FACTORS INFLUENCING EFFECTIVENESS OF INTERNAL AUDITORS IN THE AUDIT OF FINANCIAL STATEMENTS IN COUNTY TREASURIES IN RIFTY VALLEY REGION KENYA

ROSE K. W. IRERI

THIS PROJECT IS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF BUSINESS ADMINISTRATION (MBA) FINANCE OPTION FROM ST. PAUL'S UNIVERSITY

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DECLARATION

This project is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution. I agree that this proposal may be available for reference and photocopying, at the discretion of the University.

Signature ---------- Date: ----------

Name: ROSE K. W. IRERI Reg. No: MBA/NRB/2076/15

Word Count: 19,990

1 confirm that the work reported in this project has been done by the student under my supervision.

SIGNATURE OF SUPERVISOR ---------- Date ----------

Name: MR. STEPHEN NDUNG'U

St. Paul's University

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DEDICATION

This project is dedicated to my family

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I would first like to acknowledge the Almighty God for his bountiful blessings bestowed upon me throughout the period of this study. I also extend my appreciation to my supervisor Mr. Stephen Ndung'u for his valuable guidance and support throughout the period of developing this paper. Further acknowledgement goes to my family members including: my spouse Martin Kimathi and our children Jane, John, Kevin and Jesse. Your understanding and support during the period I was away collecting materials and writing this paper is highly appreciated. You made sure that you accorded me all the support I needed to complete this research paper.

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ABSTRACT

Internal auditing is essential for good governance of public funds and good corporate governance. The purpose of the study was to examine the factors influencing effectiveness of internal auditors in the audit of financial statements in Rift Valley Treasuries Kenya. The study adopted cross sectional research design. The specific objectives of the study included: the effects of remuneration on auditors' effectiveness in the audit of financial statements in the rift valley treasuries Kenya; the effects of independence on auditors' effectiveness in the audit of financial statements in the rift valley treasuries Kenya; the effects of training on the auditors effectiveness in the audit of financial statements in rift valley treasuries Kenya, the effects of auditors' effectiveness in the audit of financial statements in treasuries in the rift valley Kenya; the effect of auditor's reputation on auditors' effectiveness in the audit of financial statements in the rift valley treasuries Kenya. The study adopted a cross-sectional survey design. The targeted population was 360 internal auditors and accountants from the 45 sub-counties in Rift valley out of which a sample of 108 respondents was selected using stratified sampling. Data collected was analyzed by the use of descriptive statistics and was presented through percentages, means, standard deviations and frequencies. The study established that resources are allocated to audit, leadership ensures the auditors are independent, leaders take personal responsibility on their obligation in the audit through guidance of audit committee, treasuries ensures the auditor is free from management influence, internal auditors are transparent on material issues, auditor's judgment are made without compromise from the board of director's directives, management offers support to auditors as an obligation to offer management report on all material queries and there is no auditor client negotiation conflict over financial reporting issues. The study concludes that for effective and credible financial statements adequate resources have to be allocated to audit, effective auditors work the auditors should ensures high leadership and management skills and proficiencies on their engagement, audit staff should be selected on merit for effective audit of financial statements and that auditor reputation serves as an important proxy for the quality and accuracy of client financial statements and therefore paramount for effective audit of financial statements. The study recommends that to enhance the credibility of financial statements the auditor and client should negotiate terms of reference without prejudice to auditors independence, internal auditors should build reputation over time by producing consistent, high-quality work and that remuneration of the auditors should be put into consideration when the allocation of treasury resources are being allocated. This will ensure that the auditors fees are well evaluated and paid on time and this will ensure that the auditors are not compromised while undertaking the audit or when reporting on their assignments in the treasury.

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ABBREVIATIONS

IPSASs: The International Public Sector Accounting Standards

IFMIS: Integrated Financial Management Information System

SPSS: Statistical Package for Social Sciences

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OPERATIONAL DEFINITION OF TERMS

Credibility- credibility to financial statements internal auditors provides important functions to deter public officers in the misuse of public finances (Masood & Lodhi, 2015).

Effectiveness- is concerned with how well an audit detects and reports material misstatement of financial statements, thereby reducing information asymmetry between stakeholders and management hence the protection of shareholders and management interests (Karanja, 2014).

Auditor - the work of internal auditors to provide oversight monitoring of the public resources in order to detect any corruption in the public sector (Al-Khaddash, Al Nawaj & Ramadan, 2013).

Financial statements- portray a true and fair view of the operations of an organization provides important functions to deter public officers in the misuse of public finances (Masood & Lodhi, 2015).

Public sector-covers all divisions' ministries and federal statutory bodies which does have internal audits units with the supervision of ministries in accordance to the regulatory requirements of the government (Adams & Evans, 2004).

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

1.1.1 The public sector

In the public sector, internal auditing brings about good governance in the financial management of all public institutions and in order to achieve the intended result in the management of country resources. Therefore, in order to achieve this, internal auditors must do continuous assessments, in order to achieve integrity and accountability as well as to bring confidence among the citizens and all other stakeholders (Adams & Evans, 2004). In all institutions both public and private, it is the work of internal auditors to provide oversight monitoring of the public resources in order to detect any corruption

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in the public sector (Al-Khaddash, Al Nawaj & Ramadan, 2013). This is used as a corporate governance improvement measure as the internal auditors work independently. The operations of the public offices are aided by independent decision making through the assessment of program of policies and operations that help in the assessments of public resources. Internal auditors work using several tools including financial audit investigations and performance in the assessing whether the laid down regulations and procedures are adhered to (Adebayo, 2011). This leads them expressing an opinion as to whether the financial statements presented by management portray a true and fair view of the operations of an organization or not. To provide credibility to financial statements internal auditors provide important functions to deter public officers in the misuse of public finances (Masood & Lodhi, 2015).

Internal auditing as a profession has faced many changes between the years 1997 to the current times with the global economic meltdown and increasing fraud cases globally. Many cases of corporate impropriety have been reported which have led to huge losses and decline of confidence in the profession. Internal auditing function is a vital organ both in private sector as well as in public sector and therefore the role of auditor should be implemented in every organization (Jones & pendlebury, 2000).

Internal auditors' objective in the public sector is to maintain an effective system of internal controls which helps the public sector to achieve these objectives through an orderly and disciplined approach (Masood & Lodhi, 2015). Improving the effectiveness of control and good governance process can lead to the achievement of these objectives in this sector therefore enhancing the credibility of the financial statements as well as the confidence of the stakeholders (Larson, 2011). In Malaysia for example the scope of internal audit in public sector covers all divisions' ministries and federal statutory bodies which does not have internal audits units with the supervision of ministries in accordance to the regulatory requirements of the government.

1.1.2 Integrated Financial Management Information System

Generally, integrated Financial Management Information System (IFMIS) is regarded as the use of information and communications technology in financial

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operations undertaking to support management and budget decisions, fiduciary responsibilities, and the formation of financial reports and statements (Hung & Han, 1998). It helps in building a strong Public Financial Management (PFM) which ensures that governments and their departments are able to raise, manage, and spend public resources in an efficient and transparent manner so as to improve service delivery (Odoyo, Adero and Chumba, 2014). Governance can be improved by IFMIS through providing real-time financial information that enables internal auditors to administer budgets, programs and resources management and making IFMIS an important benchmark for the countries budget agenda (Arena & Azzone, 2009).

The development of internal audit in public sector brings change in the aspect of service delivery to its customers as it's seen as an independent profession which plays a vital role in organizational resource management (Cohen & Sayaa, 2010). Internal auditors are employees of the organization and advice the management on day to day running of the organization in the aspect of financial management and ensures that the laid down rules and procedures are adhered to and because of this it sometimes becomes difficult for the auditors when they are part of the management to discharge their duties properly (Al-Khaddas, *et al*., 2013).

1.1.3 International Public Accounting Standards

In Kenya International Public Accounting Standards (IPSAS) helps in the improvement of service delivery to its citizens in increasing transparency and accountability through better assessment of government resource allocation (Arena & Azzona,2009). IPSAS adoption continues to help the government in the improvement of quality and comparability of financial information reported internationally by the public sector (Adebayo, 2011). It's assumed that IPSAS will promote openness in the assessment of information by the citizen and the mechanism of decision making and therefore bridge the gap between the government and its citizens (Adeyemi, Dabor & Okpala, 2012). This is achieved through audit quality and effectiveness which are concerned with how well an audit detects and reports material misstatement of financial statements, thereby reducing information asymmetry between stakeholders and management hence the protection of shareholders and management interests (Karanja,

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2014). High information credibility is associated with effective and high audit quality financial statements audited by high quality auditors will be less likely to have material misstatements (Kamau 2014).

In order to build public confidence in public institutions, it is therefore necessary to have an effective internal section in modern governance system in the public sector (Aaron & Gabriel, 2010). The Corporate governance and internal audit in recent times has received increased attention as internal audit links to the internal control-risk management system (Al-Matari, Al-Swidi & Fadzil, 2013). Therefore improving the efficiency and effectiveness of the organization by providing constructive criticism and recommendation of the organization operations (Ardiana, 2014). The reduction of information asymmetry in decision making serves as an assurance in businesses financial reporting processes as all the stake holder have all the information necessary for decision making (Ng'ang'a, 2013).

1.2 Problem statement

The audit function plays an important role in checking on financial expenditure in organizations. Reports by the Auditor General have continuously revealed various malpractices in expenditure and accountability of many public institutions in Kenya. Lack of full supporting documentation among other malpractices has led to massive loss of public resources. Internal auditors play a role in internal controls (Auditor-General, 2015). However, the level of malpractices discovered by the Auditor General raises a number of questions as regards the effectiveness of the internal auditors. Unless the effectiveness of internal auditors is ensured, public institutions will continue loosing huge sums of money (Auditor General, 2015).

The professional care, demands for the presentation of the skill anticipated of a rationally practical and capable internal auditor in equal or the similar circumstances (Institute of Internal Auditors, 1999). Professional care therefore ought to be suitable to the intricacies of the work being performed (Malek, 2013). Exercising outstanding professional care, internal auditors need to be watchful of deliberate misconduct, errors omissions, inefficiency, waste, ineffectiveness, and conflicts of interest of the individuals

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entrusted with the management of public resources (Geiger, 2002). They need to be observant to those circumstances and deeds wherever anomalies are more likely to arise (Hope, 2009). Internal auditors must also be able to recognize insufficient controls and commend improvements to encourage obedience with tolerable practices and procedures.

Due professional care suggests that rational care and capability, not dependability or astonishing performance. Due care calls the auditor to demeanor examinations and verifications to a rational degree (Kimotho, 2014). However, this may not necessitate detailed reviews of all transactions (Ittonen, 2010). Internal auditors cannot however provide complete assurance that nonconformity or indiscretions do not occur as they are not involved in the day to day management of the organization (linke, 2012). However, the likelihood of material anomalies or nonconformity must be considered each time an internal auditor assumes an internal auditing task (The Institute of Internal Auditors, 1999).

In recent times, the Kenyan Public has increasingly experienced massive and fraud related issues where public funds have not been utilized as per the intended purposes but were diverted to corrupt individuals (Karanja, 2014). For the last few years in Kenya so much funds have been reported to have been misappropriated and despite litigations against the perpetrators these funds have not been recovered (global integrity, 2011). This has hampered the delivery of services and public goods to the citizenry. The failed audit function has resulted in risks in the public sector in Kenya which has resulted to massive financial losses in different sectors of public service (Ng'ang'a, 2013). An internal audit which is weak provides avenues for frauds in these sectors. In order to manage the risks inherent in a public institution, Karanja (2014) indicates that these risks need to be identified and mitigated in order to control government resource wastages.

Audit management function in the public sector is key to its effectiveness and efficiency (Sober, 2010). However, it seems auditing in this sector is poor, the compliance with procedures and regulations in revenue collection, implementation sector of projects supply and delivery of materials, the sourcing of contractors and payments seems not to

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be adhered to (Kimotho, 2012). The issue of interested parties in government institutions is not also investigated and monitored (Ng'ang'a, 2013). Internal auditors as whistle blowers are placed at personal and professional risks in exposing serious wrongdoing and many are times they are transferred to different workstations if they expose the culprits (Public Administration bill, 2015). Therefore, in such a situation the organization cannot deal with the associated operation dangers and risks which makes it extremely difficult for internal auditors to remain objective and independent in compliance with professional standards (Public Administration Bill, 2015).

There has been decline of audit backlog since the implementation of public financial management reforms (Public Financial Managements Reforms, 2012). According to Odoyo *et al*. (2014), there has been a failure in internal auditing in the public sector mostly in the areas of institutional capacity, and especially in the operations and service delivery which should be addressed so as to develop a decentralized administration infrastructure for the prevention of corruption in Kenya. Audit function has focused on financial compliance and regulations more than broader management issues in the public sector (Wakiriba, Ngahu and Wagoki, 2014). With regard to this, the study is attempting to determine the factors influencing effectiveness of internal auditors in auditing of financial statements in the sub county treasuries in the Rift Valley Kenya (Kimotho, 2012). Specifically how remuneration, independence, training, and reputation influence the effectiveness of internal auditors in audit of financial statements in the public sector offices are examined.

1.3 Objectives

1.3.1 General objective

The general objective of the study was to examine the factors influencing the effectiveness of auditors in the audit of financial statements in county treasuries in the Rift Valley region Kenya

1.3.2 Specific objectives of the study

1. The effects of remuneration on auditors' effectiveness in the audit of financial statements in the rift valley county treasuries Kenya.

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2. The effects of independence on auditors' effectiveness in the audit of financial statements in the rift valley county treasuries Kenya.
3. The effects of training on auditors' effectiveness in the audit of financial statements in county treasuries in the rift valley Kenya.
4. The effect of auditor's reputation on auditors' effectiveness in the audit of financial statements in county treasuries in the rift valley Kenya

1.3.2 Research questions

1. How does remuneration affect auditors' effectiveness in the audit of financial statements in the county treasuries in Rift valley Kenya?
2. How does independence affect auditors' effectiveness in the audit of financial statements in the county treasuries in Rift valley Kenya?
3. How does training affect auditors' effectiveness in the audit of financial statements in the county treasuries in Rift valley Kenya?
4. How does auditor's reputation affect auditors' effectiveness in the audit of financial statements in the county treasuries in Rift valley Kenya?

1.4 Significance of the study

The public sector would be aided by this study to appreciate the importance of the role played by the internal auditors as an important managerial control in safeguarding of the shareholders' interests. This would assist in looking for ways of making internal auditor an independent function and thus enhance performance in the sub county treasuries. The finding of this study would also help in enhancing the knowledge of auditors in order to adhere to professional ethics as per the profession.

The report of the internal audit provides the management, departmental heads, employees; stakeholders with information on how the operating processes and weaknesses affect their duties thus inform them on the corrective measures to take. This would help leaders to understand potential risky losses and any economic advantage that may accrue to good internal audit. The findings of this study would help managers in public institutions in streamlining their operations for optimal service delivery. It is hoped that the information collected in this study could help departments in the public sector in their quest to achieve good governance, accountability and service delivery to

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the citizens. Disclosure of key information to stakeholders is attributed to good governance. Good governance helps the stakeholders to have appropriate disclosure of key information, so that they may have the necessary facts of government performance and operations. This would enable open decision-making actions and transactions which are conducted in the open thereby ensuring quality service delivery from the proper utilization of public resources that would lead to higher satisfaction among all stakeholders.

Information regarding the role of internal audit would be provided in this study which would provide the citizen with power in exercising their responsibility in ensuring that government decisions are appropriate and to the good of all. The operations and processes of the government is scrutinized by the internal auditors whose reports provides information to the relevant managements, employees, government departments of the weaknesses of the processes. This helps leaders foresee potential risks and losses that may affect the public sector. The private sector would find this study useful as it will know how the taxes are utilized which would motivate them in their payment of the same as well as knowing how the government operations functions in Kenya.

The findings of this study would also be important to future researchers and scholars in two ways. First, the findings of this study will identify gaps which future studies can fill through research. The study would also inform future studies by acting as an empirical source. This would help extent the level of literature on the role of internal auditors in a public institution.

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1.5 Limitation and Delimitation of the study

1.5.1 Limitation of the Study

The main limitation of the study involved reluctance among the target respondents fearing that the information requested would be used for other purposes which would compromise their work. There was lack of co-operation from respondents since they feared that the research study would be used for other purposes that might jeopardize their careers. This made them ant to withhold information or provide information which was only positive. The researcher overcame this challenge by carrying along an introduction letter from the University which assured the respondents that the information requested would only be used for academic purposes.

Another challenge involved busy work schedules of the target respondents which left them with little time to fill in the questionnaire and return. To overcome this challenge, the researcher adopted a drop and pick later method of instrument administration as the target respondents were learned and thus could read and understand the questionnaire hence provided reliable information. Because of the tight work schedules of the respondents the researcher informed them in advance in order to make time for answering the questionnaire.

1.5.2 Delimitations of the Study

The researcher experience many difficulties due to logistics and financial constraints as this required considerable time, resources and logistics to cover all the sub treasuries in the Rift Valley Kenya. To overcome the challenge of busy work schedules of the respondents, the researcher adopted the drop and pick later method in questionnaire administration so as to limit the interruptions in the respondents schedules.

1.6 Assumptions

It is assumed by the researcher that variables under investigations are measurable and the instruments used are valid. The researcher assumes that analysis selected and samples sizes are sufficient to detect any relationship that may exist in the population. The researcher also assumes that results can be generalized beyond the sample size under

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study. The researcher believes that the results of the study would be relevant and useful to the shareholders. The researcher assumes that respondents would have sufficient time despite the work schedules and also assumes that the finding of the study shall be generalized to a larger population.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature relevant to the study as presented by other scholars and researchers. It specifically presented review of theories including: agency theory, inspired confidence theory, and policeman theory. It also presents empirical literature on training auditors, remuneration, independence, reputation and credibility of financial statements. The chapter also provides a conceptual framework showing the relationship between the independent variable and dependent variable.

2.2 Theoretical Review

This study is based on the following theories, agency theory, inspired confidence theory, and the policeman theory. These theories are discussed in details below:

2.2.1 Agency Theory

The theory acknowledges the separation of business ownership and management. Business owners have resorted to hiring the services of professionals who run the businesses on a day to day basis (Horn & Tyler, 2011). This brings about the agent – principal relationship where the managers action on behalf of their shareholders. The resolution-making obligation is delegated towards an agent by the principal or shareholder. In a corporation, agents are the directors and the managers (Ittonen, 2010). This theory entails entrusting resources in the hand of the agents, and those agents in turn should produce reports on the day-to-day running of the business this is usually in both quantitative and qualitative manner (Malmir, Shirvani, Rashidpour & Soltani, 2014). The agents entrusted with resources are assumed to have a sense of accountability in demonstrating how the resources have been used. The fundamental purpose of the auditor is therefore to promote confidence-reinforcing trust in financial information. Agency theory is therefore a theory that is useful in accountability and helps in the development of audit (Gerrit & Mohammad, 2007).

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In agency theory, agents have more information than the principal; therefore information asymmetry highly affects the monitoring ability of whether the interests of the principal are secured by the agent (Gerrit & Mohammad, 2007). Agency theory is mainly based on investors (principals) and managers (agents) relationship (Malmir *et al*., 2014). Auditing is the providing of independent check on the information and work provided by the agent in order to maintain confidence and trust (Carew, 2005). A simple agency model assumes that agents are untrustworthy and if an agent can better himself at the expense of the principal, he will do so. Auditing is involved in monitoring of the resources that will bring about reduction of agency costs (Linke, 2012).

2.2.2 Theory of Inspired Confidence (Limperg, 1992)

This theory was formulated by Limperg (1992) and states that an auditor functions are derived from the society prerequisite for a proficient published theory of inspired confidence in various essays. This theory argues that the demand for audit services is a result of the work of other stakeholders in an organization independently viewed from their inspection of organizational records (Nehme, 2013). The assurance that the public's roots on the accountant and the efficiency of the auditor are the basis of the existence of the audit purpose. The confidence of the accountant and the auditor might be brought down if the society expectation is overstated (Olowookere, 2012). According to Stewart (2009), this confidence can also be betrayed if the auditor underperforms according to the expectations. He argued that society needs to keep on changing according to the changes in environment in order to be competitive in the industry'.

Limper's work concentrated on social responsibility regarding the independence and mechanisms ensuring audits meet society needs (Umaru, 2014). There exists information asymmetry between the management in the organization and external shareholders including the shareholders thus the need to have internal auditors to check on the adherence to rules and regulations. It highlights importance of social significance audits and how audits should be performed. Limperg (1992) indicates the auditor's role in relationship to the users of financial statements is to ensure that the financial statements presented represent a true and fair view of the operations of the organization in question (Waldmann, 2014). An independent auditor acts as a society confidential agent. Limperg

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framework is mainly founded on the levels of gratification of the consumers of financial statements generated by the auditor work (Lin, 2009). Therefore, it is necessary that the auditors accomplish enough work to encounter the expectation stimulated in the society.

2.2.3 The Policeman Theory

This was the most widely held theory on auditing until the 1940s (Hayes, 1999). Under this theory, an auditor acts as a policeman focusing on arithmetical accuracy and on prevention and detection of fraud. However, due to its inability to explain the shift of auditing to, 'Verification of truth and fairness of the financial statements,' the theory seems to have lost much of its explanatory power.

Up and about the year 1940s the theory frequently held was that the auditor work was absorbed on arithmetical accuracy prevention and exposure of fraud. The auditor performance as a police officer on ensuring arithmetical correctness and avoidance of fraud (Sulaiman, 2011). They acted as protectors of the rights of the general public so as to improve the credibility of financial statements. Nevertheless, owing to the incapability to clarify the disparity of auditing to confirmation of truth and fairness of financial statements has led to reassessing of this theory.

There is though, an on-going discussion on the auditor's concern in discovery and finding of fraud founded on the public views. The obligation of the deterrence and detection of frauds and indiscretions is the work of the organization consequently the need of the formation of internal controls systems (Umaru, 2014). Certainly, it is not the work of the auditor to search for fraud but if the audit is carried out well the work of the internal auditor would uncover fraud and anomalies where they exist (Dobre, 2014).

2.2.4 Contingency Theory of Accounting

Contingency theory were developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by Reid and Smith (2000), Chenhall, (2003) and Woods (2009). These studies postulated that organizational structure was contingent on contextual factors such as technology, dimensions of task environment and organizational size. This theory was developed to help explain the work of auditors in verifying the representativeness of accounting

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information presented by accountants. They always examine the accounting records to determine whether they have observed the laid down rules, regulations, and policies (Woods, 2009). The theory tries to explain how auditors and accountants incorporate the development in technology; culture and the overall operating environment affect the representativeness of financial statements.

The theory explains that organizational effectiveness relies on the match between changes in the operating environment with the financial statements prepared (Daft, 2012). Contingency theory helps to improve the reliability of financial reports generated so as to ensure they are a true reflection of the environment in which the organizations are operating. It emphasizes on the environmental setting compliance (Cadez and Guilding, 2008). It argues that there are no two environmental setting that are similar hence the need to prepare financial statements representing the operating environment for a business.

2.3 Empirical Review

2.3.1 Remuneration and the Auditor's effectiveness in Financial Statements

Audit remuneration is payment by an organization to the auditor for services and non-audit services rendered for example advisors to management and consultants (Adebayo, 2011). The remuneration mostly consist of wages, benefits of field and office personnel, cost of travel and other related support services (Shokiyan & Ibrahim, 2014). The remuneration is equivalent to staff times the travel cost to the said activities and a margin of profit (Adebayo, 2011). Stewart and Subramaims (2009) indicate that threats to auditor's effectiveness could be strong if audit remuneration is big.

Remuneration of auditors is a function several elements including highest level of education achieved, working experience relevant for the assignment, and the certifications achieved (Al-Khaddash, Nawas & Ramadan, 2013). All these play a key role in determination of the internal auditors' technical competency levels. This in turn affects the level of internal audit quality. Shroff (2015) act on the assumption show that audit services are quality-differentiated and in the competitive market excellence, modifications are indicated the fees. Audit remunerations have a number of factors as it is

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an issue of paramount importance in determining audit service quality (Adebayo, 2011). Zhang, Zhour & Shout (2007) study done in Australian environment examining the audit committees and a committee characteristic existence found out that usage of internal audits are associated with a high level in audit and implies that higher audit remuneration leads to higher audit quality. Other authors argue that managers and entrepreneurs are willing to pay for higher quality audit (Al-Khaddash, Al Nawas & Ramadan, 2013).

Other audit remuneration studies (Tepalagul & Lin, 2015) and (Al-Matari Al-Swidi & Padzul 2013) document that association exists between auditor's prestige and remuneration. These studies also reported remuneration premium for audit specialization. It is indicated that principals are willing to incur increased price for which is apparent for highest quality audits (Kimotho, 2014). Shroff (2015) indicates that auditors achieved a accreditation role of Initial Public Offering (IPOs) therefore staking their reputation on audit quality. Audit services can be paid inform of remuneration for audit services and non-audit service fees for any other additional work performed (Sijie & Kallunki, 2013).

Audit services fee is an issue in auditing since higher audit fees might increase the ability of the auditor to discover misstatement and on the other hand reconciliation auditor's independence (Stewart & Subramaniam, 2010). There is a mandatory requirement in the government for the disclosure of auditor's services fees in the company's annual reports as prerequisite by the Companies Act, 2015. In the determination of fees for audit services.

In Kenya, the set-up of internal audit function has been provided for under the Public Financial Management Act of 2012 and the Public financial management regulations of 2015 (PFM, 2012). This law and the implementing regulations also accommodate prior guidance provided through Treasury circular AG/3/080/6/(61) of 2000 on the establishment of Audit committees in all Ministries, departments and agencies of the central government, circular 16 of 2005 which provided detailed guidance on internal auditors role in enhancing oversight, governance, transparency and accountability and circular 18 of 2005 that provided a detailed guide to management action on internal audit reports (ICPAK, 2015).

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Permitting to Recommendation Practice Guide (RPG), auditors should also consider value of total assets in shaping the audit services fee (Mohiuddin, 2012). Dobre, Papa & Laura, 2014 indicate that disclosures of non-audit services are only a requirement for listed companies. Auditors in the Malaysian Institute of Accounts through it by law are barred from providing valuation, litigation, dispute resolution services as well as promoting, dealing and underwriting clients' shares (Waldmann, 2014). Auditors are also prohibited in listed, companies from providing accounting and book-keeping services, staff lending and design, implementing of financial technology service (Olowookere & Oladeso, 2012). Audit committees play an important role in public financial management in most countries. In Kenya, each government Ministry in Kenya has a functioning Audit Committee in place to assist in streamlining public finance management (ICPAK, 2015).

Earlier studies (Zhang et al 2007, Umaru, 2014) on audit fees were examined to determine audit fees driven by the concern of anti-competitive pricing that can be practiced by large accounting firms (Umaru, 2014). There was no indication established to conclude the incidence of the practice and evidence that indicated that audit services fee influences the outcome of the work by auditors (Beattie and Fearnley, 2002). Bearing in mind this finding, later studies indicated that high audit fees correlates to high audit quality (Zhang et al 2007). The correlation of high audit by well-paid auditors should be questioned where high audit fee can compromise the independence of an auditor (Ferreira, 2007). Subsequently it is argued that an auditor highly depends on a client when a high share of auditor fees comes from the same client this can lead to the reduction of the auditors aptitude to resist the pressing examination from the clients (Honen, 2010). Where a client is considered as important to the auditor financially the client may have the power over the auditor (Brandon, 2003) and because of this anomaly it is a government mandatory obligation for the disclosure of audit fee in some countries (Adriana, 2014). Though this does not eliminate compromise completely but would at least provide basic disclosures on information on the auditors' independence impairment (Ferreira, 2007).

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2.3.2 Independence and the Auditors Credibility of Financial Statements

The independence of audit committee enables the enhancement of internal auditor's independence and ensures the freedom of auditors from the influence of the management (Ittonen, 2010). Committee should conduct familiar and secluded meeting with existence of the company's management in order to inspire the transparency of the internal auditors on the material issues (Sulaiman, 2011). UK refers to professional ethics as integrity, objectivity and independence (Beattie & Fearnley, 2002). Objectivity is referred to as state of mind which regards of all consideration pertinent to the assignment in hand (Adebayo, 2011). Adeyemia and Akinniyi (2011) examined stakeholders' perception of the independence of statutory auditors in Nigeria and established that independent auditors promote the credibility of financial statements released by an organization. It also helps in proper utilization of resources entrusted to the management team of the organization.

The auditor's contained reasoning in determination of the independence conflict is denoted to in Kohlberg stage model of ethical development and moral cognition (Adebayo, 2011). The model of the organization shows three of ethical reasoning which includes pre-conventional, conventional and post conventional. It was found that there exists a correlation between auditors' measure ethical reasoning and their resolution of an independent in a hypothesis condition (Stewart & Subramaniam, 2010). Independence that is prejudiced by penalty linked matters is less sensitive to association factors (Linke, 2012). This study was extended including economic and personal belief variable by Beattie and Fearnley (2002) who indicated that researcher is researching moral atmosphere but no clear results have emerged (Dobrie et al, 2014).

Ittonen (2010) implicated that auditors who have lengthier tenancy are mostly probable to be independent and consistent Mohiuddin (2012) which is associated with reported higher earnings. It therefore implies that auditors who are independent are highly likely to resist pressures coming from the management than auditors with shorter tenure (Shroff, 2015). The function of auditing is a requirement by the accounting profession and therefore independence is attributed to be the heart of integrity of any

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audit process (Brandon, 2003). The recent scandals in the public sector have gnarled public assurance of the accounting professional as well as audit services independence (Bushman & Smith, 2003).

The independence of auditor's enables the audit activity be conducted without the interference by the party whatsoever (Mace, 2013). Independence is correlated with freedom from conditions that threatens objectivity and no compromises are made when rendering the audit service (Malek & Saidin, 2013). The activity of auditing should be seen to lack interference as this is a crucial element in conducting auditing as the auditor can access any document relating to the work in audit without favour or fear (Adebayo, 2011) hence making the auditor provide an objective report as well as reliable professional judgment on auditing work in order to achieve their mandate with integrity (Mohiuddin, 2012). There seems to be a confusion of the role of internal auditors as they are part of the management teams (Nehme, 2013). As well as to independently evaluate effectiveness and efficiency of the management (Tepalagul & Lin, 2015) but of late there has been interests in issues related with the independence as well as objectivity of internal audit (Malek & Saidin, 2013). This is likely to interfere with the effectiveness of internal auditing even though internal auditors are given the responsibility of upholding the best interest of their employer. They are likely to be reluctant in countering the management and the consequence therein (Beattie & Fearnley, 2002).

As independence is an essential feature in the efficiency of capital markets the regulators have been concerned with potential threats to auditor's independence (Al Khaddash et al., 2013) as the independence of auditor gives credibility to the reports. The independence of mind and in appearance of an auditor is very important and crucial to the outcome of audit reports (Ittonen, 2010). The researchers have used two approaches in examining factors that affects auditor's independence and are survey and theory-driven (Zhan *et al*., 2007). Researchers use survey approach to conduct survey auditors and financial users regarding their perception on auditor's independence (Kimotho, 2014) and evidence shows that there is existence of gaps between the two. Therefore, most studies have been done using the theory driven approach that allows more objective investigation (Nehme, 2013) and is done through using archival data in measuring behavioral

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constructs necessitating the use of proxies in measuring underlying behavioral relationship (Shroff, 2015).

Auditors need to be independent from those they are required to investigate in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen & Sayag, 2010).

2.3.3 Training and Auditors Credibility of Financial Statements

The purposes of any audit are to reassure stakeholders that financial statements are free from any material misstatements. The view of the stakeholders in the value of an audit is that there is a possibility that the auditor may discern errors or breaks in the reportage arrangement and probability that he will report the same (Suleiman, 2011). This is an important factor in attaining high quality financial management in the public sector through leadership development and management of skills and aptitudes of development of work plan, relating to but not restricted to handling over, creating of staff information skill and same treatment and opening to all staff (Umaru, 2014). Researchers found that there exists positive correlation between the audit quality and auditor's skill and proficiency (Lin & Tepalagul, 2009). The technical ability that is the equal in education, working experienced and credentials of the auditors appears to increase the auditor's remuneration (Hope *et al*., 2009). The outcomes suggesting the scope and practical competence need positive impression on the remuneration of the auditor (Malek & Saidin, 2013). In order to be recognized as a performance auditor, performance team leader or audit manager audit has to possess unique qualification (Adebayo, 2011). A

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presentation audit should be educated well in social sciences and in scientific investigation and assessment method (Mohiuddin, 2012).The Knowledge of function area in auditing is essential although advanced financial auditing and accounting are however needed in performance auditing (Beattie & Fearnley, 2002).

Wherever performance auditing is prepared differently from financial auditing in some organizations the personnel selected have different skills and background from the ones selected from financial auditing (Ittonen, 2010). In order to meet the requisite of the auditing standards there ought to be continuous training of the audit personnel (Sulaiman, 2011). The most important growth practice is knowledge through practical auditing work (Zhang *et al.*, 2007). Managerial training does not necessarily demonstrate that skill and auditing does not enable one to manage or supervise an audit team (Bushman & Smith, 2003). The skills required for example strategic planning, budgeting and operational grows as one changes to more senior positions inside the organization (Mace, 2013) and continuous education guarantees that auditors consistently undertake training to preserve continuous enhancement of their professional abilities (Brandon, 2003).

Continuous education and training may contain current development in audit methodology, supervision, management and qualitative exploration method, case study, statistical sampling. The quantitative data collection, evaluation design, and scrutiny of data (Hope *et al* 2009). It can also involve subjects that are related to auditor's fieldwork for example, public administration, economic social sciences and information & technology (Ferreira, 2007). Disciplinary action such as warning or invalidation of authorization is not imaginable against non-certified auditors (Adebayo, 2011). This indicates that the minimum audit fee varies from certified and non-certified auditors (Zhang *et al.*, 2007).

Malek and Saidin (2013) indicate that non-certified auditors are not as much likely to change audit reports this means non-certified auditors provide lower assurance. The moral risk of the auditor is declared severe in the government environment, and therefore has received attention in academic literature (Umaru, 2014). In the above environment, there are likelihoods of client catastrophe and consequent disclosure of low-implied audit

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(Ittonen, 2010). This means that there is need for alternate instrument for trustworthiness enhancement in audit (Sulaiman, 2011). As suggested by Beattie and Fearnley (2002), appropriate practices can independently donate to the selection of auditors who are capable in the marketplace while it is hard to assess straightforward if the auditor owns the necessary organization facts to deliver a quality government audit.

It is the requisite of the institute of internal auditors 1210 that auditors possess knowledge, skill as well as other competencies needed to accomplish their responsibilities (Umaru, 2014). In the literature review conducted on communication skill Lince (2012) indicated that development of effective communication skills (for example, interpersonal oral communication, listening skills) is important in internal auditors' advancement and they must possess communication skills in order to become successful professionals (Adebayo, 2011). The enhancement of auditors' potential is enabled by development of skills. And apart from the above internal auditors competence can be measured in academic level, experience and the continuous development and compliance with the auditing standards (Ittonen, 2010). The effort of audit quality and professional care exercised determines the overall quality of internal audit work (Beattie & Fearnley 2002). Adriana (2014) distinguished that the effectiveness of internal auditors and employees increases when their number grows.

Competency is the ability of individual job performance based on the education level professional experience as well as the continuous professional development that determines the effectiveness of auditing in an organization (Mohiuddin, 2012). Competency contributes to the ability of auditors in the performance of systematic and discipline audit to increase effectiveness of internal auditors (Zhang et al, 2007). It was concluded by Malekand Saidin (2013), that internal audit office constantly is faced with the problem of low technical staff proficiency as well as high staff turnover, which limits its capacity to deliver the management effective service. Internal auditors can carry efficiently their duties in the public sector if they have enough number of personnel and the competence required which determines the quality of work performed in the organization (Beattie & Fernley, 2002).

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Competency defines the auditor's efficiency and the quality of work performed in an organization and is measured in the form of academic level, experience, skill and the staff effort in continuing of professional development (Adebayo, 2011). It is the proficiency of the auditor that determines the efficiency in setting a systematic and disciplined approach in improving the effectiveness of the organization activities as well as financial management in the governance processes (Tepalagul & Lin, 2015).

It is important the staff development needs to be reviewed so that strengths and weaknesses can be identifies so that training needs can be planned (Ferreira, 2007). A team spirit of modern auditing needs to be involved as profession demands as well as taking responsibility placed on the staff. Motivation and rewarding structures must also be revised (Mohiuddin, 2012). Most public sectors both in the developed and undeveloped countries remuneration cannot compete with the private sector and this demands consideration (Adebayo, 2011). The achievement of team building is crucial because it is the driver of change in any organization. Team building includes regular training for all internal audit staff. Conference for internal audit staff, regular publications availed to the key client, managers, audit staff, public praise for outstanding audit work and recognition for the same ensuring that this is based on accomplishment while working within a team based structure (Nehme, 2013).

Every team should include a mixture of different internal audit specialities in order to cater for auditing plan for such as forensic, IT, banking (Zhang et al., 2007) and it is very important to forge a good work relationship with new internal audit clients which means management support is unequivocal (Malek & Saidin, 2013). Training programs which are appropriate for operational staff and management who come into contact with internal auditors and also have influence on internal audit should also be considered so that to raise awareness of modern internal auditing which can contribute to the future of the organization (Lin & Tepalagul, 2009). The development and retention of quality audit professionals is key concern in the audit profession (Mohiuddin, 2012). The methods which are key for development and retaining audit personnel includes: giving assignment which are varied and challenging, ensuring supervision is quality, it should be ensured that the audit staff participates in audit engagement from the beginning to the end in order

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to learn all the phases of the audit process. Auditors should also participate in departmental task improvements for example quality assurance review, recruiting and interviewing process and also rotating through various audit teams (Lin & Tepalagul, 2009).

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twaijry et al, 2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001).

The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhances the auditor's potential, but will also improve the quality of audits produced.

In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen & Sayag, 2010). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

2.3.4 Auditor's Reputation and Credibility of Financial Statements

The auditor's reputation is straight linked towards the stages of real quality simulated in the auditor's report. Choi and Jeter (2002) established a condensed stock market response to incomes information that once a qualified opinion is taken if auditor's

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quality is threatened. If audit report conveys a worse level of assurance to the interested party of financial statements, that financial statements duplicate the organization's business reliability and an advanced possibility that its earnings and book standards have stood overstated without being recognized by the auditor (Hope, 2009). Consequently, examined Arthur Andersen's clients' stock market bearing adjacent dates on which Andersen's audit trials and independence continued under humble inspection as well as Andersen's clients' auditor change dates. A good work meaningfully increases the view that audit outcomes will be relied on and applauded improvements will be extremely measured and executed (Dobre, 2014).

The organization's standing aimed at continuous first-class work helps the decision makers with more readily and more positively satisfactory findings and implement recommendations. Reputations are built over period by creation of consistent, high-quality work (Lin & Tepalagul, 2009). A hard-earned reputation is on the connection with each creation. To uphold and continue to shape brilliance necessitates entire responsibility on the part of each participant of actors and the organization. An organization gradually deals with stiffer and more intricate concerns, tasks to its work upsurge on Audit Quality Control System (Dobre, 2014).

Previous research has discovered that an auditor's reputation for brilliance is respected. External interested parties such as shareholders, use audited financial statement statistics in decision-making. Meanwhile investors are incapable to directly discover audit quality and decide whether the specified information is an unbiased indicator of firms' financial performance, auditor reputation helps as an important description for the quality and accuracy of client financial statements (DeAngelo, 2001)

The organization's reputation for consistent high-quality work helps ensure that decision makers will more readily and more assuredly accept findings and implement recommendations. Reputations are built over time by producing consistent, high-quality work. A hard-earned reputation is on the line with each product. To maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization. Challenges to findings and recommendations can be expected. As an organization increasingly deals with tougher and more sensitive issues,

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challenges to its work increase. A high-quality job greatly increases the probability that audit results will be relied on and recommended improvements will be seriously considered and implemented (Choi and Jeter, 2002).

2.3.5 Internal Auditors Effectiveness

The effectiveness of internal auditors has been defined differently by different scholars. According to Arena and Azzone (2009), effectiveness refers to the capacity to obtain outcomes that conform with the set targets. Several studies have been done on the effectiveness of internal auditors. For instance, Hailemariam (2014) examined the determinants of internal audit effectiveness in the public sector using a case study in selected Ethiopian public sector offices. Zulkifli, Shokiyah and Serjana (2014) examined the effective auditors' factors that contribute to the effectiveness of internal audit in public sector and established that the effectiveness of internal audit depends strongly to the attributes of the factors analyzed.

Hung and Han (2013) conducted an empirical study on effectiveness of internal auditing for listed firms in Taiwan. The findings indicated that perceiving effectiveness, internal auditor professional abilities, and combination of organization formalization and professional abilities were key factors affecting auditors' effectiveness. Modibbo (2015) examined the effectiveness of internal audit unit at local government level in Adamawa state with a view to finding out how internal audit unit exists and its level of independence. In another study, Drogalas, Karagiorgos and Arampatzis (2015) examined the specific factors associated with internal audit effectiveness in the Greek business environment and established that internal audit team, independence of internal audit and management support played a key role. The results also reveal that independence of internal audit is the foundation of internal audit effectiveness, as it is the most crucial factor in our model.

2.4 Gaps to be filled by the Study

External relationships encouraging community participation, awareness of internal audit reforms to enable stakeholders, policy and decision-makers to consider its possible contributions and confidence must be fostered. First, including internal audit in the government's reform agenda will ensure effective implementation while internal audit necessity measure of how it fits into key transformations and place as a change agent,

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which enables lobbying and awareness creation of its importance. The increased and closer cooperation between internal audit and management has shown the importance of independence. Protective measures and a supportive, enabling environment reflective of the recommendations must be created. Public sector internal auditors recruited from the private sector report quitting their new jobs after their finding their senior officers as well as accounting officers responsible for thorough internal control systems, which they neither know nor review regularly. No clear structure on checks and balances and supportive, mutually benefitting enabling climate exist for senior management and auditors (Brandon, 2003).

Communication by administration needs also to be clear for success of risk controlling, and governance practices. Internal audit resources are often incomplete; this leads to selection according to priority. For example, in ministries with the largest budgets, more staff have the highest rate of fraud and errors. Thus, each ministry must be evaluated on, for example, budget size, previous levels of mistake and fraud, sensitivity and management alarms, on a score revealing of the system's risk level such as high (yearly), medium (every 2 years) and low-slung (every 3 years). The management must appreciate these assessments and their effect on operative risk management, mechanism, service delivery and governance procedures. The executive board and audit committee should be earmarked fully and sanction these decisions (Lin & Tepalagul, 2009).

Furthermore, reforms can be commenced on different levels according to immediate needs. For example, senior management, operational managers, accounting officers and auditor-general among others necessitating extra staff or capitals and legal or consistency restructuring. Some proposals for early action to start reform on training for internal audit staff, reducing the importance on pre-audit, increasing the importance of internal audit recommendations and management actions, at work with managers rather than comprehensive for audits, including management and staff in internal audit preparation, working with managers to develop action plans and producing internal audit periodicals for internal auditors and clients and creating a regular guidebook for relevance to influence and train internal auditors and get clients to involve internal auditors in the reforms and review working practices (Ferreira, 2007).

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2.5 Conceptual Framework

Conceptual framework is a set of interrelated concepts, explicit or implicit, underlying a particular study and it forms the essence of the study. Conceptual framework forms the heart of the study; it is the foundation of the very objectives (research questions) of the study. It dictates the direction of literature review, forms the basis of analysis, conclusions and recommendations. Conceptual framework is normally summarized in a schematic diagram; it basically shows the relationship between independent and dependent variables. The independent variables identified in the above conceptual framework were remuneration, internal auditors' training, internal audit independence and auditor's reputation influence in internal auditing. These factors will act as the determinants of internal auditing effectiveness. The data obtained from these predictors was used to establish the relationship between each of the factors and the dependent variable which in this case was the internal auditing effectiveness.

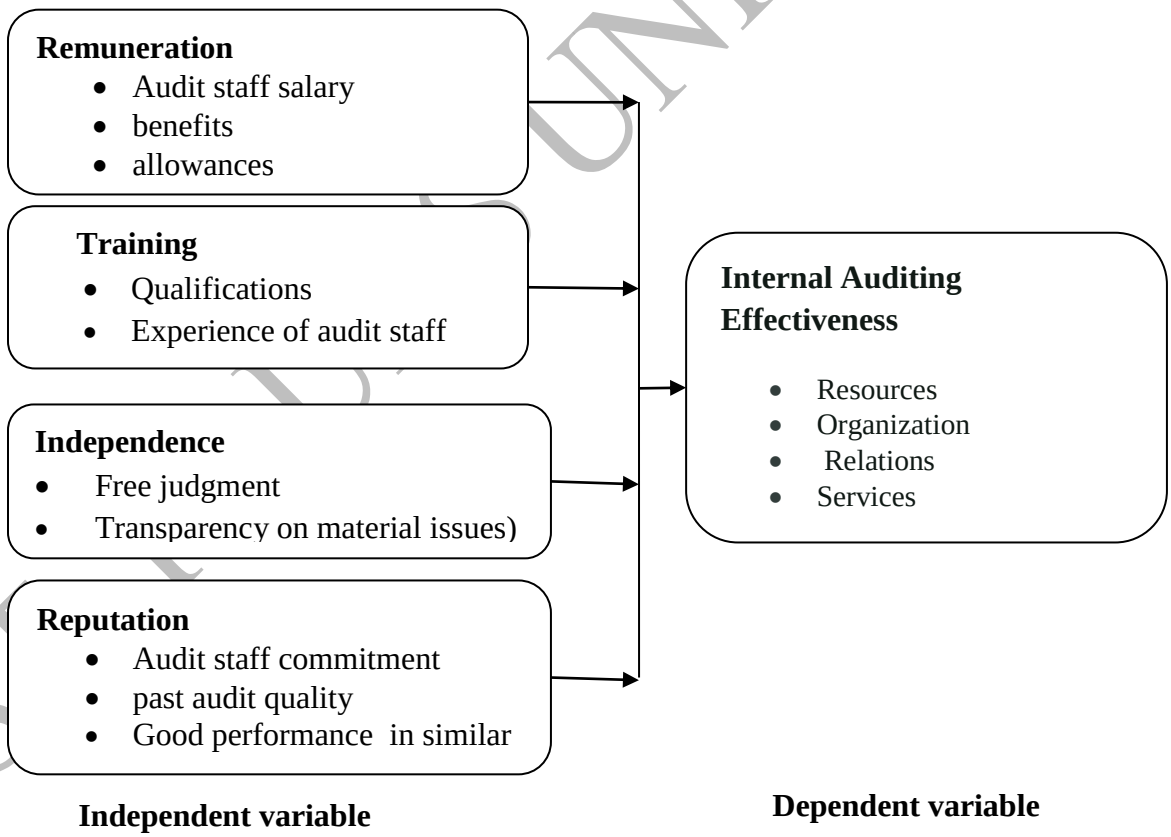


Figure 2.1: Conceptual Framework

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Remuneration variable was operationalized through audit staff salary, benefits and allowances. The training variable was operationalized through qualifications attained by staff and their experiences. Independent was measured through freedom to judge and the level of transparency on material issues. Reputation was checked through the level of commitment among audit staff, quality of past audits and performance levels. The dependent variable- internal audit effectiveness was measured in terms of resources, organization, relations and services rendered.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology which basically elucidates how the research was conducted. It specifically discusses research design, target population, sample size, sampling techniques, data collection method, reliability and validity, data analysis methods and logistical and ethical considerations.

3.2 Research design

In this study, cross-sectional survey design was used because it cuts across a number of institutions. This research design was used because the study is non-experimental and it involves identifying and describing the factors influencing the effectiveness of auditors in the audit of financial statements in sub treasuries in the Rift Valley Kenya. The objective of using cross sectional survey was to provide information on a phenomenon (or phenomena) studied at a particular time and generate findings that have universal validity. Cross sectional design allows collection of data from a sizable population in a highly economical way (Saunders, 2007). Therefore, the cross-sectional research design was deemed to be the best strategy to fulfill the objectives of this study. The study was carried out at sub county treasuries in Rift valley region.

3.4 Population

According to Kothari (2012), researchers have to identify a specific population as their research population target upon which they use to make all there inferences regarding validity of what they are researching on. A population frame is a comprehensive itemized list of all subjects, which comprise the study population, from which a sample was taken (Mugenda & Mugenda, 2003). The study targeted 360 internal auditors and accountants from the 45 sub-counties in Rift valley. This was based on the fact that some sub counties used accountants as internal auditors and did not have internal auditors staff. This therefore ensures that the information is collected from relevant individuals.

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3.5 Sampling

Sampling is the process of selecting a few elements of the target population to represent the population as it may be expensive and infeasible to cover the whole population of interest (Kothari, 2012). The study used stratified sampling which was used to categorize respondents according to their departments and use simple random to arrive at the sample. Stratified random sampling technique was used to select the sample because the study population was non homogenous as it comprised of internal auditors and accountants from different departments (Kuul, 2008). Stratified sampling was chosen because it is not biased in selecting respondents and each respondent had an equal chance of being selected. This technique was used to select the sample size that was representative of the actual number of respondents who was picked from each category and issued with questionnaire (Kuul, 2008).

3.5.1 Sample Size

According to Bobbie (2007), a sample size is a selection of respondents for the study chosen to represent the total population. Creswell and Clark (2011) argue that where time and resources allow, researcher should take as big a sample as possible. Others argues that the size of sample depend on many factors such as the number of variables in the study, the type of research design, the methods of data analysis and size of the access population, but many agrees that sample should be at least 10% of accessible population. Thus, a sample of 108 employees representing 30% of the target population which is deemed fit was used thus satisfying the above condition as shown in table 3.1

Table 3.1:Sample size

Department	Target	Proportion	Sample
Internal audit	200	30%	60
Accountants	160	30%	48
Total	**360**	**30%**	**108**

Source: HR Departments (2016)

3.6 Data Collection Procedure

To achieve objective of the research study, the researcher used both primary and secondary data. Primary data was collected by administering a structured questionnaire. The questionnaire used closed questions. Closed questions have answers and usually

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collect quantitative data (Cooper, 2003). The use of questionnaire ensured collection of data from many respondents within a short time and respondents are free to give relevant information because they are assured of their anonymity. Secondary data on the other hand was collected through review of both empirical and theoretical data from books, eBooks, journals, dissertations, magazines and the internet (Kuul, 2008).

The pilot test of the instrument was conducted at the national treasury. This was because national treasury presents almost similar environmental variables as the selected case of the study. Pilot testing was conducted to determine the reliability of the questionnaires including the structure and sequence. This was administered to 30 respondents who were given enough time to fill the questionnaire and return them willingly. This ensured that the respondents in the final study will not have any difficulty in answering the questions.

3.6.1 Reliability

The level of consistency between multiple variables is data reliability. High reliability is determined if variables in the same measuring group are correlated within others. In order to ensure high data reliability, a pilot study was run and some changes and improvements to the draft questionnaire were made based on the feedback. Afterwards, Cronbach Alpha test which is a common test for data reliability to determine how closely each variable is related to the remaining variables sum, using a multi-point scale for measuring consistency among individual items, was carried out in order to assess the reliability of the obtained data. A Cronbach alpha of above 0.70 indicated that the research instrument were reliable (Kuul, 2008).

3.6.2 Validity

Validity is the extent to which a test measures what it is hypothetical to measure. To test for the validity of the research instrument, a pilot study was conducted at the National Treasury. The pilot study helped in identifying and correcting any errors in the questionnaire thereby enhancing reliability and validity of the results.

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3.7 Data Analysis and Presentation

The completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS) Version 22.0 and presented through percentages, means, standard deviations and frequencies. The analyzed information was presented using frequency tables. Inferential statistics namely Pearson's product moment correlation analysis was employed to establish the relationship between remuneration, training, independence, auditor's reputation and internal auditing effectiveness. Pearson's product moment correlation test is chosen in order to assess whether there is a relationship between the study variables (Kuul, 2008). The method is also chosen because a rating scale was used in the questionnaire.

Multiple regression analysis was used to establish the relationship between the study variables.The multiple regression equation was:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where: Y= auditors effectiveness in financial statements, X_1= Remuneration, X_2= Independence, X_3= Training, X_4= Auditor Reputation and ε = Error Term.

3.8 Ethical Considerations

The researcher observed the following steps to ensure that none of the respondents suffered discomfort, embarrassment, loss of privacy and physical harm. Names in the questionnaire were optional and no respondent was required to disclose names should they feel uncomfortable. The respondents' personal privacy and the confidentiality were observed while confidentiality of the information that was provided was guaranteed. The purpose of the research study was clearly explained to the respondents and also the possible benefits of the outcome of the research had.

Permission to carry out the research was sought from the Management. Respondents were informed of their rights to participate or not to participate in this study. The researcher requested for an official introductory letter to conduct the research from St Paul University in order to assure the Management of confidentiality and to explain the purpose of the research and research findings.

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CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents research findings and discussion of the study as set out in the research methodology. The study findings are presented to examine factors influencing the effectiveness of auditors in the audit of financial statements in sub treasuries in the Rift Valley, Kenya. The data was gathered exclusively using the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.1.1 Response Rate

The study targeted 108 respondents in collecting data with regard to the factors influencing the effectiveness of internal auditors in the audit of financial statements in sub treasuries in the Rift Valley Kenya. From the study, 72 out of the 108 sample respondents filled-in and returned the questionnaires making a response rate of 67%. This response rate was excellent and conformed to Mugenda and Mugenda (2003) argument that for generalization of findings to the whole population the least acceptable response rate should be 50%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.1.2 Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot test of the instrument was conducted at the national treasury. Reliability analysis was subsequently done using Cronbach Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct. Gliem and Gliem (2003) established the Alpha value threshold at 0.7, thus forming the study's benchmark. Cronbach Alpha was established for every objective, which formed a scale. Table 4.1 shows that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

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Table 4.1: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Remuneration	0.828	4
Training	0.723	4
Independence	0.775	5
Reputation	0.765	4

Source: Primary data

4.2 Demographic Information

The study in this section sought to enquire from the respondents' demographic information regarding to their working experience and the position they held in the organization so as to determine their appropriateness in participarting in the study. This also helps in establishing whether the information provided is realible or not. These are discussed below:

4.2.1 Working Experience

The respondents were asked to indicate the period of time they had been working in auditing department. The findings are shown in Figure 4.1.

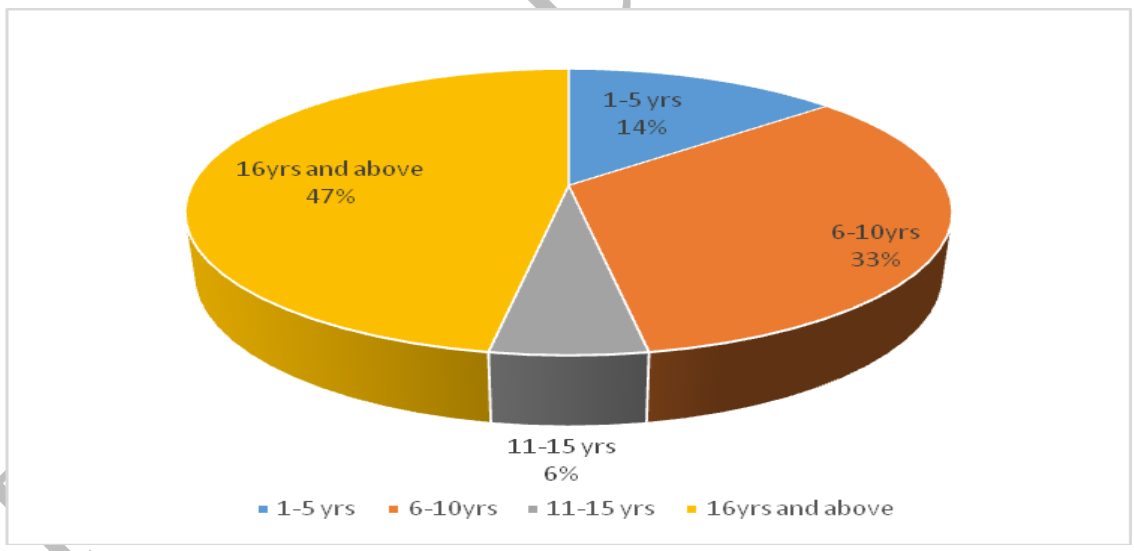


Figure 4.1: Working Experience

As indicated in Figure 4.1 above, majority 47% of the respondents had worked for 0ver 16 years in auditing, 33% for 6-10 years, 14% for 1-5 years and 6% for 11-15 years. From the findings, majority of the respondents had worked in the industry for more than five years hence they were more conversant with the factors influencing the effectiveness

of auditors in the audit of financial statements. This therefore means that they had adequate experience to understand the way the internal audit functioned hence the data provided is more reliable. This therefore goes to show that the data collected was reliable and relevant for this study.

4.2.2 Position Held by the Respondents in the Organization

The respondents were further requested to indicate the position they held in their respective organizations. The findings are shown in Table 4.2 below.

Table 4.2: Position Held by the Respondents

Positions	Frequency	Percent
Senior Auditors/ Senior Accountants	2	3
Auditor I/ Accountant I	45	62
Auditor II/ Accountant II	25	35
Total	72	100

According to the findings in Table 4.2 above, majority 62% of the respondents were Auditor I/ Accountant I, 35% were operation Auditor II/ Accountant II and 3% of the respondents were Senior Auditors/ Senior Accountants. These findings show that the study covered auditors//accountants across all the positions in the organizations thus the information provided by the respondents reflect the effectiveness of auditors in the audit of financial statements hence were relevant for the study. Therefore the information collected is more reliable and reflective of the operations in sub county government operations.

4.3 Remuneration and the Auditor's Effectiveness in Financial Statements

The study sought to determine whether remuneration affected effectiveness of auditors in ensuring the credibility of financial statements in sub counties. From the findings, majority 97% of the respondents agreed that remuneration affected effectiveness of auditors in ensuring credibility of financial statements while 3% disagreed. This shows that internal auditor's remuneration affected the level of effectiveness of internal auditors in their work and credibility of the financial statements.

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4.3.1 Effect of Auditors Remuneration on Credibility of Financial Statements

The respondents were asked to indicate the extent to which remuneration affect effectiveness of auditors in ensuring the credibility of financial statement. The findings are shown on Figure 4.2.

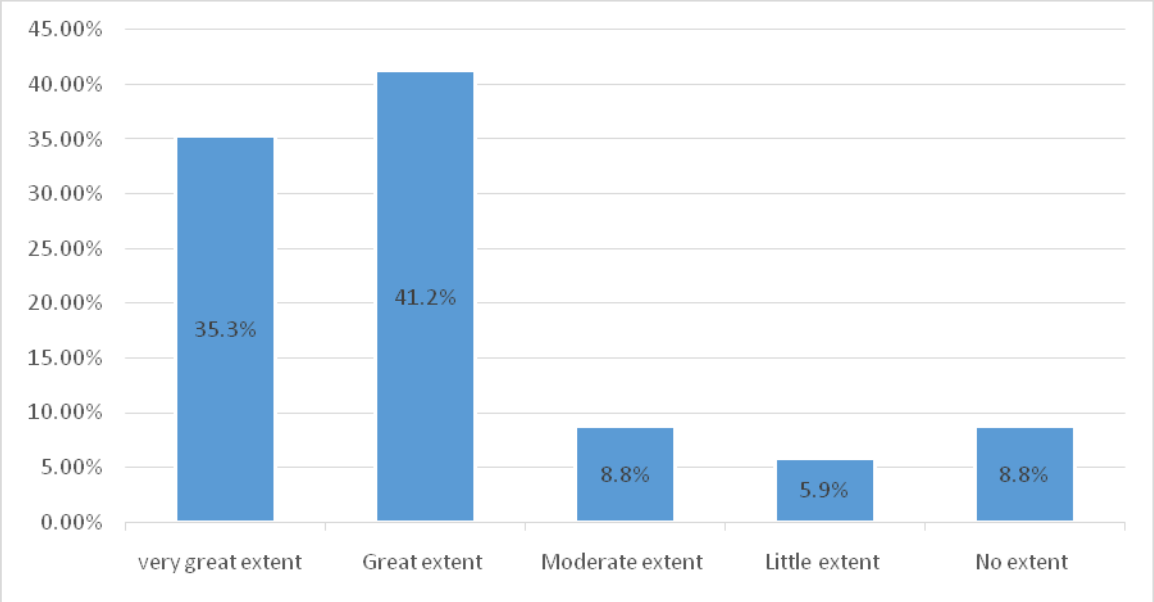


Figure 4.2: Effect of Auditors Remuneration on Credibility of Financial Statements

From the findings in figure 4.2 above, 35.3% of the respondents indicated that remuneration affected effectiveness of auditors in ensuring the credibility of financial statements to a very great extent, 41.2% of respondents indicated a great extent, 8.8% of respondents indicated a moderate extent and no extent each and 5.9% a little extent. In summary, the findings indicated that auditors remuneration on credibility of financial statements greatly as the combined percentage of great extent and very great extent is 76.5% compared to 14.7 who indicated to a small extent.

4.3. Effectiveness of Auditors Remuneration on Credibility of Financial Statements

Several statements on the effect of remuneration on effectiveness of auditors were identified against which the respondents were requested to indicate the extent to which it ensures the credibility of financial statements in their organization. A five point Likert scale was provided ranging from 1 to 5 where: 1= strongly disagree, 2= Disagree, 3= Neural, 4= Agree and 5=strongly agree. From the responses descriptive measures of

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central dispersion; Mean and Standard Deviation were used for ease of interpretation. The findings are shown below on Table 4.3.

Table 4.3: Effectiveness of Auditors Remuneration on Credibility of Financial Statements

	Mean	Std Dev
Quality of audit is reflected in the fees charged for the audit services	3.819	1.0919
The district treasures employ high remunerated auditors for quality audit	3.486	1.1257
Citizens have access to the criteria of selecting quality auditors for district treasures and their remuneration	3.694	1.1087
Highly remunerated auditor's financial statements does not contain material misstatements	3.736	1.1004

The findings in Table 4.3 above indicate that the quality of audit is reflected in the fees charged for the audit services had the highest mean of 3.819 with a standard deviation of 1.0919 followed by highly remunerated auditor's financial statements does not contain material misstatements had a mean of 3.736 with a standard deviation of 1.1004, citizens have access to the criteria of selecting quality auditors for district treasures and their remuneration which had a mean of 3.694 with a standard deviation of 1.1087 and district treasures employ high remunerated auditors for quality audit had a mean of 3.486 with a standard deviation of 1.1257. These findings indicate that in the order of importance, the fees charges, level of remuneration and criterion of selecting internal auditors had the highest effect on the credibility of financial statements. This finding is in agreement with those of Shroff (2015) who act on the assumption that audit services are quality-differentiated and in the modest market excellence, modifications are indicated in the fees.

4.4 Independence and the Auditor's Effectiveness in Financial Statements

The respondents were required to indicate whether independence affect effectiveness of auditors in ensuring the credibility of financial statement. From the findings, 98% of the respondents agreed that independence affect effectiveness of auditors in ensuring credibility of financial statements, while 2% disagreed. This shows

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that independence in auditing enhances the independence of internal auditor, and ensures that auditor is free from management influence. These findings are consistent with the findings of Adeyemia and Akinniyi (2011) that auditor independence coupled with experience in terms of highest level of education attained, number of assignment handled which is experience play a key role in their level of effectiveness.

4.4.1 Effect of Auditors Independence on Credibility of Financial Statements

The respondents were further asked to indicate the extent to which independence affected effectiveness of auditors in ensuring the credibility of financial statements. The findings are shown on Figure 4.3 below.

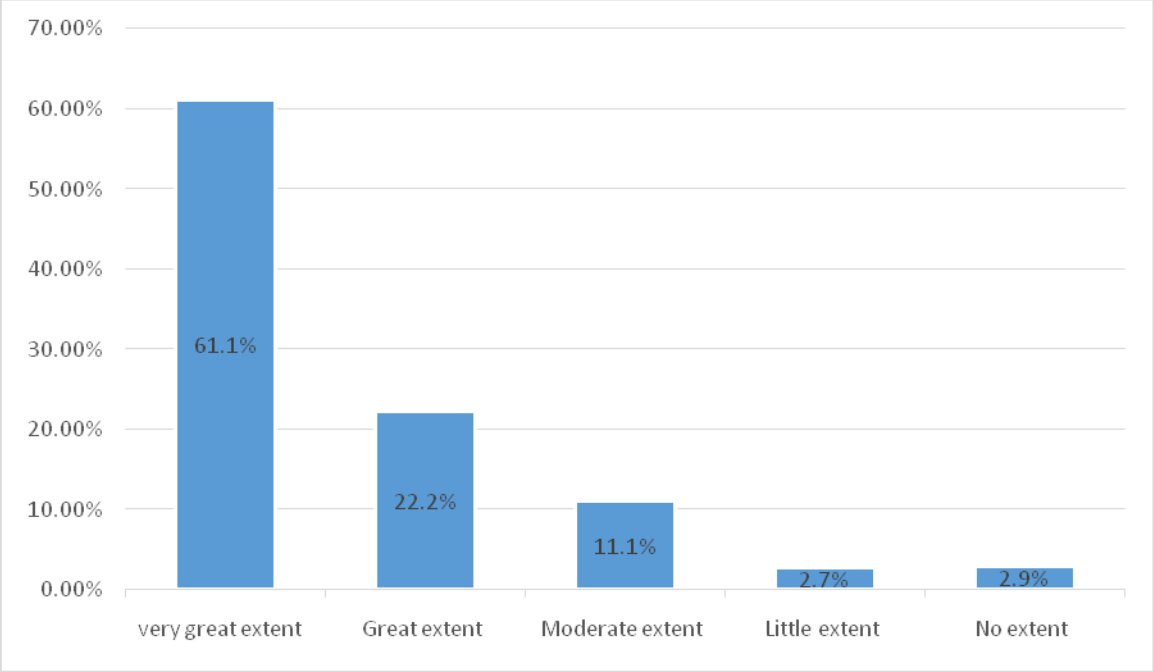


Figure 4.3: Effect of Auditors Independence on Credibility of Financial Statements

As indicated in the findings on Figure 4.3, it can be seen that 61.1% of the respondents indicated that independence affected effectiveness of auditors in ensuring the credibility of financial statements to a very great extent, 22.2% of respondents indicated great extent, 11.1% indicated moderate extent, 2.7% indicated little extent while 2,.9% indicated no extent. From these findings, it can be deduced that independence affects

credibility of financial statements to a great extent. The combined percentages of those who agreed is high at 83.3% compared to those who disagreed at 5.6%.

4.4.2 Effectiveness of Auditors Independence on Credibility of Financial Statements

Several statements on the effect of independence on effectiveness of auditors were identified against which the respondents were requested to indicate the extent to which it ensures the credibility of financial statements in their organization. From the responses, mean and standard deviation were used for ease of interpretation. The findings are shown below on Table 4.4 below.

Table 4.4: Effectiveness of Auditors Independence on Credibility of Financial Statements

key components	Mean	Std Dev
Treasuries ensures the auditor is free from management influence	3.736	0.9037
Internal auditors are transparent on material issues	3.583	1.183
Auditors judgment are made without compromise from the board of directors directives	3.430	1.231
Management offers support to auditors as an obligation to offer management report on all material queries	4.736	0.5305
There is no auditor client negotiation conflict over financial reporting issues	4.569	0.6676

From the findings in Table 4.4 above, it can be seen that management offered support to auditors as an obligation to offer management report on all material queries had the highest mean of 4.736 with a standard deviation of 0.5305. These findings are consistent with those of Stewart & Subramaniam (2010) who established that there existed a correlation between management's support and the credibility of financial statements.

On there being no auditor client negotiation conflict over financial reporting issues, the mean was 4.569 with a standard deviation of 0.6676 implying that the respondents strongly agreed that there was no auditor client negotiation conflict over financial reporting issues. According to Adebayo (2011), the activity of auditing should be seen to lack interference as this is a crucial element in conducting auditing as the auditor can access any document relating to the work in audit without favour or fear. This in turn promoted higher levels of credibility of financial statements.

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Regarding the statement as to treasuries ensuring the auditor was free from management influence, the mean was 3.736 with a standard deviation of 0.9037. These finding shows that the respondents agreed that by treasuries ensuring that the auditor was free from management influence improved the level of credibility of financial statements. These findings are in line with those of Mohiuddin (2012) who argues that making the auditor provide an objective report as well as reliable professional judgment on auditing work in order to achieve their mandate with integrity. In order to meet the requisite of the auditing standards there ought to be continuous training of the audit personnel (Sulaiman, 2011). The most important growth practice is knowledge through practical auditing work (Zhang et al., 2007). Managerial training does not necessarily demonstrate that skill and auditing does not enable one to manage or supervise an audit team (Bushman & Smith, 2003).

On whether internal auditors were transparent on material issues, the mean was 3.583 with a standard deviation of 1.183. These findings show that the respondents agreed that internal auditors were transparent on material issues and this promoted the levels of credibility of financial statements. Malek and Saidin (2013) argue that independence of the internal auditors ensure that there is no interfere with the effectiveness of internal auditing because internal auditors are given the responsibility of upholding the best interest of their employer.

Regarding auditors judgment being made without compromise from the board of director's directives, the mean was 3.430 with a standard deviation of 1.231. This finding is consistent with that of Adebayo (2011) that the activity of auditing ought be seen to be free from interference as this is a vital element in leading auditing, as the auditor can access any document concerning the work in audit without favour or alarm. Hereafter building the auditor deliver an impartial report as well as dependable professional ruling on auditing work in order to attain their mandate with truthfulness.

4.5 Training and Auditors Credibility of Financial Statements

The respondents were required to indicate whether training affected effectiveness of auditors in ensuring the credibility of financial statements. From the findings 97% of the respondents agreed that training affect effectiveness of auditors in ensuring credibility

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of financial statements, while 3% disagreed. These findings are consistent with those of Adeyemia and Akinniyi (2011) that the internal auditors experience in terms of assignments handled, period worked, highest level of education attained all form part of their capacity and ability to deliver credible financial statements.

4.5.1 Effect of Auditors Training on Credibility of Financial Statements

The respondents were further requested to indicate the extent to which training affected effectiveness of auditors in ensuring the credibility of financial statements. The findings are shown in Figure 4.4 below.

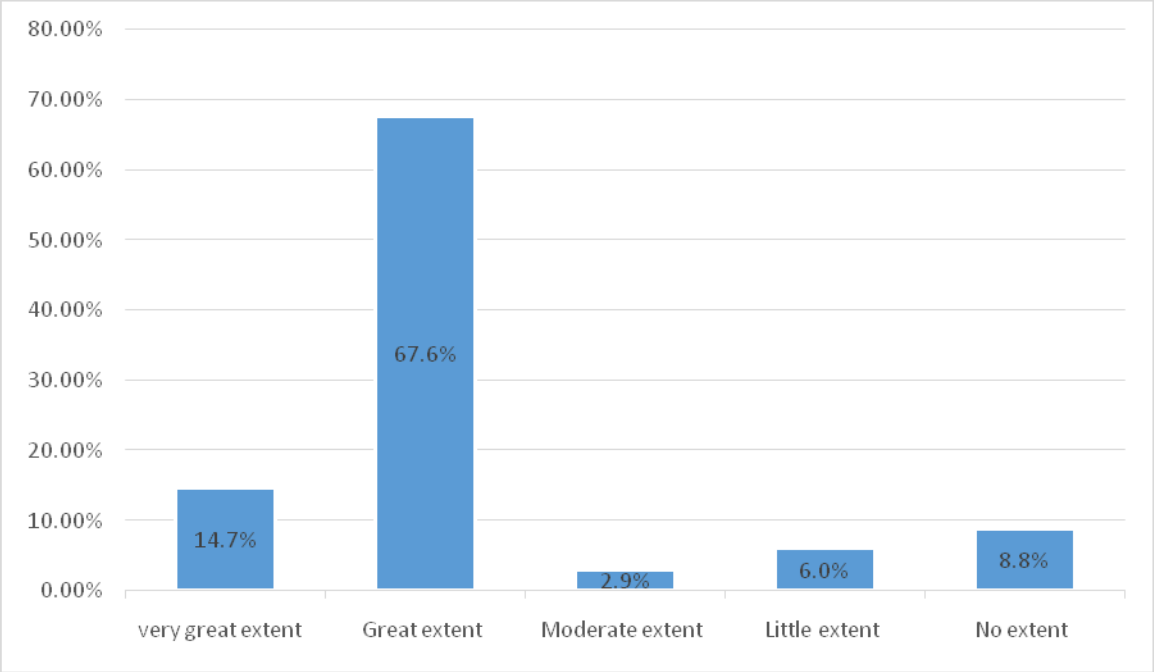


Figure 4.4: Effect of Auditors Training on Credibility of Financial Statements

As shown in Figure 4.4 above, it can be seen that 67.6% of the respondents indicated that training affected effectiveness of auditors in ensuring the credibility of financial statements to a great extent, 14.7% indicated very great extent, 8.8% indicated no extent, 6% indicated little extent while 2.9% indicated moderate extent. From these findings, it can be deduced that training affects credibility of financial statements to a great extent as the percentage of the respondents who agreed is 82.3% compared to those who disagreed at 14.8%. According to Umaru (2014), training is an important factor in attaining high quality financial management in the public sector through leadership development and

management of skills and aptitudes of development of work plan, relating to but not restricted to handling over, creating of staff information skill and same treatment and opening to all staff. As internal auditors are trained, they improve their quality of work.

4.5.2 Effectiveness of Auditors Training on Credibility of Financial Statements

Several statements on the effects of training on effectiveness of auditors were identified against on which the respondents were requested to indicate the extent to which it ensured the credibility of financial statements in their organization. From the responses mean and standard deviation were used for ease of interpretation. The findings are shown below on Table 4.5 below.

Table 4.5: Effectiveness of Auditors Training on Credibility of Financial Statements

key components	Mean	Std Dev.
Auditors engaged in treasuries audit have high experience on auditing and the committee verifies the quality of training	3.458	1.244
Auditors ensures high leadership and management skills and proficiencies on their engagement at treasuries	4.430	.7841
Auditors ensures the audit staff allocated to specific tasks are competent	4.333	.8222
Auditors ensures that the audit staff have high qualifications and experience in relation to audit duties allocated	4.013	1.0413

From the findings in Table 4.5 above, as to whether auditors ensured high leadership and management skills and proficiencies on their engagement at treasuries, the mean was 4.43 with a standard deviation of 0.7841. This means that the respondents agreed that auditors ensured high leadership and management skills and proficiencies on their engagement at treasuries. Mohiuddin (2012) argues that the Knowledge of function area in auditing is essential although advanced financial auditing and accounting are however needed in performance auditing. In order to be recognized as a performance auditor, performance team leader or audit manager audit has to possess unique qualification (Adebayo, 2011).

On the statement regarding auditors ensuring the audit staff were allocated to specific tasks were competent, the mean was 4.333 with a standard deviation of 0.8222. The skills required for example strategic planning, budgeting and operational grows as one changes to more senior positions inside the organization (Mace, 2013) and continuous education

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guarantees that auditors consistently undertake training to preserve continuous enhancement of their professional abilities (Brandon, 2003).

On whether auditors ensured that the audit staff had high qualifications and experience in relation to audit duties allocated them, the mean was 4.013 with a standard deviation of 1.0413. These findings show that the respondents agreed that the audit staff had high qualifications and experience in relation to audit duties allocated them. Malek and Saidin (2013) indicate that non-certified auditors are not as much likely to change audit reports this means non-certified auditors provide lower assurance. According to Hope et al. (2009), continuous education and training may contain current development in audit methodology, supervision, management and qualitative exploration method, case study, statistical sampling.

On the statement regarding auditors engaging in treasuries audit having high experience on auditing and the committee verified the quality of training; the mean was 3.458 with a standard deviation of 1.244. This finding is in agreement with that of Lin and Tepalagul (2009) who found that there exists positive correlation between the audit quality, auditor's skill, and proficiency ant that the technical ability that is the equal in education, working experienced and credentials of the auditors appears to increase the auditor's remuneration.

4.6 Auditor's Reputation and Credibility of Financial Statements

The respondents were further required to indicate whether auditor's reputation affected effectiveness of auditors in ensuring the credibility of financial statements. From the findings, 96% of the respondents agreed that auditor's reputation affect effectiveness of auditors in ensuring credibility of financial statements while 4% disagreed. The findings show that auditor's reputation affected effectiveness of auditors in ensuring the credibility of financial statements as supported by 96% of the respondents. Choi and Jeter (2002) finds that the auditors' reputation is straight linked towards the stages of real quality simulated in the auditor's report.

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4.6.1 Effect of Auditors Reputation on Credibility of Financial Statements

The respondents were requested to indicate the extent to which auditor's reputation affect effectiveness of auditors in ensuring the credibility of financial statements. The findings are shown in Figure 4.5

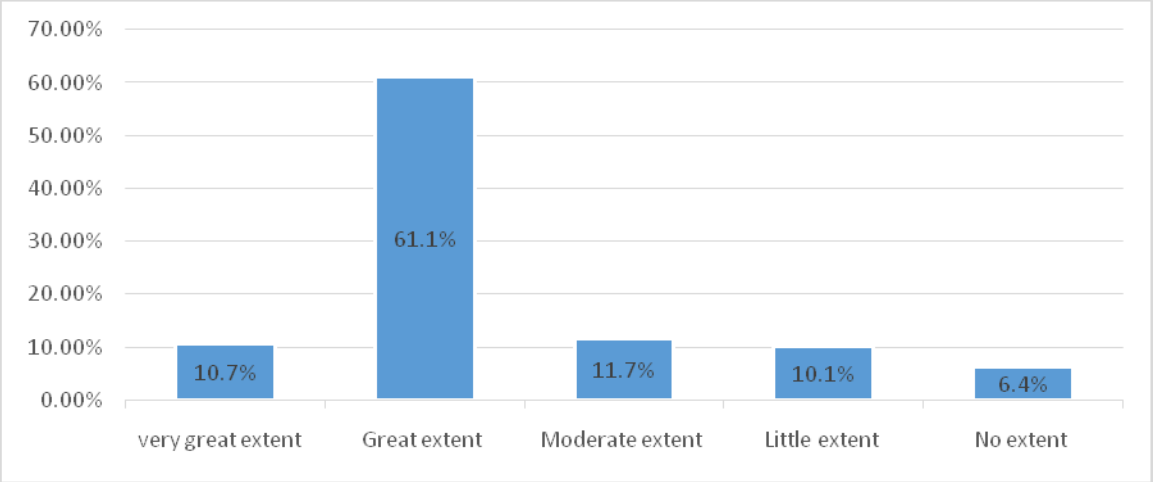


Figure 4.5: Effect of Auditors Reputation on Credibility of Financial Statements

As indicated in the findings in Figure 4.5 above, it can be seen that 61.1% of the respondents indicated that auditor's reputation affect effectiveness of auditors in ensuring the credibility of financial statements to a great extent, 11.7% indicated moderate extent, 10.7% indicated very great extent, 10.1% indicated little extent while 6.4% indicated no extent. From these findings, the study deduces that auditor's reputation affects credibility of financial statements to a great extent.

4.6.2 Effectiveness of Auditors Reputation on Credibility of Financial Statements

Several statements on the effect of auditor's reputation on effectiveness of auditors were identified against which the respondents were requested to indicate the extent to which it ensures the credibility of financial statements in their organization. From the responses mean and standard deviation were used for ease of interpretation. The findings are shown below on Table 4.6 below.

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Table 4.6: Effectiveness of Auditors Reputation on Credibility of Financial Statements

Statements	Mean	Std. Dev.
Audit report provides a lower level of assurance to the users of financial statements that the financial statements reflect the firm's business reality	3.111	1.1328
To maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization	3.527	1.1624
Audit staff are selected on merit	3.625	1.1437
Auditor reputation serves as an important proxy for the quality and accuracy of client financial statements	3.666	1.0614

As shown in Table 4.6 above, it is clear that auditor reputation served as an important proxy for the quality and accuracy of client financial statements as supported by a mean of 3.666 with a standard deviation of 1.0614. These findings are consistent with the argument of Al-Khaddash et al. (2013) that the reputation of an internal auditor affects their ability to be independent and to act independently. Internal auditors with good reputation have high probability of ensuring credibility of financial statements. Reputation is a component of several elements including certifications held, experience, independence, and highest level of education attained.

On the statement regarding audit staff being selected on merit the mean was 3.625 with a standard deviation of 1.1437. These findings show that the respondents agreed that the audit staff were selected on merit. Adebayo (2011) argues that competency defines the auditor's efficiency and the quality of work performed in an organization and is measured in the form of academic level, experience, skill and the staff effort in continuing of professional development. This is further complemented by Tepalagul and Lin (2015) who argue that it is the proficiency of the auditor that determines the efficiency in setting a systematic and disciplined approach in improving the effectiveness of the organization activities as well as financial management in the governance processes. Competency contributes to the ability of auditors in the performance of systematic and discipline audit to increase effectiveness of internal auditors (Zhang et al, 2007).

On the statement regarding maintaining and continuing to build excellence requiring total commitment on the part of every member of the team and the organization the mean was 3.527 with a standard deviation of 1.1624. These findings show that the respondents

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agreed that maintaining and continuing to build excellence requiring total commitment on the part of every member of the team and the organization. These findings are consistent with the argument by Umaru (2014) that auditors need to possess knowledge, skill as well as other competencies needed to accomplish their responsibilities.

On the statement regarding audit report providing a lower level of assurance to the users of financial statements that the financial statements reflect the firm's business reality, the mean was 3.111 with a standard deviation of 1.1328. Suleiman (2011) argues that the purposes of any audit are to reassure stakeholders that financial statements are free from any material misstatements. Therefore, the view of the stakeholders in the value of an audit is that there is a possibility that the auditor may discern errors or breaks in the reportage arrangement and probability that he will report the same. This finding concurs with that of Lin & Tepalagul (2009) that reputations are built over period by creation of consistent, high-quality work and a hard-earned reputation is on the connection with each creation. To uphold and continue to shape brilliance necessitates entire responsibility on the part of each participant of actors and the organization.

4.7 Effectiveness of Auditors in Ensuring the Credibility of Financial Statements

Several statements on the effectiveness of auditors were identified against which the respondents were requested to indicate the extent to which it ensures the credibility of financial statements in their organization. From the responses mean and standard deviation were used for ease of interpretation. The findings are shown below on Table 4.7 below.

Table 4.7: Effectiveness of Auditors in Ensuring the Credibility of Financial Statements

Statements	Mean	Std Dev
Resources are allocated to audit	3.722	1.0239
Leadership ensures the auditors are independent	3.250	1.1352
Leaders take personal responsibility on their obligation in the audit through guidance of audit committee	3.138	1.1297
There is balance of work needed in the audit	3.750	1.0581
Regulations are followed in the audit	3.777	1.0376

From the findings in 4.7 above, it can be seen that regulations are followed in the audit as supported by a mean of 3.777 with a standard deviation of 1.0376. There exists information asymmetry between the management in the organization and external

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shareholders including the shareholders thus the need to have internal auditors to check on the adherence to rules and regulations.

On there being balance of work needed in the audit, the mean was 3.750 with a standard deviation of 1.0581. These show that the respondents agreed that there being balance of work needed in the audit. On the resources are allocated to audit the mean was 3.722 with a standard deviation of 1.0239, leadership ensures the auditors are independent had a mean of 3.250 with a standard deviation of 1.1352 and leaders take personal responsibility on their obligation in the audit through guidance of audit committee had a mean of 3.138 with a standard deviation of 1.1297.

4.8 Correlation analysis

Table 4.8: Correlation Analysis

		Effectiveness of Auditors	Remuneration	Independence	Training	Auditor's Reputation
Effectiveness of Auditors	Pearson Correlation	1				
	Sig. (2-tailed)					
Remuneration	Pearson Correlation	.409	1			
	Sig. (2-tailed)	.004				
Independence	Pearson Correlation	.804	.500	1		
	Sig. (2-tailed)	.001	.391			
Training	Pearson Correlation	.592	.964	.552	1	
	Sig. (2-tailed)	.013	.008	.334		
Auditor's Reputation	Pearson Correlation	.501	.983	.481	.992	1
	Sig. (2-tailed)	.009	.003	.412	.001	

Correlation is significant at the 0.05 level (2-tailed).

Pearson's correlations analysis was conducted at 95% confidence interval so as to establish the factors influencing the effectiveness of auditors in the audit of financial statements. From Table 4.8 shows that, there is a positive correlation between remuneration and effectiveness of auditors in the audit of financial statements with a

magnitude of 0.409 with remuneration, 0.804 with independence, 0.592 with training and a magnitude of 0.501 with auditor's reputation. The independent variables also had a positive significant correlation relationship with P-values of 0.04, 0.01, 0.013and 0.009 respectively. A correlation coefficient value (r) ranging from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong.

4.9 Regression Analysis

The Researcher conducted a multiple regression analysis to examine factors influencing the effectiveness of auditors in the audit of financial statements. The study results are shown in the subsequent sections.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.758	.575	.558	.0339

From the findings in Table 4.9, R was 0.758 meaning that there was a positive relationship between all the four independent variables. R^2 was 0.575 implying that only 57.5% of the dependent variable could be explained by the independent variables while only 42.5% of the variations were due to other factors. This implies that the regression model has very good explanatory and predictor grounds.

Table 4.10: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.894	.312		9.279	.000
Remuneration	.111	.077	.178	1.456	.041
Independence	.407	.059	.879	6.930	.000
Training	.420	.047	.079	8.936	.037
Auditor Reputation	.151	.043	.024	3.511	.049

The established regression equation becomes;

$Y = 2.894 + 0.111X_1 + 0.407X_2 + 0.420X_3 + 0.151X_4 + \varepsilon$

Where: Y= auditors effectiveness in financial statements, X_1= Remuneration, X_2= Independence, X_3= Training, X_4= Auditor Reputation and ε = Error Term.

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From the findings of the regression analysis if all factors (remuneration, independence, and training and auditor reputation) were held constant, auditor's effectiveness in financial statements would be at 2.894. An increase in remuneration would lead to an increase in auditor's effectiveness in financial statements by 0.111. An increase in independence would lead to an increase in auditor's effectiveness in financial statements by 0.407. An increase in training would lead to an increase in auditor's effectiveness in financial statements by 0.420. An increase in auditor reputation would lead to an increase in auditor's effectiveness in financial statements by 0.151. All the variables were significant as the P-values were less than 0.05 and indication that all the factors were statistically significant.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMEDATIONS

5.1 Introduction

This chapter presents a summation of the findings, conclusions and recommendations of the study. From the data analysis in the previous chapter, the following conclusions and recommendations of the research are made based on the findings obtained and interpreted from the data collected.

5.2 Summary of the Findings

The objective of the study was to determine the factors affecting effectiveness of internal auditors in the auditor of sub county treasuries in rift valley. The specific objectives were four namely; examine whether remuneration affected auditors' effectiveness in the audit of financial statements in the rift valley sub treasuries Kenya, examine whether independence affected auditors' effectiveness in the audit of financial statements in the rift valley sub treasuries Kenya, examine whether training affected auditors' effectiveness in the audit of financial statements in sub treasuries in the rift valley Kenya, and establishing whether auditor's reputation affected auditors' effectiveness in the audit of financial statements in the rift valley sub treasuries Kenya. The study adopted cross-sectional survey design. The key findings are presented below.

5.2.1 Remuneration and the Auditor's Effectiveness in Financial Statements

The study established that resources were allocated to audit, leadership ensured that auditors were independent although they offered their support to ensure that they accomplished their functions with ease. The study also established that leaders took personal responsibility on their obligation in the audit through guidance of audit committee. The study further established that there was moderate balance of work needed in the audit effectively regulations are followed in the audit. The results also showed there existed a correlation between remuneration and credibility of financial statements.

5.2.2 Independence and the Auditor's Effectiveness in Financial Statements

The study established that treasuries ensured that the auditor was free from management influence. However, it was clear that the management provided the

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prerequisite support for the internal auditors. The study further established that internal auditors were transparent on material issues as their judgments were made without compromise from the management, management offered support to auditors as an obligation to offer management report on all material queries, there was no auditor client negotiation conflict over financial reporting issues as the internal auditors were employees in the national Government. The results showed there existed a strong positive correlation between internal auditor's independence and effectiveness in the audit of financial statements.

5.2.3 Training and Auditors Credibility of Financial Statements

The study established auditors engaged in treasuries audit had high experience on auditing and the committee verified the quality of training. The study also established that auditors ensured high leadership and management skills and proficiencies on their engagement. The study further found that auditors ensured the audit staff allocated to specific tasks was competent and in cases where they had different competencies, they worked in teams. Further the study established that an auditor ensured that the audit staffs had high qualifications and experience in relation to audit duties allocated. The level of competence and experience determined the effectiveness of auditors. The results showed there existed a positive correlation between training and effectiveness in the audit of financial statements.

5.2.4 Auditor's Reputation and Credibility of Financial Statements

The study found that audit report provides a lower level of assurance to the users of financial statements. The financial statements reflected the firm's business reality and therefore the independence, experience and reputation of the internal auditor played a key role on the effectiveness of financial statements. The study found that to maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization, further the study found agreed that audit staff were selected on merit. The study also found that auditor reputation serves as an important proxy for the quality and accuracy of client financial statements. The results showed there existed a correlation between training and effectiveness in the audit of financial statements.

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5.3 Conclusions

5.3.1 Remuneration and the Auditor's Effectiveness in Financial Statements

The study concludes that for effective and credible financial statements adequate resources have to be allocated to audit. The leadership should ensure the auditors are independent and provide them with the prerequisite working tools and equipment to ensure that they perform their tasks. The study also established that leaders took personal responsibility on their obligation in the audit through guidance of audit committee. The study also concludes that there was balance of work needed and audit regulations should be followed in the audit. The study concludes that there was a correlation between remuneration and auditors' effectiveness in the audit of financial statements.

5.3.2 Independence and the Auditor's Effectiveness in Financial Statements

The study further concludes that treasuries ensured the auditor were free from management influence, internal auditors were transparent on material issues, auditor's judgment are made without compromise from the board of director's directives, the study also concludes that management offers support to auditors as an obligation to offer management report on all material queries. The study also concludes that for effective and credible financial audit there should be no auditor client negotiation conflict over financial reporting issues.

5.3.3 Training and Auditors Credibility of Financial Statements

The study concludes that to enhance effectiveness in the audit of financial statements auditors engaged in treasuries audit have high experience on auditing and the committee verifies the quality of training. The further concludes that for effective work the auditors should ensures high leadership and management skills and proficiencies on their engagement. The study further concludes that auditors should ensure the audit staff allocated to specific tasks is competent. Further the study concludes for effective and credible financial statements audit staff should have high qualifications and experience in relation to audit duties allocated. The study established that there was a significance correlation between training and auditors' effectiveness in the audit of financial statements.

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5.3.4 Auditor's Reputation and Credibility of Financial Statements

The study concludes that audit report provided a lower level of assurance to the Mugenda and Mugenda (2003) Mugenda and Mugenda (2003) Mugenda and Mugenda (2003) users of financial statements that the financial statements reflect the organization reality for effective audit of financial statements. The study concludes that to maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization, further the study concludes that audit staff should be selected on merit for effective audit of financial statements. The study also concludes that auditor reputation serves as an important proxy for the quality and accuracy of client financial statements and therefore paramount for effective audit of financial statements. The study concludes that there is a significance correlation between auditor's reputation and auditors' effectiveness in the audit of financial statements.

5.4 Recommendations

5.4.1 Remuneration and the Auditor's Effectiveness in Financial Statements

The study recommends that remuneration of the auditors be put into consideration when the allocation of treasury resources is being allocated. This will ensure that the auditors remuneration are well-evaluated and paid on time. This will ensure that the internal auditors are not compromised while undertaking the audit or when reporting on their assignments in the treasury.

5.4.2 Independence and the Auditor's Effectiveness in Financial Statements

The study also recommends that to improve the reliability of financial statements, the auditor and the organization should negotiate terms of reference without prejudice to internal auditors independence and that integrity by the auditors should be maintained from the onset of the assignment to the end of the audit.

5.4.3 Training and Auditors Credibility of Financial Statements

The study recommends that auditors should engaged in treasuries audit with high experience on auditing, quality of training ensures high leadership and management skills and proficiencies on their engagement. The study further recommends that auditors should ensure the audit staffs allocated to specific tasks are competent, effective and credible financial statements audit staff.

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5.4.4 Auditor's Reputation and Credibility of Financial Statements

The study further recommends that internal auditors should strive to main their reputation for consistent high-quality this will aid decision makers to identify the will easily require auditors for specific assignment in treasuries as and when require for audit engagement. The internal auditors should build good reputation and experience over time by generating consistent, high-quality work.

5.5 Recommendation for Further Studies

This study recommends that a similar study be done but to concentrate on the new levels of government such as the County governments and other arms of government such as the Judiciary and the legislature. The County governments are particularly important as these are made up of the County executive and the County legislatures (ie County Assemblies).

In addition, further studies can be carried out on internal audit function in parastatals, regulatory agencies of government and independent commissions which were setup under the 2010 constitution. Such studies when combined with the findings of this study will enable a clearer picture of the challenges facing internal audit in public sector and will help in enhancing the internal audit function in the public sector in Kenya and thus positively affecting their performance.

Since this study explored the factors influencing the effectiveness of auditors in the audit of financial statements in sub treasuries in the Rift Valley Kenya, the study also recommends that a similar study should be done in other areas for comparison purposes and to allow for generalization of findings on the factors affecting the performance of internal auditors' in Kenya. The study recommends further research on factors affecting auditing in private companies

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

1. How long have you been working in auditing department?

1-5 yrs [ ] 6-10 yrs [ ]

11-15 yrs [ ] 16 yrs and above [ ]

2. Kindly indicate your position _____

SECTION B: Effectiveness of auditors in ensuring the credibility of financial statement

1) How effective are the following elements in ensuring the credibility of financial statement?

Use a scale of 1 – 5 where 5= very effective and 1 = ineffective

	1	2	3	4	5
Resources are allocated to audit					
Leadership ensures the auditors are independent					
Leaders take personal responsibility on their obligation in the audit through guidance of audit committee					
There is balance of work needed in the audit					
Regulations are followed in the audit					

Remuneration and effectiveness of auditors in ensuring the credibility of financial statement

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3. Does remuneration affect effectiveness of auditors in ensuring the credibility of financial statement?

   Yes [ ] No [ ]

i. If yes, to what extent does remuneration affect effectiveness of auditors in ensuring the credibility of financial statement

   To a very great extent [ ] To a great extent [ ]

   To a moderate extent [ ] To a little extent [ ]

   To no extent [ ]

4. Indicate your level of agreement with the following statement related to remuneration and credibility of financial statements. Use a scale of 1 to 5 where 1 is Strongly disagree and 5 is Strongly agree

Statements	**1**	**2**	**3**	**4**	**5**
Quality of audit is reflected in the fees charged for the audit services					
The district treasures employs high remunerated auditors for quality audit					
Citizens have access to the criteria of selecting quality auditors for district treasures and their remuneration					
Highly remunerated auditors financial statements does not contain material misstatements					

Independence

5. Does independence affect auditor's effectiveness in ensuring the credibility of financial statements?

   Yes [ ] No [ ]

   If yes, to what extent does independence affect auditor's effectiveness in ensuring the credibility of financial statements?

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To a very great extent [ ] To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

6. Indicate your level of agreement with the following statement related to independence affect auditor's effectiveness in ensuring the credibility of financial statements. Use a

Statements	**1**	**2**	**3**	**4**	**5**
Treasuries ensures the auditor is free from management influence					
Internal auditors are transparent on material issues					
Auditors judgment are made without compromise from the board of directors directives					
Management offers support to auditors as an obligation to offer management report on all material queries					
There is no auditor client negotiation conflict over financial reporting issues					

scale of 1 to 5 where 1 is Strongly disagree and 5 is Strongly agree

Training

7. Does training affect auditor's effectiveness in ensuring the credibility of financial statements

Yes [ ] No [ ]

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If yes, to what does extent training affect auditor's effectiveness in ensuring the credibility of financial statements?

To a very great extent [ ] to a great extent [ ]

To a moderate extent [ ] to a little extent [ ]

To no extent [ ]

Indicate your level of agreement with the following statement relating to training affect auditor's effectiveness in ensuring the credibility of financial statements

8. Use a scale of 1 to 5 where 1 is Strongly disagree and 5 is Strongly agree

Statements	**1**	**2**	**3**	**4**	**5**
Auditors engaged in treasuries audit have high experience on auditing and the committee verifies the quality of training					
Auditors ensures high leadership and management skills and proficiencies on their engagement at treasuries					
Auditors ensures the audit staff allocated to specific tasks are competent					
Auditors ensures that the audit staff have high qualifications and experience in relation to audit duties allocated					

Auditors Reputation

9. Does auditor's reputation affect auditor's effectiveness in ensuring the credibility of financial statements?

Yes [ ] No [ ]

ii. If yes, to what extent does auditor's reputation affect auditor's effectiveness in ensuring the credibility of financial statements?

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To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

10. Indicate your level of agreement with the following statement relating to auditor's reputation effect on auditor's effectiveness in ensuring the credibility of financial

Statements	**1**	**2**	**3**	**4**	**5**
Audit report provides a lower level of assurance to the users of financial statements that the financial statements reflect the firm's business reality					
To maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization					
Audit staff are selected on merit					
Auditor reputation serves as an important proxy for the quality and accuracy of client financial statements					

statements. Use a scale of 1 to 5 where 1 is Strongly disagree and 5 is Strongly agree

Thank you for your participation

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APPENDIX II: LIST OF ALL DISTRICT TREASURIES (SUB COUNTIES IN RIFT VALLEY REGION)

1. Turkana Central
2. Turkana South
3. Turkana North
4. West Pokot West
5. West Pokot North
6. West Pokoti Central
7. Samburu East
8. Samburu North
9. Samburu Central
10. Trans Nzoia West
11. Trans Nzoia East
12. Kwanza
13. Baringo
14. Baringo North
15. East Pokoti
16. Koibatek
17. Eldoret West
18. Eldoret East
19. Wareng
20. Markwet
21. Keiyo
22. Nandi North
23. Nandi East
24. Nandi Central
25. Nandi South
26. Tinderet
27. Laikipia North
28. Laikipia East
29. Laikipia West
30. Nakuru
31. Nakuru North
32. Naivasha
33. Molo
34. Narok North
35. Narok South
36. Trans Mara
37. Kajiado South
38. Kajiado North
39. Kajiado Central
40. Isinya
41. Mashuru
42. Kericho
43. Kipkellion
44. Buret
45. Sotik

Source Kenya bureau of statistics

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APPENDIX III: INTRODUCTION LETTER

April 11, 2016

Dear respondent,

I am a Masters Program student at the St Paul's University, pursuing Master of Business Administration. As part of the fulfillment of the requirements of the course, I am conducting a management project research on: **Factors influencing effectiveness of internal auditors in the audit 0f financial statements in Rift Valley treasuries, Kenya.** For this reason, I would appreciate if you could kindly spare a few minutes of your time to complete the attached questionnaire. Kindly fill in the spaces provided to the best of your knowledge.

The information gathered through this questionnaire will be treated with confidentiality and in no circumstance will your name be mentioned in this research. In addition, the information will not be used for any other purpose other than for this research.

Your assistance in facilitating the same will be highly appreciated.

Thank you in advance

ROSE K. W. IRERI

MBA student Reg. No: MBA/NRB/2076/15

St. Paul's University

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APPENDIX IV: RESEARCH INTRODUCTION LETTER FROM THE UNIVERSITY

ST. PAUL'S UNIVERSITY

Private Bag 00217 LIMURU, KENYA
Email: bps@spu.ac.ke
Website: www.spu.ac.ke

Tel Office: +254(0) 20-2020505/10
Mobile: +254(0) 728- 669000
(0) 728- 062420
(0) 736- 424440

BOARD OF POSTGRADUATE STUDIES

19th April 2016

National Commission for Science and Technology,
P.O. BOX 30623-00100,
Nairobi.

Dear Sir/Madam,

Re: Recommendation for Rose K. W Ireri to conduct a Masters of Business Administration (MBA) research.

This letter confirms the above named person is a second (final) year student of the MBA Programme at St. Paul's University.

The final year consists of a major research work leading to a dissertation comprising 20,000 words. The student's selected topic is '*Factors influencing effectiveness of internal auditors in the audit of financial statements in Rift valley treasures, Kenya*'.

The research will take place in Nakuru County from April 2016 to May 2016.

Kindly grant this student the required permit.

Yours Faithfully,

APPENDIX V: RESEARCH PERMISSION FROM NACOSTI

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone:+254-20-2213471,
2241349,3310571,2219420
Fax:+254-20-318245,318249
Email:dg@nacosti.go.ke
Website: www.nacosti.go.ke
when replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No **NACOSTI/P/16/37248/11253**

Date: **23rd May, 2016**

Rose K W Ireri
St. Paul's University
P.O. Private Bag-00217
LIMURU.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Factors influencing effectiveness of internal auditors in the audit of financial statements in Rift Valley Treasuries Kenya,"*** I am pleased to inform you that you have been authorized to undertake research in **selected Counties** for the period ending **23rd May, 2017.**

You are advised to report to **the County Commissioners and the County Directors of Education of the selected Counties** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

DR. STEPHEN K. KIBIRU, PhD.
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioners
Selected Counties.