in the public sector in Kenya with reference to the Government ministries.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design, the target population, the sample size and procedures that were used to select the sample elements. It covers the research instruments and the procedure for collecting the primary data and defines the methods that were used to analyse data.

3.2 Research Design

According to Mutai (2001), the research design refers to the procedures to be employed to achieve the objectives of the research. The research design constitutes the blueprint for the collection, measurement and analysis of data (Cooper & Schinder, 2007). A descriptive cross-sectional design method was preferred for this study. The method is chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie, 2004). This research design also portrays the characteristics of a population fully (Chandran, 2004).

3.3 Population

Target population refers to all the members of a real or hypothetical set of people, events or subjects to which a researcher wishes to generalize the results of the study (Ngechu, 2004). The target population of this study targeted the CIA of all the 44 government ministries. This is because the people in management are the most conversant with the subject matter of the study.

3.4 Sampling Techniques

The sampling design sought to answer whether a sample or a census should be used, the sampling approach to be used for a sample and the best sample size to be used (Mugenda & Mugenda, 2003). Due to the population size of government ministries, the research will take the census approach to collect data from all the 44 CIA in the government ministries. A census is where data is collected from all members of the population (Hair, Celsi, Money, Samouel, & Page, 2011).

3.5 Data Collection

The study collected primary data on the current state of affairs of the goverment ministries. The main instrument for data collection was questionnaires with both structured and open ended questions. Structured questions allows for uniformity of responses to questions. The questionnaire is a fast way of obtaining data as compared to other instruments (Mugenda & Mugenda, 1999). Questionnaires give the researcher comprehensive data on a wide range of factors. Questionnaires allow greater uniformity in the way questions are asked, ensuring greater compatibility in the responses. A five point non-comparative Likert scale was used for the structured questions, the intent of the Likert is that the statement represents different aspects of the same attitude. Likert scale is simple to construct, and easy for the respondents to read, understand and respond appropriately to the statements put across. The Likert scale enhances the production of highly accurate results during analysis. Secondary data was collected from government reports, magazines, newspapers and journals.

3.6 Data Analysis

Once the data is collected it was checked for completeness ready for analysis. The data from the field was first coded according to the themes researched on the study. The research is both quantitative and qualitative in nature. This implies that both descriptive statistics and conceptual content analysis was employed. Analysis was done with aid of the statistical package for social sciences (SPSS) package version 19.0. Descriptive statistics generated such as percentages, mean scores and proportions was presented in tables, charts and figures. Qualitative data from open questions was presented in prose.

The researcher also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable. The regression equation was; $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$

Where; Y= Corporate governance in Kenyan government ministries (Discipline, Transparency, Independence, Accountability, Responsibility, Fairness, Social responsibility)

β_0 = Constant Term

β_1, β_2, and β_3, = Beta coefficients

X_1= Risk Management (Risk Identification, Risk Assessment, Risk Mitigation and Risk Monitoring)

X_2- Internal Controls (monitoring, control activities, accounting information and communication)

X_3= Compliance and Consulting (compliance with specified procedures, provision for the timely reconciliation of accounts, promoting accountability, fraudulent activities or irregularities, ensure effectiveness and efficiency of operations, reviews of operational and financial performance)

ε = Error term

3.7 Data Validity and Reliability

The researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. According to Berg and Gall (1989), validity is the degree by which the sample of test items represents the content of test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of measure is to use a professional or expert in a particular field.

Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot group of 15 individuals from the target population to test the reliability of the research instruments. In order to test the reliability of the instruments, internal consistency techniques will be applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda, 2008). The pilot data was not included in the actual study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries. The chapter also provides the major findings and results of the study.

4.2 Response Rate

The researcher targeted the CIA of all the 44 government ministries. This is because the people in management are the most conversant with the subject matter of the study. However, out of 44 questionnaires distributed 38 respondents completely filled in and returned the questionnaires, this represented 86% response rate. This is a reliable response rate for data analysis as Mugenda and Mugenda (2003) pointed that for generalization a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent.

Table 4.1 Response Rate

Response Rate	**Frequency**	**Percentage**
Filled in questionnaires	38	86
Un returned questionnaires	6	14
Total	**44**	**100**

4.3 Internal Audit

4.3.1 Effective of Internal Audit in Risk Management

The study was inquisitive to determine effectiveness of the internal auditing to the risk management. For easier understanding the researcher provided a scale of 1-5 where 1 represented ineffectiveness while 5 represented very effectiveness. From the findings, most of the respondents indicated that assess communication of risk is effective as indicated by mean score of 4.32, internal auditing suggest risk management strategies and provide assurance that the risks are being appropriately managed effectively as depicted by mean score of 4.26 as in each case. Respondents pointed that risk monitoring was effective due to application of internal auditing in risk management. Further respondents indicated that risk mitigation and risk identification was effective as illustrated by mean score of 4.00 in each case, on the same risk assessment, assess ethics and values within the organization, assess performance management and unplanned and informal reviews of other areas of concern, including unacceptable levels of risk were effective as depicted by mean score of 3.97, 3.74, 3.63 and 3.53 respectively. This reveals that application internal auditing within organization effective enhances risk management.

Table 4.2 Effective of Internal Audit in Risk Management

	Mean	**STDev**
Risk Identification	4.00	.735
Risk Assessment	3.97	.716
Risk Mitigation	4.00	.697
Risk Monitoring	4.03	.753
Suggest risk management strategies	4.26	.891
Provide assurance that the risks are being appropriately managed	4.26	.644
Assess ethics and values within the organization,	3.74	.828
Assess performance management	3.63	1.195
Assess communication of risk	4.32	.662
Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk	3.53	.862

4.3.2 Effectiveness of Internal Audit in Internal Control

Table 4.3 depicts the summary of the findings on the effective of internal audit in internal control. According to the findings, respondents pointed that assessment of internal control framework was effective as depicted by mean score of 4.24, accounting information and communication and reviews of individual systems and processes were also effective as pointed by mean score of 4.16 as per each case. Internal control provide financial controls effectively as shown by mean score of 4.00, ongoing and independent reconciliation of all balances, control information within the organization, Methodical examination of business processes and connected controls, Operational policies controls, Managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were also effective as shown by mean score of 3.97, 3.95, 3.87, 3.82, 3.66 and 3.63 respectively. This implies that internal auditing influences internal control operation of the organization to a great extent.

Table 4.3 Effectiveness of Internal Audit in Internal Control

	Mean	**STDev**
Reviews of individual systems and processes	4.16	0.916
Provide Financial controls	4.00	0.900
Managerial controls	3.66	0.938
Operational policies controls	3.82	0.955
Control information within the organization	3.97	0.753
Accounting Information and communication	4.16	0.823
Assessment of internal control framework	4.24	0.852
Methodical examination of business processes and connected controls	3.87	0.906
Provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process	3.63	0.751
Ongoing and independent reconciliation of all balances	3.95	0.899

4.3.3 Effectiveness of Internal Auditing in Compliance and Consulting

The study also sought to investigate effectiveness of internal auditing to compliance and consulting. From the study findings, most of the respondents' pointed that suggestions for more helpful and competent use of resources were effective as indicated by mean score of 4.42, appraisals of the achievement of corporate goals and objectives, advice and comment on devotion to the values and code of conduct/code of ethics of the organization and disbursements and comply with specified procedures within the organization were effective as pointed by mean score of 4.26 in each case, further internal auditing ensure effectiveness and efficiency of operations as shown by mean score of 3.97.

On the same internal auditing ensure reliability and integrity of financial and operational information and that a source of information on major frauds and irregularities are effective as shown by mean score of 3.95. Promoting accountability provides effective systems for managing and accounting for physical and financial assets, providing information about any fraudulent activities or irregularities, reviews of the agreement framework and specific compliance issues, provides for the timely reconciliation of accounts were effective due to application of internal auditing as depicted by mean score of 3.87, 3.79, 3.74, 3.74 and 3.47 respectively.

Table 4.4 Effectiveness of Internal Auditing in Compliance and Consulting

	Mean	**STDev**
Ensure that public spending is within budgetary provisions	4.03	0.788
Ensure disbursements comply with specified procedures	4.26	0.828
Provides for the timely reconciliation of accounts	3.47	1.179
Provides effective systems for managing and accounting for physical and financial assets	3.79	0.963
Promoting accountability	3.87	0.844
Providing information about any fraudulent activities or irregularities	3.74	0.860
Ensure effectiveness and efficiency of operations	3.97	0.753
Ensure reliability and integrity of financial and operational information	3.95	1.064
A source of information on major frauds and irregularities	3.95	0.804
Reviews of the agreement framework and specific compliance issues	3.74	0.950
Reviews of operational and financial performance	3.92	1.050
Suggestions for more helpful and competent use of resources	4.42	0.793
Appraisals of the achievement of corporate goals and objectives	4.26	0.795
Compliance with laws, regulations, and contracts	4.08	0.712
Advice and comment on devotion to the values and code of conduct/code of ethics of the organization	4.26	0.828

4.3.4 Attributes of Corporate Governance in various Ministry in the last five years

The study aimed to investigate the rate of corporate governance attributes in various ministry for the last five years by then. From the findings, most of the respondents' pointed that discipline had improve as shown by mean score of 4.16, transparency and accountability had also improved as depicted by mean score of 4.11, responsibility was ranked fourth to have improved in various ministries as a result internal auditing application as illustrated by mean score 4.05. Independence and Fairness had also improved with government ministries as shown by mean score of 3.84 and 3.66 respectively while social responsibility had been constant as depicted by mean score of 3.47

Table 4.5 Attributes of Corporate Governance in various Ministry in the last five years

Discipline	4.16	0.547
Transparency	4.11	0.689
Independence	3.84	0.973
Accountability	4.11	0.509
Responsibility	4.05	0.567
Fairness	3.66	0.781
Social responsibility	3.47	0.862

4.4 Inferential Analysis

To establish the relationship between the independent variables and the dependent variable the study conducted inferential analysis which involved coefficient of correlation, coefficient of determination and a multiple regression analysis.

4.4.1 Coefficient of Correlation

To compute the correlation (strength) between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). From the findings, it was clear that there was a positive correlation between corporate governance and risk management as shown by a correlation figure of 0.583, it was also clear that there was a positive correlation between corporate governance and internal controls with a correlation figure of 0.5140, it was also clear that there was also a positive correlation between corporate governance and compliance and consulting with a correlation value of 0.7460. This shows that there was positive correlation between corporate governance and risk management, internal controls and compliance and consulting.

Table 4.6: Coefficient of Correlation

		Corporate Governance	Risk Management	Internal Controls	Compliance and Consulting
Corporate Governance	Pearson Correlation	**1**			
	Sig. (2-tailed)				
Risk Management	Pearson Correlation	.5830	1		
	Sig. (2-tailed)	.0032			
Internal Control	Pearson Correlation	.5140	.3421	1	
	Sig. (2-tailed)	.0021	.0014		
Compliance and Consulting	Pearson Correlation	-7460	.1240	.0621	1
	Sig. (2-tailed)	.0043	.0120	.0043	

4.4.2 Model Summary

The coefficient of determination was carried out to measure how well the statistical model was likely to predict future outcomes. The coefficient of determination, r^2 is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (corporate governance) that is explained by all the three independent variables (Risk management, internal controls and compliance and consulting).

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.814	.663	.369	.213

The four independent variables that were studied (Discipline, Transparency, Independence, Accountability, Responsibility, Fairness, Social responsibility) explain only 66.3% of good corporate governance in Kenya government ministries as represented by the R^2. This therefore means the three independent variables only contribute about 66.3% to the formation of good corporate governance in Kenya government ministries while other factors not studied in this research contribute to 33.7% of good corporate governance in Kenya government ministries.

4.4.3 Multiple Regression Analysis

The researcher further conducted a multiple regression analysis so as to identify effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries. Multiple regressions is a statistical technique that allows the study to predict a score of one variable on the basis of their scores on several other variables. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 4.8: Coefficients of Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.329	.291		1.131	.282
	Risk Management	.073	.069	-.252	-1.010	.334
	Internal Control	.058	.085	-.131	-.606	.557
	Compliance and Consulting	.291	.088	.555	2.329	.040

a Dependent Variable: Credit Availability

The regression equation, $Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha)$ becomes:

$$Y = .331 + .073X_1 + 0.058X_2 - 0.291X_3$$

Where Y is the dependent variable (corporate governance), X_1 is Risk management, X_2 is internal controls, X_3 is credit terms and X_4 is compliance and consulting.

From the regression equation established, taking all other factors (Risk management, internal controls and compliance and consulting) constant at zero, corporate governance within Kenya government ministries would be 0.331. Further, if all the other variables are kept constant, a unit increase in Risk management will lead to a 0.073 increases in corporate governance within Kenya government ministries. A unit increase in internal controls will lead to a 0.058 increases in corporate governance within Kenya government ministries while a unit increase in compliance and consulting will lead to a 0.291 increase in corporate governance within Kenya government ministries.

4.5 Summary and Interpretation of Findings

From the study findings it was clear that internal auditing is effective in risk management in assess communication, suggest risk management strategies and provide assurance that the risks are being appropriately managed, risk monitoring and risk mitigation and risk identification. This is in agreement with earlier findings by Prawitt et al., (2006) that the internal audit function plays a unique role in corporate governance by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled. On the same risk assessment, assess ethics and values within the organization, assess performance management and unplanned and informal reviews of other areas of concern, including unacceptable levels of risk were effective. This is consistent with Spira & Page (2003) who found that the internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to; effectiveness and efficiency of operations, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, and contracts. Jackson (2000) also observed that the idea of risk had become essential to corporate governance and become connected to the idea of internal control.

Further, the study found that assessment of internal control framework, accounting information and communication and reviews of individual systems and processes, Internal control provide financial controls, ongoing and independent reconciliation of all balances, control information within the organization, methodical examination of business processes and connected controls, operational policies controls, managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were effective aspect in internal control due to application of internal auditing. This is in line with Cai

(1997) who indicated that by measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is directly linked to the organizational structure and the general rules of the business. Herdman (2002) also stated that an effective internal audit function is “crucial to the success of a company in stemming fraud and abuse, and in the preparation of accurate financial statements.

On the aspect of internal auditing to compliance and consulting, the study found that suggestions for more helpful and competent use of resources, appraisals of the achievement of corporate goals and objectives, advice and comment on devotion to the values and code of conduct/code of ethics of the organization and disbursements and comply with specified procedures within the organization were effective. This concur with Roe (2004) who said that focused on internal audit independence and corporate governance and found that compliance and consulting in the internal audit function as a first line protection against insufficient corporate governance and financial reporting. Further internal auditing ensure effectiveness and efficiency of operations reliability and integrity of financial and operational information and that a source of information on major frauds and irregularities. This is consistent with Gramling and Myers (2003) who found that internal auditing help corporate governance by reviewing the organization’s code of conduct and ethics policies to ensure they are current and are communicated to employees. On the rates of attributes of corporate governance in various ministries for the last five years, the study revealed that discipline, transparency and accountability, responsibility, independence and fairness had improved within government ministries.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Within the globalized economy, internal auditing is established as an essential means for the exact management of any business economic resources. Simultaneously, corporate governance has received wide attention in recent years both in practice and in academic research because of the major accounting scandals and large-scale corporate failures. Recent corporate scandals and earnings restatements have resulted in an increased emphasis on the need for strong corporate governance to ensure financial reporting quality. The study sought to establish the effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries. A descriptive cross-sectional design method was preferred for this study. The target population of this study targeted the CIA of all the 44 government ministries. The study collected both primary and secondary data on the current state of affairs. The research was both quantitative and qualitative in nature. This implies that both descriptive statistics and conceptual content analysis were employed. The researcher also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable. The study concludes that compliance and consulting had the greatest effect on corporate governance within Kenya government ministries followed by risk management while internal control had the least effect. The study recommends that the government should recognize contribution of internal auditing. Additionally, the study recommends that the ministry should apply internal auditing in its operation to effectively mitigate risk. Likewise the study recommended that government ministries to accept internal auditing as a tool for effective internal control so as to realize their objectives set with ease.

5.2 Conclusions

The study sought to find out effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries. Based on the study finding, the study concluded that internal auditing is effective in risk management more particularly on assess communication, suggest risk management strategies and provide assurance that the risks are being appropriately managed.

On effectiveness of internal auditing on internal control, the study concluded that assessment of internal control framework, accounting information and communication and reviews of individual systems and processes, Internal control provide financial controls, ongoing and independent reconciliation of all balances, control information within the organization, methodical examination of business processes and connected controls, operational policies controls, managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were effective.

To the aspect of internal auditing to compliance and consulting, the study found that suggestions for more helpful and competent use of resources, appraisals of the achievement of corporate goals and objectives, advice and comment on devotion to the values and code of conduct/code of ethics of the organization and disbursements and comply with specified procedures within the organization were effective.

Further the study concluded that discipline, transparency and accountability, responsibility, independence and fairness had improved within government ministries.

From the regression, the study concludes that compliance and consulting had the greatest effect on corporate governance within Kenya government ministries followed by risk management while internal control had the least effect.

5.3 Limitations of the Study

The researcher encountered various limitations that were likely to hinder access to information that the study was looking for. The main limitation of study was its inability to include more public institutions across the Country. This was a study focusing on the ministries. The study could have covered more institutions across public sector so as to provide a more broad based analysis however time and resource constraints placed this limitation.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about their ministries. The researcher handled the problem by carrying an introduction letter from the University and assured them that the information they gave would be treated confidentially and it would be used purely for academic purposes.

The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations.

Reluctance to respond to questionnaires was another limitation in collecting the required data for the study. This was due to some reservations held by the target population. This hence would have led to generalization during the analysis and presentation of the data made from those who responded to represent the views of the rest of the respondents. The researchers countered the limitation by making prior arrangements with the respondents as well as making personal calls and visits to remind the respondents to fill in the questionnaire.

5.4 Policy Recommendations

The study recommended that in order for the government to be effective in its operation and service delivery they should recognize contribution of internal auditing. Additionally, the study recommended that for the ministry to be effectively mitigate risk they should apply internal auditing in its operation.

On effectiveness of internal auditing on internal control, the study recommended that all ministries should apply internal control in its operation to ensure effective operation. Likewise the study recommended that government ministries to accept internal auditing as a tool for effective internal control so as to realize their objectives set with ease.

To the internal control in compliance and consult, the study recommended that ministries to outsource for internal auditing services in order to improve on their performance and create trust among their clienteles (citizens). Inclusively, the study recommended that for effective service delivery government ministries should comply with the internal auditing policies to create transparency of the public resources uses and eradicate perception that the resources are misused.

To the implication of internal auditing on corporate governance aspects, the study recommended that all aspects related to creating good image to the public should be enhanced through application of internal auditing for ease achievement of set goals.

5.5 Suggestions for Further study

The study suggests that further research to be done on the impact of internal auditing to corporate governance in other public institutions such as parastatals and government agencies in order to give both negative and positive sides that can be reliable.

The study also suggested further research to be done on effectiveness of internal auditing to the private organization in order to depict reliable information that illustrates real situation in both public and private sector organizations.

The study also recommends that further research should be done on the challenges to effective performance of internal audit departments in other areas of the Kenyan public sector since the departments are bogged with myriad challenges.

The study also suggest that a study be done on the effect of corporate governance on performance of public institutions in Kenya.

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APPENDICES

Appendix 1: Letter of Introduction

Njui Rebecca Wangui

School of Business Studies

University of Nairobi

P.O. Box 30197

Nairobi

Dear Respondent,

RE: REQUEST FOR RESEARCH DATA

I am a postgraduate student at the University of Nairobi, School of Business. In partial fulfillment of the requirements for the award of Master of Business Administration (MBA) course, I am required to conduct a study on the effectiveness of internal audit in promoting good governance in the public sector in Kenya.

The questionnaire consists of two parts thus should not take more than 20 minutes to fill. Please note there is no right or wrong answer, so feel free to give the answer you think is correct. Strict confidentiality will be maintained and all the information collected through this questionnaire will remain confidential. The information you provide will not be used for any other purpose apart from its intended academic use.

I thank you in advance for your co-operation.

Yours faithfully

NJUI REBECCA WANGUI

MBA Student - UoN

Appendix II: Questionnaire

INTERNAL AUDIT IN PROMOTING GOOD GOVERNANCE

1. How effective are the following functions of internal audit (risk management, internal controls and compliance and consulting) in promoting good governance in your ministry? Use a scale of 1-5 where 5= very effective, 4= effective, 3 = Moderately effective, 2= slightly effective and 1= ineffective

	1	**2**	**3**	**4**	**5**
RISK MANAGEMENT					
Risk Identification					
Risk Assessment					
Risk Mitigation					
Risk Monitoring					
Suggest risk management strategies					
Provide assurance that the risks are being appropriately managed					
Assess ethics and values within the organization,					
Assess performance management					
Assess communication of risk					
Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk					
	1	**2**	**3**	**4**	**5**
INTERNAL CONTROLS					
Reviews of individual systems and processes					
Provide Financial controls					
Managerial controls					
Operational policies controls					
Control information within the organization					
Accounting Information and communication					

Assessment of internal control framework					
Methodical examination of business processes and connected controls					
Provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process					
Ongoing and independent reconciliation of all balances					
	1	**2**	**3**	**4**	**5**
COMPLIANCE AND CONSULTING					
Ensure that public spending is within budgetary provisions					
Ensure disbursements comply with specified procedures					
Provides for the timely reconciliation of accounts					
Provides effective systems for managing and accounting for physical and financial assets					
Promoting accountability					
Providing information about any fraudulent activities or irregularities					
Ensure effectiveness and efficiency of operations					
Ensure reliability and integrity of financial and operational information					
A source of information on major frauds and irregularities					
Reviews of the agreement framework and specific compliance issues					
Reviews of operational and financial performance					
Suggestions for more helpful and competent use of resources					
Appraisals of the achievement of corporate goals and objectives					
Compliance with laws, regulations, and contracts					
Advice and comment on devotion to the values and code of conduct/code of ethics of the organization					

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

	Greatly Improved (5)	Improved (4)	Constant (3)	Decreasing (2)	Greatly decreased (1)
Discipline					
Transparency					
Independence					
Accountability					
Responsibility					
Fairness					
Social responsibility					

THANK YOU FOR YOUR COOPERATION

Appendix III: List of Ministries In Kenya

1. Office of the President and Cabinet affairs
2. Office of the Vice President and Ministry of Home affairs
3. Deputy Prime Minister
4. Office of the Prime Minister of Kenya
5. Ministry of State Provincial Administration and National Security
6. Ministry of State for Defence
7. Ministry of State Special Programmes
8. Ministry of State Immigration and Registration of Persons
9. Ministry of State National Heritage and Culture
10. Ministry of Agriculture
11. Ministry of Co-operative Development and Marketing
12. Ministry of State for Public Service
13. Ministry of East African Community
14. Ministry of Education
15. Ministry of Higher Education, Science and Technology
16. Ministry of Energy
17. Ministry of Environment and Mineral Resources
18. Ministry of Finance
19. Ministry of Industrialisation

20. Ministry of Foreign Affairs

21. Ministry of Youth and Sports

22. Ministry of Public Health and Sanitation

23. Ministry of Medical Services

24. Ministry of Information and Communication

25. Ministry of Justice, Cohesion and Constitutional Affairs

26. Ministry of Labour and Human Resource Development

27. Ministry of Lands

28. Ministry of Roads

29. Ministry of Public Works

30. Ministry of Livestock Development

31. Ministry of Fisheries Development

32. Ministry of Local Government

33. Ministry of Planning and National Development and Vision 2030

34. Ministry of Regional Development Authorities

35. Ministry of Gender and Children Affairs

36. Ministry of Tourism

37. Ministry of Trade and Industry

38. Ministry of Transport

39. Ministry of Water and Irrigation

40. Ministry of Housing

41. Ministry of Forestry and Wildlife

42. Ministry of Nairobi Metropolitan Development

43. Ministry of Home Affairs

44. Ministry of Development of Northern Kenya and other Arid Lands