

Compliance Risk Mapping As A Predictor Of Audit Quality Among Savings And Credit Co-Operative Societies In Western Kenya

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ABSTRACT

Auditors face challenges in maintaining independence and objectivity while conducting audits for Saccos resulting in compromised audit quality. It has been observed that Saccos in Western Kenya, particularly smaller ones, have limited resources and therefore struggle to hire qualified and experienced auditors. The purpose of this study was to assess the effect of compliance risk mapping on the audit quality of savings and cooperative societies in Western Kenya. The study was anchored on the following two theories: Accounting Theory and Credit Risk Theory. Target population consisted of 207 employees drawn from Saccos in the Western region. Census study and stratified random sampling techniques were used in this study. Primary data collection instrument was the questionnaire. To ensure that content, face and construct forms of validity the study involved the experts and the supervisors. Cronbach's Alpha of Coefficient was used to test internal consistency of the research instrument which yielded an alpha value of 0.732. Both descriptive and inferential statistics were used during data analysis. Descriptivestatistics involved use of mean, standard deviations, percentages and frequencies while inferential statistics involved use of correlation and regression analyses. Results illustrated compliance risk mapping had positive and significant casual effects on the quality of audit of Saccos in Western Kenya. The study concluded that enhancing compliance risk mapping would improve the quality of audit on Savings and Credit Co-operative Societies in Western Kenya. Recommendations of the study were: Saccos should engage independent and competent auditors who possess the necessary expertise and experience in the co-operative sector. These auditors should adhere to professional auditing standards and guidelines, ensuring the integrity and quality of the audit process. Improve the risk mapping process by ensuring it aligns with industry best practices. Saccos should perform thorough risk assessments to identify and evaluate potential risks. Saccos should establish robust internal control systems to mitigate risks effectively. Establish an active audit committee that oversees the audit process and ensures compliance with regulatory requirements. Conduct periodic internal and external quality assessments of the audit function to evaluate the effectiveness and efficiency of audit processes. The findings of the research would be useful to investors, shareholders, management, policy makers and employees of Savings and credit Co-operatives in western Kenya. This study would also contribute to the existing body of knowledge and would form a basis of reference in future studies.

Keywords: Compliance Risk Mapping, Audit Quality, Savings and Credit Co-operative Societies

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I. BACKGROUND OF THE STUDY

Risk mapping is a process that involves identifying, assessing, and visualizing risks within an organization or a specific context. It helps organizations gain a comprehensive understanding of potential risks and their potential impact on various aspects of their operations. Risk mapping enables better risk management by allowing organizations to prioritize and allocate resources effectively to mitigate and control risks. According to the Institute of Risk Management (IRM), risk mapping is defined as the systematic assessment, identification, and mapping of potential risks to an organization (IRM, 2017). It involves the use of various tools and techniques such as risk registers, risk matrices, heat maps, and scenario analysis to identify and analyze risks.

Audit quality refers to the overall effectiveness and credibility of an audit process in providing accurate and reliable information about an organization's financial statements or internal controls. High audit quality enhances the reliability of financial information, promotes investor confidence, and contributes to the overall integrity of financial markets. The International Auditing and Assurance Standards Board (IAASB) defines audit quality as "the likelihood that the financial statements are free from material misstatement and the audit report

issued by the auditor appropriately reflects the audit evidence obtained" (IAASB, 2015). It encompasses various factors, including the competence and independence of auditors, the rigor of audit procedures, adherence to professional standards, and the overall effectiveness of the audit process.

Risk mapping can be enumerated from a Risk based audit approach (RBAA) which is a term derived from the Institute of International Audit (IIA) based in the United States of America Board of Directors (2017). RBA is a paradigm shift from traditional approach of pre-auditing or transactional audit to systems audit and finally to RBA. First, it focuses on risks, the underlying causes of financial surprises, not just the accounting records. Second, the Risk Based Audit shifts the focus from inspecting the quality of the financial information that is recorded in the financial statements to building quality into the financial reporting process and adding value to the Bank's operations (Gibson, 2013).

Risk Mapping, reporting and implementation as an audit approach that could improve the precision of financial statement information by issuing qualified opinions to firms with unreliable financial statements. Auditors enable investors to screen out such firms (Al-Tamimi, 2012). Uncertainty regarding the association between the focus of voluntary corporate governance guidelines and risk management and internal control activities in practice has created a research gap in this area. Bedard and Johnstone (2014) refer to company responses to such voluntary guidelines as a rich area for research. The impact of risk based audit has been found to mitigate the occurrence of risks through enhancing quality financial reporting, minimizing losses and eventually improving bank financial performance (Vafeas, 2015). This has been reflected through recent voluntary corporate governance guidelines. The subjectivity of this area has given rise to different levels of emphasis on risk management and internal control and is, correspondingly, reflected in the governance guidelines of developing countries (Basel Committee on Banking Supervision, 2006). While these voluntary guidelines that have originated in each organization may provide different levels of focus on Risk based Audit and governance, it is uncertain as to what extent these different levels of focus exert an influence, either direct or indirect, on an organization's risk management and internal control practices (Sarens & DeBeelde, 2016).

Global Perspective

In 2017 in the United States of America (USA), the Board of Directors of IIA voted to approve a new definition of internal auditing and a new professional practice framework (IPPF). The board through deliberation came to a conclusion that a significant gap existed between available guidance and current practice of internal auditing, and that a new framework was needed to carry the profession into the 21st century. Ideally, RBA is a paradigm shift from traditional approach of pre-auditing or transactional audit to systems audit and finally to RBA. In pre-audit, management abdicated their responsibilities to internal auditors; there were no audit reports and no review of systems by management. On the other hand, systems audit was passive and reactive control based audit with no involvement of management in audit planning. Therefore, for internal audit to be effective and efficient, RBA was introduced. The Risk Based Audit is superior to traditional audit approaches for two reasons. First, it focuses on risks, the underlying causes of financial surprises, not just the accounting records. Second, the Risk Based Audit shifts the focus from inspecting the quality of the financial information that is recorded in the financial statements to building quality into the financial reporting process and adding value to the Bank's operations (Gibson, 2013).

Risk mapping and audit practices, which focuses on both recorded and unrecorded risk, improves financial statement assurance and the financial statement reporting process. The Risk Based Audit focuses on business risk and the processes for controlling these risks. The higher the risk area, the more audit time and client controls are required. Besides focusing on the level of risk, the risk-based method helps to evaluate and build value into the financial reporting process and the clients company. In order to do this, the auditor must have an up to date insight of the clients business and activities. This knowledge is gained through the way the client operates their

business, management, internal and external environments (Schnatterly, 2011). The knowledge gathered can help to design the audit program that includes the most effective and efficient combination of tests responsive to each client's unique circumstances. For this reason, the risk-based approach is then superior to traditional auditing methods (Gibson, 2013).

Regional Perspective

In Nigeria, a study by Chukwunedu and Okoye (2011) indicated that risk based audit increases the ability of the auditor to detect fraud and as a result be able to assist in bridging the audit expectation in the country. Risk-based auditing derives largely from models that assume that inherent risk (IR) and control risk (CR) are distinct concepts and that IR arises from attributes of the audit environment that are completely independent of attributes that determine the level of control risk. Operationalizing the distinction between IR and CR has however, proved troublesome. There appears to be little consensus regarding attributes that may identify IR and there is little published evidence regarding how IR is considered by practitioners. Also, it is not yet clear neither does it make

good logical sense to try to separate IR and CR in the manner demanded by standard setters (DeFond, Francis & Wong, 2010).

In developing the risk-based audit approach there are certain complexities surrounding an audit that should be considered. The major complexities in performing the audit are: firstly, the expectation gap; secondly, the uncertainties surrounding the responsibilities of the auditor; thirdly, the provision of reasonable assurance; and fourthly, the practical implementation of the standards (Gibson, 2013). The risk based audit approach is an essential component in the performance of an audit and part of the audit professions defense against legal liability.

Risk Based Audit Approach (RBAA) within the Internal Audit Department (IAD) can be defined as a methodology that links internal auditing to an organization's overall risk management framework. It allows internal audit to provide assurance to the board (top management) that risk management processes are managing risks effectively, in relation to the risk appetite. RBAA aligns scarce internal audit resources to areas of most concern in order to add value, improve the organization's operations, and enable it achieve its objectives (Mwencha, 2006). Although the risk based audit approach has been extensively used as a tool of internal control systems in the public sector, it is unclear if the risk based approach is effective in providing controls and better management of resources owing to the fact that most government departments have continued to experience challenges despite the adoption of RBAA. This study therefore will seek to establish the effect of risk based audit approach in curbing errors and fraud.

Local Perspective

The Kenya Government launched its Public Financial Management Reform Program (PFMR) in 2006. Since then, the Country has seen a number of systems reforms. The broad objective of the PFMR is to strengthen PFM systems by enhancing transparency, accountability and responsiveness to public expenditure policy priorities. In Kenya a study by Kamau (2013) on the determinants of audit expectation gap indicated that there are certain factors that significantly affect the audit expectation gap. Kamau (2013) further posited that the main reason behind the audit practice is to capacitate the pertinent stakeholders to express an opinion whether or not the financial statements presented reflect a factual and fair picture. As such, the object of any audit is to ensure that financial records on which the auditor is reporting illustrate a true and fair view and are not misleading.

II. STATEMENT OF THE RESEARCH PROBLEM

Auditors face challenges in maintaining independence and objectivity while conducting audits for Saccos resulting in compromised audit quality. It has been observed that Saccos in Western Kenya, particularly smaller ones, have limited resources and therefore struggle to hire qualified and experienced auditors. Weak or inadequate internal control systems within Saccos can pose a risk to the quality of audits. Non-compliance with regulatory requirements affects the audit quality of Saccos. Failure to adhere to regulatory standards and guidelines could result in insufficient testing or reporting, leading to issues in audit quality. Cases of inadequate or ineffective audit committee oversight also affects the quality of audits in Saccos. Where the audit committee does not actively participate in the audit process, review audit findings, or provide necessary guidance and support to auditors, it could hinder the overall quality of audits conducted (Kirogo, Ngahand & Wagoki, 2014).

A company's accounting control practices such as risk based auditing are widely believed to be crucial to the success of an enterprise as it acts as a powerful brake on the possible deviations from the predetermined objectives and policies. This means that an organization that puts in place an appropriate and adequate system of auditing and reporting is likely to perform better than those that do not. In the instances where there have been lack of or inadequate risk mapping and auditing, the firms concerned may be prone to fraud and other forms of financial misappropriation (Coram et al. (2008). While much empirical works have given diverse reasons for the poor financial performance of co-operative societies, research evidence on the effects of risk based auditing practices on the audit quality is scanty. Thus, inadequate risk audit practices could be negatively affecting the audit quality and financial performance of savings and cooperative societies in Kenya.

According to Hermanson and Rittenberg (2013) the existence of risk based auditing is associated with superior organizational performance. Although prior research studies suggest a link between risk-based audit practices and financial performance, majority of these studies have concentrated mostly in banks and other financial institutions and the available studies so far have dealt exclusively with large financial institutions in advanced countries. For instance Lengong'u (2000) did a study on the Internal Audit Control Function and its Implication for Risk Assessment by the External Auditor: A Case of quoted Companies. This study raised conceptual and theoretical gaps that need to be filled. However, little is known, at present, about the effect of compliance risk mapping on the audit quality of savings and credit cooperative societies not only nationally but also in Western Kenya. This is what was addressed by this study by assessing the effects of compliance risk mapping on the audit quality of savings and credit cooperative societies.

III. OBJECTIVES OF THE STUDY

The objective of the study was to establish the effect of risk mapping on the audit quality of savings and credit Co-Operative Societies in Western Kenya.

IV. THEORETICAL FRAMEWORK

This study was guided by finance economic, compliance and complexity theories. They are discussed in the following sub thematic areas.

Accounting Theory

Accounting theory has been developed and contributed to by numerous individuals and scholars over time like Luca Pacioli who is often referred to as the "Father of Accounting," Luca Pacioli was an Italian mathematician and Franciscan friar who published the first known accounting textbook in 1494. William Paton, an American accounting professor, was influential in the development of accounting theory in the mid-20th century. Abraham Briloff was an American accounting professor known for his critical analysis of financial reporting and auditing practices. Stephen Zeff, an accounting professor and researcher, has made significant contributions to the field of accounting theory. Ray Ball and Philip Brown are accounting scholars known for their research on financial reporting quality and the relationship between accounting practices and capital markets in 1968.

Accounting theory refers to a set of principles, concepts, and frameworks that guide the practice of accounting and provide a foundation for understanding and analyzing financial information. It encompasses the development and application of rules and standards for recording, reporting, and interpreting financial transactions and events. Accounting theory serves as a framework for accountants and financial professionals to make informed decisions and judgments when preparing financial statements, conducting audits, and analyzing financial data. It provides a systematic and logical approach to understanding the purpose, objectives, and methods of accounting.

In the words of Hendrickson, (1992), accounting theory was defined as logical reasoning in the form of a set of broad principles that provide a general frame of reference by which accounting practice can be evaluated, and guide the development of new practices and procedures. Accounting theory is used to explain existing practices and procedures to obtain a better understanding and to provide a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices. In accounting however, theory has loose and overlapping meaning with principles, concepts, conventions, doctrines, standards, rules, assumptions, tenets, postulates and procedures which are used interchangeably in this case. These doctrines however gave credence to the rational judgment, universal applicability, comparability, and acceptability of financial statements. Accounting conventions, unlike the laws of chemistry or natural science, are man-made-laws on data generation, recording, classifying and analyses of financial information that are at least in part of monetary character and interpreting the results therein for management decisions (Unegbu 2014)

Unifying the views of American Accounting Association (A.A.A.) (1996), AICPA (1970) and Anao, (1996), accounting theory means a cohesive set of conceptual, hypothetical and pragmatic propositions explaining and guiding the accountants' actions in identifying, analyzing, measuring and communicating economic information to the users for informed decision. These principles represent the best possible guides based on reason, observation and experimentation. These rules are constantly changing, and hence resultantly influencing the business practices. These principles however, contradict and conflict the interest of statement users because various parties have different interests. Even though principles were developed from the opinions of the stakeholders (creditors, labour unions, management, accountants, teachers, auditors, journalists, financial institutions, government, tax authority, etc), their areas of diversities can hardly be resolved, Goldberg,(1949).

As theories are evolving, some are either rejected or accepted or continually being revised or modified in order to keep pace with the increasing complexity of business operations and business risks. This is the nexus that empowers International Financial Reporting Standard (IFRS) on its relevance. Accounting theory in recent time, has experienced tremendous growth and development, just like any system void of rules and regulations may encounter pre mature death and stagnation, barred from withstanding the test of time and may lack basis of evaluation and comparability, Macre,(1981). Globally known influential changer of many conceived and underling accounting theories is International Financial Reporting Standard (IFRS).

Credit Risk Theory

Credit risk theory refers to the body of knowledge and models used to assess and manage credit risk, which is the risk of potential financial loss resulting from a borrower's failure to repay a debt or meet their contractual obligations. It involves understanding, measuring, and mitigating the risk associated with lending or extending credit to individuals, businesses, or other entities.

This was the main theory of this study. Credit risk has been there from early ages; however, credit risk

has not been widely studied. Early scholarly work on credit risk (before 1974) employs traditional methods of actuarial; whose key challenge was complete reliance on historical data. Today, scholars employ three main quantitative techniques to exploring credit risk. These include; structural approach which is deduced from approach and partial information approach (Crosbie *et al.*, 2003). Merton 1974 developed the credit risk theory else referred to as the structural theory which supposed that the default occasion grows from a firm's assets development, modeled by a transmission process with continuous factors. Models that display these characteristics are generally known as "structural models".

An evolution of this category is characterized by a set of models where the loss conditional on defaulting is defined exogenously, nevertheless upholding the external factors of default events. In these models, the default takes place through entire corporate bond life and thereafter the maturity (Longstaff & Schwartz, 1995). The assets dynamic forces are normally demonstrated as a controlled dispersion with respect to an absorbing obstacle, the end being stochastic and demonstrating the default inception. In the approach of "reduced form models," the default incident and the damage assumed default are external factors to the organization. 'the valuing of any (exotic) credit derivative is attained through the standardization of the default chances curve from the most liquid firms bonds and credit derivatives printed on the same corporation (Jarrow & Turnbull, 1995; Duffie & Singleton, 1999).

Merton (1974) initially built a model founded on the capital structure of the corporation that became the foundation of the structural approach. In this method, the firm defaults at the maturity of bond time (t) whenever the value of its assets goes below some fixed limit at time (t). Thus the default time (t) is a discrete random variable that takes T if the firm defaults and infinity if the firm does not default. Therefore, the equity of the company becomes a contingent entitlement of the firm's assets value. Black and Cox (1976) contribute to the definition of default event and take a broad view on Merton's approach into the first-passage method. According to Black and Cox (1976) approach, the firm defaults when the history low of the company assets value goes below some limit. Thus, the default event could happen before the date of firm's assets maturity.

While credit risk theory provides valuable tools and frameworks for assessing and managing credit risk, it is important to recognize some of its weaknesses and limitations. Here are a few weaknesses associated with credit risk theory: Credit risk models often rely on assumptions and simplifications to quantify and predict credit risk. These assumptions may not fully capture the complexity and variability of real-world credit situations. For example, models may assume that historical patterns will repeat in the future, but unforeseen events or changes in economic conditions can render these assumptions invalid. The theory heavily rely on historical data to estimate probabilities of default, loss given default, and exposure at default. However, data limitations, such as data quality, data availability, and data relevancy, can impact the accuracy and reliability of these models. Incomplete or biased data can lead to inaccurate risk assessments and flawed decision-making.

Traditional credit risk models often focus on the average or central tendencies of credit risk and may not adequately capture extreme or tail risk events. Black swan events or systemic risks that occur outside the normal range of expectations can have a significant impact on credit portfolios but may not be fully accounted for in standard credit risk models. Credit risk is inherently uncertain, and models can only provide estimates and probabilities rather than precise predictions. The future credit behavior of borrowers and the economic environment are subject to change, making it challenging to accurately predict credit risk with certainty. This uncertainty introduces a level of risk that cannot be fully captured by credit risk models.

Credit risk models often rely heavily on historical data, assuming that past patterns and relationships will continue into the future. However, economic and market conditions can change, rendering historical data less relevant or less predictive of future credit risk. Models that solely rely on historical data may not adequately capture emerging risks or shifts in credit dynamics. These models often focus on quantitative factors, such as financial ratios, credit scores, and collateral values. They may not fully consider the behavioral aspects of borrowers, such as their intentions, motivations, and behavioral biases, which can impact their creditworthiness. Neglecting these factors can limit the accuracy and completeness of credit risk assessments. Some credit risk models can be complex and require extensive calibration and parameter estimation processes. The accuracy and reliability of the models heavily depend on the quality of calibration and the assumptions made during the model development process. If the calibration is flawed or the assumptions are unrealistic, the model's effectiveness in capturing credit risk may be compromised.

It is important to acknowledge these weaknesses and limitations of credit risk theory when using credit risk models and making credit-related decisions. Risk management practices should incorporate a holistic approach that combines both quantitative models and qualitative judgment, taking into account the limitations and uncertainties associated with credit risk modeling.

V. EMPIRICAL LITERATURE REVIEW

Compliance Risk Mapping and Audit Quality

Kamolsakulchai (2015) investigated the relationship between the audit standards and financial reporting quality. Panel data were collected from the Form 56-1 and financial statements of listed companies, including three industry groups, in Stock Exchange of Thailand from 2008 to 2012; and data was analyzed using Panel Fixed Effects Model. Audit compliance was found to be positively associated with audit quality significantly, determined from unqualified audit opinion. However, the study did not indicate how audit risk compliance was measured. Further, did not indicate whether financial institutions were sampled.

Kaawaase, Nairuba, Akankunda and Bananuka (2021) to establish the relationship between internal audit quality and financial reporting quality using evidence from Uganda's financial institutions. This study research design is cross sectional and correlational. The study used a questionnaire survey of Chief Finance Officers, Senior Accountants and Internal audit managers of financial institutions in Uganda. Results indicate that audit standards compliance are significantly associated with financial reporting quality. The study used audit quality as independent variable which was measured by compliance with audit risk standards

Masika (2013) sought to determine the effect of the quality of risk based internal audit on the effectiveness of internal audit in Regulatory State Corporations in Kenya. The study considered all the forty Regulatory State Corporations listed on the website of the State Corporations Advisory committee (SCAC). Data was collected by use of questionnaires and analyzed using multivariate regression analysis. The quality of risk based internal audit compliance and management support for internal audit had a strong positive influence on the effectiveness of internal audit in RSCs in Kenya. However, the study was conducted among Regulatory State Corporations in Kenya leaving a significant knowledge in regards to Saccos.

Čular, Slapničar and Vuko (2020) examined external auditors' decisions to use the evidence or direct assistance of internal auditors when those auditors engage in consulting on enterprise risk management. The study hypothesized that external auditors' reliance on the internal audit function depends on the effectiveness of the audit committee monitoring the internal auditors' activities. The study also hypothesized that external auditors' perception of the objectivity and independence of internal auditors mediates the reliance decision. The study found out that external auditors' reliance on the internal audit function is highest when the latter provides risk management consulting under the supervision of a strong audit committee.

Mashal (2012) aimed to reveal the viewpoint of risk management regarding this issue and tried to bring out a general evaluation and analysis from the risk management perspective by applying a qualitative descriptive and explanatory research approach and conducting a questionnaire filled by risk management professions to achieve its goal. The study findings confirmed the negative impact of the misplacement roles of internal auditors in risk management, and finds that risk managers are not concerned with this issue much, the responsible for this issue firstly is the boards, secondly chief audit executive (CAE) and thirdly the chief risk officer (CRO), also risk management compliance impact very low in controlling this issue and finally the best practices is separation in roles between risk management and internal auditing.

EIHaddad, EIHaddad and Alfadhli (2020) aims to identify the role of internal audit in contributing to the reduction of risks to the operations of higher education institutions in the Libyan state. The descriptive analytical method was adopted and the questionnaire was used as a tool for collecting and analyzing data related to the study using SPSS. This paper concluded that the internal audit offices and departments of the Libyan universities carry out their activities related to risk management evaluation and add value to the work of the department. However, the study did show how compliance risk mapping explicitly affected audit quality.

Audit Quality of Savings and Credit Cooperative Societies

Agunda (2014) sought to establish the relationship between audit quality and audit rotation in the banking industry in Kenya. Primary data was collected through questionnaires and interviews in regards to 2013 financial year ends and analyzed using statistical tools. The study results indicated that provision of consultancy services had the highest effect on audit quality followed by audit fees.

Cheruiyot (2013) examined the effect of Audit Quality on Executive compensation of firm listed at Nairobi securities Exchange. The research adopted a descriptive survey design. The population of interest for this study was the firms listed in the NSE. Firms listed in NSE grant more equity-based compensation to their CEOs when audit quality is efficient in terms of Number of accounting and audit committee, Audit fees and Number of Auditing hours.

Odanga (2016) aimed to investigate the joint effect of audit tenure, client importance and auditor reputation on audit quality. Secondary data was used which spanned for five year period between years 2011 and 2015. The main analysis, where audit quality was inferred by accrual quality showed that companies audited by firms with higher reputation (big 4), with increased audit tenure produce higher audit quality reports.

Muchugia (2018) sought to find out the correlation between external audit quality and financial performance of commercial banks in Kenya. The study was conducted among the 41 registered commercial banks

in Kenya and since the sample size is small the researcher conducted the survey in all the banks. The study used descriptive research design. A structured questionnaire was administered to the sample to gather primary data. The conclusion of this study is that the relationship between financial performance and audit quality is positive and substantial.

Ndisya (2015) sought to establish the factors affecting audit quality in listed manufacturing and commercial services companies in Kenya. A cross-sectional approach was adopted . The results of analysis indicated that logarithm of audit the fees, financial status of the company, and auditor size were significant in influencing the leverage of the companies and thus audit quality. The size of audit firm had a positive impact on audit quality, while the companies that were struggling financially were more likely to have poor audit quality. The logarithm of audit fees was negatively related with the audit quality.

Abdirahman (2021) sought to establish the effects of audit quality on the financial performance of commercial banks in Kenya. The study employed cross-sectional research design, with a target population of the 42 registered and licensed commercial banks in Kenya. The research concluded that Audit quality is an audit that is both systematic and an objective evaluation of financial accounts. Audit quality is achieved when performed by a competent auditor with the professional experience.

Kwabena (2017) examined the Effects of Internal Audit Quality on Financial Performance of Firms Listed at the Nairobi Securities Exchange. The population was made up of all the firms listed on the Nairobi securities exchange. Data used was both primary and secondary. Questionnaires were used to collect relevant information. Top management support, auditor’s independence, professional proficiency of auditors and auditor’s quality of work were found to have a significant relationship with financial performance.

VI. RESEARCH METHODOLOGY

This study employed descriptive survey research design. Descriptive survey research design is a research method used to collect and analyze data in order to describe and understand the characteristics, behaviors, opinions, or attitudes of a particular population or sample. It aims to provide a snapshot or a comprehensive picture of a specific phenomenon or topic of interest. This research design involves the systematic collection of data through surveys or questionnaires and focuses on summarizing and presenting the collected information in a descriptive manner. This method is found appropriate because the research intends to explore the relationship between the different variables forming the study that’s the relationship between the study variables. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). It can be used when collecting information about people’s attitude, opinions, habits or any of the variety of education or social issues (Orodho & Kombo, 2002). Therefore, the study established the effect of risk mapping on audit quality of credit co-operative societies in Western Kenya.

Target population consisted of 12 Saccos that were fully operating with standards required for purposes of this study in Western Kenya with a total of 207 employees comprising of CEOs, Managers, Finance Officers, Credit Managers, Accountants and Internal Auditors who have full understanding of the operations of the Saccos in relation to risk mapping and audit quality of Saccos. Purposive study was employed in this research. Purposive sampling, also known as judgmental, selective, or subjective sampling, is a form of non-probability sampling in which researchers rely on their own judgment when choosing members of the population to participate in their surveys. See

Table 2: Target Population and Sample Size

S/N	Name of Sacco	CEO(s)	Managers	Accountants	Finance Officers	Internal Auditors	Credit Officers
1.	IG Sacco Society Ltd (Kakamega)	01	01	04	02	04	04
2.	Afya Sacco Society Ltd (Kakamega)	01	01	05	03	05	05
3.	Mudete Tea Growers Sacco Society Ltd (Kakamega)	01	01	05	03	05	04
4.	Mwalimu National Sacco Society Ltd (Kakamega)	01	01	03	02	04	05
5.	Mwalimu National Sacco Society Ltd (Webuye)	01	01	04	03	05	05
6.	Ng’arisha Sacco Society Limited (Bungoma)	01	01	05	02	04	04
7.	Wevarsity Sacco Society Limited (Kakamega)	01	01	05	02	05	05
8.	Trans-Counties Sacco Society (Trans Nzoia)	01	01	04	02	04	05
9.	Metropolitan National Sacco Society Ltd (Bungoma)	01	01	05	02	05	05
10.	Trans-National Times Sacco Society Ltd (Trans Nzoia)	01	01	03	01	04	05
11.	Transwest Regulated Sacco Society Ltd (Trans Nzoia)	01	01	03	02	03	05
12.	Vihiga County Farmers Sacco Society Ltd (Vihiga)	01	01	04	02	03	04
Total = 207		12	12	50	26	51	56

Data was collected from primary and secondary data collection instruments. Primary sources (primary data) were used in administration of a questionnaire to the target population. The respondents were expected to fill in the questionnaires while other respondents whom the researcher felt fit to be interviewed. More specifically, the type of primary data collected for this study was basically opinion and attitude data except for some attributes like the number of employees in a business setting, age of the business in years and so on, which was the objective. Secondary data involved review of financial statements, SASRA annual published reports and internal audit reports of the Saccos to ascertain their performance and controls established.

Reliability of the Research Instrument

The reliability was determined by coding and keying in the data and conducting a reliability analysis. For the results to be more reliable, the responses have to be consistent. The higher the consistence, the more reliable the data will be. The study used a Cronbach’s Alpha coefficient of at least 0.7 which is acceptable implying that the instruments are reliable. If the coefficient is low for example 0.30 then there is low correlation between performances of the two tests and so the instruments are not reliable. Reliability analysis results are as shown in the Table 3 indicating that the instruments were reliable to be used in the final data collection and analysis.

Table 3: Reliability Analysis Results

Reliability Statistics		
Variables	Cronbach's Alpha	No. of Items
Compliance Risk	0.712	05

Source: Researcher (2022).

The model that was used here was test that the expected frequencies are as a result of chance alone hence the null hypotheses which provided us with a crucial baseline for comparison with our actual data. Pearson Product Moment Correlation or commonly referred to as the Beta test (β), was used to measure the effect of the independent variable on the dependent variable. The test was done at 0.5 significance level and 95% confidence level which is acceptable in social sciences. Table 4 shows summary of hypotheses testing and analytical model.

Table 4: Hypothesis Testing Framework and Analytical Model

Hypothesis	Hypothesis Test	Regression Model
H ₀₁ : There is no effect of compliance risk mapping on audit quality of savings of Saccos.	Simple regression (Beta test)	Reject H ₀₁ if $\beta_1 \neq 0$ $OP = \alpha + \beta_1 CR + e$

Source: Researcher (2022)

Empirical Model

This study adopted regression model, the main objective of this model is to explain the variability in audit quality of Sacco by a set of independent variable viz; compliance risk mapping.

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where; Y = audit quality

X₁ = compliance risk mapping

β_0 = Constant Term, β_1 = Beta coefficients, ϵ = error term

The model assumes there is a linear relationship and multivariate normality

VII. RESEARCH FINDINGS

Response Rate

The sample size of the respondents was 207. After distribution of the questionnaires to the selected sample of 207 participants, only 176 were able to successfully fill and return the questionnaires leading to a return rate of 85%. The return rate of 85% agrees with the assertions by Zikmund (2010), that a response rate above 50.0% is sufficient for generalization of outcome of the findings. The distribution is shown in the Table 5.

Table 5: Response Rate of the Respondents

Description	Total	percentage
Targeted participants	207	100%
Not returned	31	15%
Returned	176	85%
Response rate	176	85%

Source: Researcher (2022).

Descriptive Analysis

The data processing encompassed of the data entry and screening. The screening involved identification and management of impossible values and missing data. To identify impossible values, the descriptive analysis was done and any impossible value was traced and rectified. At the end of the process, the researcher ensured that the data was free from impossible values.

Audit Quality of Savings and SACCOs in Western Kenya

The main objective of this study is to examine the impact of risk mapping on audit quality of Savings and Credit Co-Operative Societies in Western Kenya. The findings were as shown in Table 6.

Table 6: Descriptive Analysis for Audit Quality

Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
The auditors demonstrate a high level of professionalism and competence in conducting the audit.	10 5.7%	9 5.1%	24 13.6%	128 72.7%	5 2.8%
The auditors adhere to relevant auditing standards and guidelines during the audit process.	7 4.0%	12 6.8%	17 9.7%	133 75.6%	7 4.0%
The auditors provide timely and accurate information in their audit reports.	113 64.2%	14 8.0%	13 7.4%	23 13.1%	13 7.4%
The auditors maintain independence and objectivity throughout the audit engagement.	7 4.0%	115 65.3%	21 11.9%	22 12.5%	11 6.3%
The auditors effectively communicate audit findings and recommendations to the management.	7 4.0%	11 6.3%	25 14.2%	128 72.7%	5 2.8%
Average level of Audit Quality rating	Mean(%Mean) 2.9580 (59.2%)	Std. Dev. .56350	Std. Error of mean .04248	Minimum 1.60	Maximum 4.60

Source: Researcher (2022).

Majority of the respondents, 72.7% were agreed that the auditors demonstrated a high level of professionalism and competence in conducting the audit whereas 13.6% were undecided while 2.8% strongly agreed respectively. The 75.6% and 4.0% agreed and strongly agreed respectively that the auditors adhered to relevant auditing standards and guidelines during the audit process. However, majority of the respondents, 64.2% strongly disagreed and 8% disagreed that the auditors provided timely and accurate information in their audit reports while 13.1% of respondents agreed and 7.4% strongly agreed. In relation to the auditors maintaining independence and objectivity throughout the audit engagement, 65.3% disagreed and 4% strongly disagreed, 12.5% agreed while 6.3% disagreed that indeed the auditors maintain independence and objectivity throughout the audit engagement. Results further showed that 72.7% of respondents agreed and 2.8% strongly agreed that the auditors effectively communicated audit findings and recommendations to the management, 6.3% disagreed and 4.0% agreed respectively.

The average audit quality level of Savings and Credit Cooperative Societies in Western Kenya was found to be 59.2% (mean=2.958, standard deviation=0.56350), indicating a moderate level of satisfaction, as depicted in Table 6. This suggested that a significant portion of Saccos in Western Kenya may not be putting sufficient effort into ensuring adequate audit quality.

Compliance Risk Mapping and Audit Quality of SACCOs in Western Kenya

The first objective of this study was to analyze the effect of compliance risk analysis on the Audit Quality of Savings on Credit Co-Operative Societies in Western Kenya. The descriptive findings about the respondent's general view of compliance risk analysis of the Audit Quality of Saccos.

Table 7: Descriptive Analysis for Compliance Risk Mapping

Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Audit procedures and standards are usually clearly documented and communicated to all relevant stakeholders	125 71.0%	8 4.5%	14 8.0%	13 7.4%	16 9.1%
There is always a dedicated team or department responsible for overseeing and ensuring compliance with audit requirements	118 67.0%	12 6.8%	23 13.1%	13 7.4%	10 5.7%
Audit activities are always conducted by qualified and trained professionals with the necessary expertise and experience	6 3.4%	16 9.1%	129 73.3%	15 8.5%	10 5.7%

There are always mechanisms in place to monitor and evaluate the performance of auditors and address any identified deficiencies	6 3.4%	8 4.5%	25 14.2%	124 70.5%	13 7.4%
The SACCO has never been involved in the disclosures of financial statements with the intent to deceive the statement users	8 4.5%	7 4.0%	24 13.6%	119 67.6%	18 10.2%
Average level of Compliance Risk Mapping	Mean(%Mean)	Std. Dev.	Std. Error of mean	Minimum	Maximum
	2.8193 (53.4%)	.60311	.04546	1.40	5.00

Source: Researcher (2022).

With regard to audit activities being always conducted by qualified and trained professionals with the necessary expertise and experience, majority of the respondents, 73.3% were undecided, whereas 9.1% and 3.4% disagreed and strongly disagreed respectively while 8.5% agreed and 5.7% of respondents strongly agreed. Similarly, majority of the respondents, 70.5% agreed and 7.4% strongly agreed that there were always mechanisms in place to monitor and evaluate the performance of auditors and address any identified deficiencies, whereas 3.4% of respondents and 4.5% of respondents strongly disagreed and disagreed respectively. The majority of the respondents, 67.6 % agreed and 10.2% strongly agreed that their respective SACCOs have never been involved in the disclosures of financial statements with the intent to deceive the statement users, whereas 4.5% strongly disagreed and 4.0% disagreed respectively that their respective SACCOs have never been involved in the disclosures of financial statements with the intent to deceive the statement users.

The average rating for overall compliance among Savings and Credit Cooperative Societies (Saccos) in Western Kenya was found to be 53.4%, with a mean of 2.8193 and a standard deviation of 0.60311. This indicates a moderate level of compliance. The results suggest that, on average, Saccos in Western Kenya have a moderate level of compliance risk. These findings emphasize the importance of improving compliance implementations within these organizations to ensure better adherence to regulations and standards.

Correlation Analysis

Compared with prior studies, Pearson’s correlation coefficients were computed to establish the existence of relationship and to demonstrate the nature and strength of the relationship between the independent variables compliance risk and dependent variable audit quality.

Table 8: Correlation Matrix

Correlations		Compliance Risk	Loan Risk	Financial Risk	Human Resource Risk	Audit Quality
Compliance Risk Mapping	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	176				
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	176	176	176	176	176

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher (2022).

According to Gujarati and Porter (2009) there is high correlation between variables if the correlation coefficient is greater than 0.7. Table 8 shows the correlation coefficient between the variables. The independent variable had positive and significant (p≤0.05) associations on the audit quality of Savings and credit Co-Operative Societies in Western Kenya. There was a strong and significant correlation between independent variable-compliance risk with audit quality, r=0.521 at 1% level of significant.

Linear Regression between Compliance Risk Mapping and the Audit Quality of SACCOs

To analyze the effect of compliance risk mapping on the audit quality of savings on Credit Co-Operative Societies in Western Kenya, the researcher sought to test for the following hypothesis;

H₀₁: *There is no effect of compliance risk mapping on audit quality of savings and credit Co-Operative Societies in Western Kenya.* The findings are as shown in Table 9;

Table 9: Linear Regression Results between Compliance Risk Mapping and the Audit Quality

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.521 ^a	.271	.267	.48238

a. Predictors: (Constant), Compliance Risk mapping						
b. Dependent Variable: Audit Quality						
ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	p-value.
1	Regression	15.081	1	15.081	64.809	.000 ^b
	Residual	40.488	174	.233		
	Total	55.569	175			
a. Dependent Variable: Audit Quality						
b. Predictors: (Constant), Compliance Risk mapping						
Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value.
		β	Std. Error	Beta		
1	(Constant)	1.586	.174		9.098	.000
	Compliance Risk Mapping	.487	.060	.521	8.050	.000
a. Dependent Variable: Audit Quality						

Source: Researcher (2022).

The ANOVA test results from Table 9 were $F(1, 174) = 64.809$, $P = 0.000 < 0.05$; this indicated that simple linear regression model was a good fit to our dataset. The model (compliance risk mapping) was able to explain 27.1% of the variation in the audit quality of savings on Credit Co-Operative Societies in Western Kenya as indicated by the $R\text{-Square} = 0.271$ as shown in the model summary of Table 9. The results of the regression Coefficients showed that $\beta = 0.487$, $p\text{-value} = 0.000 < 0.05$; therefore, the study rejected the null hypothesis and conclude that compliance risk mapping had a statistically significant influence on the quality of audit of savings on Credit Co-Operative Societies in Western Kenya. Compliance risk mapping had a positive standardized beta coefficient = 0.521 as shown in the coefficients results of Table 9; this implied that a unit improvement in the compliance risk mapping was likely to result to an improvement in the audit quality of savings on Credit Co-Operative Societies in Western Kenya by 52.1%. To predict the quality of audit of savings on Credit Co-Operative Societies in Western Kenya when given the level of compliance risk mapping, the study suggested the use of the following model:

Audit Quality = $31.586 + 0.487$ Compliance Risk Mapping

These finding are analogous to those of Kamolsakulchai (2015) investigated the relationship between the audit standards and financial reporting quality. Audit compliance was found to be positively associated with audit quality significantly, determined from unqualified audit opinion. Kaawaase, Nairuba, Akankunda and Bananuka (2021) did a study to establish the relationship between internal audit quality and financial reporting quality using evidence from Uganda's financial institutions. Results indicate that audit standards compliance are significantly associated with financial reporting quality. Masika (2013) sought to determine the effect of the quality of risk based internal audit on the effectiveness of internal audit in Regulatory State Corporations in Kenya. The quality of risk based internal audit compliance and management support for internal audit had a strong positive influence on the effectiveness of internal audit in RSCs in Kenya.

VIII. CONCLUSIONS

The study concluded that compliance risk mapping had a positive casual effect on the quality of audit on Savings and Credit Co-operative Societies in Western Kenya such that enhancing compliance risk mapping would improve the quality of audit on Savings and Credit Co-operative Societies in Western Kenya.

IX. RECOMMENDATIONS

Saccos should engage independent and competent auditors who possess the necessary expertise and experience in the co-operative sector. These auditors should adhere to professional auditing standards and guidelines, ensuring the integrity and quality of the audit process. Improve the risk mapping process by ensuring it aligns with industry best practices. Saccos should perform thorough risk assessments to identify and evaluate potential risks. Saccos should establish robust internal control systems to mitigate risks effectively. Establish an active audit committee that oversees the audit process and ensures compliance with regulatory requirements. Conduct periodic internal and external quality assessments of the audit function to evaluate the effectiveness and efficiency of audit processes.

X. SUGGESTIONS FOR FURTHER RESEARCH

This research was done on the Credit Co-Operative Societies in Western Kenya and concluded that risk mappings had a significant casual effect on the quality of audit on savings and Credit Co-Operative Societies in Western Kenya. Similar study should be carried out in this area on a different population to affirm that risk mapping had a significant casual effect on the quality of audit of savings and Credit Co-Operative Societies. There

are moderating factors in auditing which include internationally accepted auditing standards, government regulations on conducting of audits etc. Studies can be done with these moderating factors. There are equally other areas of risk mapping which include, information technology risks mapping, internal control risks mapping, political risks mapping etc. Further studies can be carried out to establish the effect of this risk mapping on audit quality.

XI. AUTHOR CONTRIBUTIONS

Alfred Masika Makokha sought for the study authorization from the relevant government institutions like Graduate School of Kibabii University and National Commission for Science, Technology and Innovation. He developed the study methodology that comprised of research instruments that were used in data collection. He further analyzed, interpreted and discussed the data. He undertook a literature review that included the background information on the study concepts and the theoretical context. He trained and supervised the research assistants as well as coordinated primary data collection. He also coded the collected questionnaires and thereafter undertook data entry and analysis using SPSS software. Dr. Kadian Wanyama Wanyonyi, Dr. Rashid Fwamba and Dr. Brian Singoro ensured that the published article conformed to the journal's formatting guidelines.

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XIII. CONFLICT OF INTEREST

The authors declare that there are no conflicts of interest regarding the publication of this Manuscript. In addition, the ethical issues; including plagiarism, informed consent, misconduct, data fabrication and/ or falsification, double publication and/or submission, redundancy has been completely observed by the authors.

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