

Role of Internal Audit as a tool for Public Financial Management in County Governments in Kenya: A case of Vihiga County Government

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Abstract: *In attempting to sufficiently discharge their responsibilities, internal auditors often find themselves in a deviating position. For instance, they appeal to senior management within the organization, but they are anticipated to evaluate the conducts and effectiveness of the management in objective manner. While internal audit can be used in order to assist management in order to instill a strong ethical tone in the entire organization, a poor attitude by the management can make it hard for the internal auditor to support ethical behavior. Disagreements in different internal auditing roles in promoting public financial management have not gone away with contradicting opinions on how internal audit is expected to perform some activities, with some citing a positive effect and some saying it has very minimal effect if any. The objective of this study was to investigate the roles of internal audit in public financial management in the public sector in Kenya with special focus on the County Government of Vihiga. A descriptive cross-sectional design method was preferred for this study. The target population of this study was the finance department employees of Vihiga County Government where a sample of 53 employees was used. The study collected primary data on the current state of affairs of the County Government. The main instrument for data collection was by use of organized questionnaires. The research was qualitative in nature. This insinuates that descriptive statistics was used. The study found that internal control had the greatest effect on public financial management within Vihiga County Government followed by risk management internal audit independence complemented the two roles. The study suggested that in order for the county government to be effective in its operation and service delivery they should acknowledge contribution of internal auditing. Additionally, the study suggested that for the County Governments to be able to effectively lessen risks they should put in place a strong internal auditing function in its operation. The study also recommended that all County Governments should institute internal controls in its operation to curb various financial losses and enhance optimization of revenues collected. In a similar manner, the study suggested that county governments to endure internal auditing as a tool for effective internal controls so as to realize their objectives set with ease.*

Key Words: *Auditors Independence, Internal Controls, Risk Management*

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I. Introduction and Background

The internal auditor's role is generally seen to involve oversight and monitoring. The internal auditor may be instrumental in guiding and evaluating the economy, efficiency and effectiveness of an organization's operations and systems, and will be normally accountable to a governing body. It is important therefore, that the internal auditor be reasonable independent of management as well as be able to work alongside them (McCall, 2002). Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the IIA's international standards for the professional practice of internal auditing is essential in meeting the responsibilities of internal auditors and the audit activity (Gunther and Moore, 2002). Mihret *et al.* (2010) made use of the institutional theory proposed by DiMaggio and Powell (1983), particularly circuit of industrial capital. Institutional theories primarily function as the base for examining organizational phenomenon integrated in extensive social, political and economic environments (Mihret *et al.*, 2010). More importantly, they are capable of providing an insight into the IA practices as one element of organizational systems and shed light on the relationship between IA and the attainment of the objectives of the firms (Mihret *et al.*, 2010). In order to survive, organizations must conform to the rules and believe systems prevailing in the environment hence developing unit such as internal audit department. (Scott, 1995).

Within the past few decades, internal audit departments have significantly bestowed to organizational structure through value added services and thus, it has become essential part therein (Al-Twajry *et al.*, 2003; Arena and Azzone, 2009; Coram *et al.*, 2008). Furthermore, internal auditing has significantly increased in

importance in the recent years, particularly in its consulting role inside the firm's risk management. Owing to the widespread accounting scandals, and also the bankruptcy of firms, the internal audit (IA) function has been the focus of researchers and practitioners alike as a significant contributor of organizational effectiveness. More specifically, Abu-Azza (2012) contended that IA will contribute firm value through the provision of field services including operational audits and consulting management on various issues. Following the global financial crisis in 2008-2009, IA has transformed into a significant entity used to protect the rate of return on capital and to prevent wasted or devalued capital (Yee *et al.*, 2008). Nevertheless, some studies in literature indicated that the effectiveness of IA function may not always be consistent (Abu-Azza *et al.*, 2015). The internal auditing frequently involves measuring compliance with entities, policies and procedures (Goodwin and Yeo, 2001). The scope of auditing within an organization is broad and may involve topics such as efficacy operations the reliability of financial reporting deterring and investigating fraud, safeguarding assets, and compliance within laws and regulations. The activities of concern to internal as well as to external auditors, and thus the importance of the internal auditor's role has come to be recognized in new legislation and standards around the globe. In the US, the influential Sarbanes-Oxley Act 2002, which has inspired greater accountability worldwide (Ellis, 2004; Chan, 2004), effectively transfers US audit standard setting responsibilities from the accounting profession to the federal government. In addition, it redefines auditor independence and, significantly for internal auditors, requires corporate governance evaluation and reporting of internal controls. The Australian Stock Exchange (ASX) also became involved as its corporate governance council developed principles and practice of 'best' corporate governance resulting in further company disclosure requirements about their internal practices (Hamilton, 2003).

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve organization's operations. It helps organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Wesonga, 2013). According to a report by IMF Kenya's internal audit system was abolished in 1962. Over the next few years it became apparent that lack of internal audit contributed greatly to laxity in management of public resources; in compliance with the relevant laws regulations procedures and internal controls and systems was reintroduced in 1984. County Governments were established by the Kenyan constitution 2010, mainly to bring services closer to the common citizens. Some of the responsibilities of county governments may include; Enhance revenue collections in the county this objective is achieved through the revenue collection units under the finance and economic planning department. They also put measures to ensure that the collected revenues are safe and are deposited to the relevant revenue collection accounts. County Government also engage in trade and investment development of Industry sub sector, business support and capacity building services, wholesale and retail markets regulation, trade information Cooperative development, tourism sub sector, tourism infrastructure and tourism facilities which help to foster development hence enhancing revenue levels in the county.

II. Research Problem

Public sector utilities in developing countries have often not been efficient in providing access to reliable public services, and accountability in terms of financial statements, accounting reporting and standard, regulation and governance and internal audit controls and auditing standards also there is no clear distinction on what roles do internal audit play in relation to public finance management. The differences between internal and external audit is also not clear (Barraza, 2006). The study by Haniffa and Cooke (2002) focused on the effect of environmental factors on IA practice, while Al-Twajjry *et al.* (2003) and Yee *et al.* (2008) used the ISPIIA formulated by IIA in their process of their research and determination of IA effectiveness. On the other hand, Elliott *et al.* (2007), Mihret and Yismaw (2007) as well as Arena and Azzone (2009) each came up with a model for establishing the effectiveness of IA. According to these authors, IA effectiveness appears to be influenced by the contexts of its operation. The importance of IA has been emphasized by several academic researchers like Al-Twajjry *et al.* (2003), Arena and Azzone (2009), Mihret and Yismaw (2007) and Yee *et al.* (2008) who suggested for further studies and exhaustive research on the effectiveness of IA. Based on these studies international researchers have concentrated much on the importance and role of internal audit in the business world neglecting the public sector.

In Kenya, Chepkorir (2010) notices that many questions have been raised on the roles and challenges of internal auditing in the banking industry. Kibet (2008), surveyed on the role of internal audit in promoting good corporate governance in SOEs; Kibara (2007), likewise carried out a survey of internal auditors risk management practices in the banking industry in Kenya, Njui (2012) carried study on the effectiveness of internal audit in providing good governance in public sector entities in Kenya. Keitany (2000) looked at the internal audit control function and its connection with risk assessment by the external auditor and Mugo (1998), conducted a study on the scope of independence of internal auditing in publicly listed companies in Kenya. Over the years the public sector has been experiencing massive corruption and fraud related cases where public funds

end up in the hands of corrupt individuals (Adari, 2007). The question left unanswered is whether internal audit is part of management or it is an independent body within the public entities. Internal audit also relies on information provided by management which internal auditors are part of; based on the above studies reviewed, no study has been undertaken in Kenya that shows the relationship between the internal audit and public finance management and also the scope of internal audit in the public sector more specifically the county governments since they came into existence in the year 2013 no one has carried out any studies basing on them. This study sought to fill the gaps by looking into the specific roles of internal audit as a tool for public financial management in the public sector, also the study looked into the relationship between internal audit and public finance management.

III. Objectives of the Study

The study was guided by the following specific objectives;

- (i) To evaluate the role of risk management function in management of public financial management in the County Government of Vihiga.
- (ii) To establish the relationship between internal audit function and public financial management in the County Government of Vihiga.
- (iii) To examine the role of internal controls in public financial management in County Government of Vihiga.

***Null hypotheses were formulated (in view of each respective specific objective) and tested at a significance level of 0.05.**

IV. Significance of the Study

This study provides critical information to the various stakeholders in the corporate world. Study helps management to understand the role played by internal audit function in their organizations and appreciate the challenges they face in carrying out their roles and help solve them. It enables them to know whether their investment in strong IAD is worthwhile. Governing bodies and senior management in the public sector need the services of internal audit to be effective and efficient. To the academicians and scholars, the study contributes significantly to the internal auditing debate by contributing to the existing literature regarding the role of internal audit to management. Further, the study identifies future research areas that will have advantage for future researchers to conduct further study in these areas. Internal auditing provides assurance to the external donors, regulatory bodies, policy makers and governments. The study provides assurance about the contribution of auditing function to the management so that trust and assurance of quality of service delivery. Good governance strengthens the relationship between county governments and the other stakeholders. These bodies can use this study to make it a policy that all county governments must have a fully developed internal audit function.

V. Review of Literature

1. Theoretical Review

The study considered the following three theories: Agency Theory, Institutional Theory and Theory of Inspired confidence. Agency Theory was formulated by Ross and Stephen (1973). The theory was founded on the notion that there must be two parties for any contract to be successful (Adams, 1994). In their case, the employer and employee are the two parties who represent a firm to attain its long range objectives (Clarke, 1990). The relationship between the principal (employer) and agent (employee) determines the performance of any organization in the dynamic business environment. Meckling and Jensen (1976) in their paper on the theory of the firm defined the agency relationship as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Thus, for the internal audit to be effective there is need for not only their independence but also the top management support. Agency relationship is concerned with resolving problems that can exist in agency relationships due to unaligned goals or different aversion levels to risks. In simple terms, agency theory implies that the principals do not trust agents to provide them with reliable and relevant information, thus, they will hire in external experts, who are independent of these agents. A simple agency model suggests that, as a result of information asymmetries and biasness, principals fail to trust their agents and will seek to resolve these concerns by putting in place mechanisms to center the interests of agents with principals and to reduce the scope for information asymmetries. (Fama, 2006). The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen, Ross and Barry Mitnick, independently and roughly concurrently. Ross is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency. Ross introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an incentives problem. Mitnick introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential weaknesses of agency relationships. This behavior does not occur as it is preferred by the principals because it does not pay to make it perfect. But society creates institutions that looks into these

imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams to see the incentives as well as the institutional structures (Mitnick, 2006). Not all citizens can take part in the management of nations' resources thus the appointments of officials into public offices by the citizens to manage the public resources on their behalf. But due to information asymmetries between principals (citizens) and agents (public officials) and differing motives, principals may lack trust in their agents and may consequently need to put in place mechanisms to reinforce this trust. Agency theory looked at internal audit as one of the monitoring mechanism to reduce management deviating activities. It is assumed that an internal audit provides an unbiased check on the work of agents and of the information provided by an agent, which helps to instill confidence and trust. The internal auditor's role is to establish whether the financial statements prepared by the agent, are faithfully represented and are prepared in accordance with generally accepted accounting principles (GAAPs). The financial statement audit makes management accountable to stakeholders for its leadership of the organization (Akinbuli, 2010 and Hayes, Dassen, Schilder & Wallage 1999 and 2005).

DiMaggio and Powell (1983), stated that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as irrational and negligent. At this point new and existing organizations will adopt the structural form even if the form doesn't improve the efficiency. They added that the rate of institutional isomorphism is increased when firms are highly dependent on the institutional environment, exist under high uncertainty or ambiguous goals and rely extensively on professionals based on these studies one can assert that internal audit function developed due to organizations pressures and the demanding environment of the public sector in that it is more vulnerable to misstatements and even fraud. According to Fogarty *et al.* (1997), an organization functions to meet social obligations in so far as its operations concerns the public. Therefore, organizational internal operations, which in most cases are complex and difficult to establish, may take second place to the issue of external legality. It is suggested that the external image of the organization may be loosely coupled with its operating processes and the kind of technology it adopts. Fogarty (1996) finds that examination by outsiders can be annulled if the right measures are adopted by organizations. Weak technological dependency enables organizations to succeed in external problems whilst allowing flexibility in operational processes. Thus the institutions should be ready to finance the high cost of adopting various technologies in the internal audit function and guarantee that the staff are trained in order for the function to operate efficiently and effectively. According to Scott (2008), Institutional Theory is a widely accepted theoretical posture that emphasizes rational myths, isomorphism and legitimacy. Researchers building on this perspective emphasize that a key insight of Institutional Theory is imitation rather than necessarily optimizing their decisions, practices and structures organizations look to their peers for cues to appropriate behavior.

Theory of Inspired Confidence was developed in the late 1920s by Dutch professor Theodore Limperg. In contrast to the preceding theories, Limperg's theory addresses both the demand and supply of audit services. According to Limperg the demand for audit services is the direct consequence of the participation of outside stakeholders in an entity. These stakeholders demand accountability from management in return for their contribution to the entity. Since information provided by management might be biased because of possible divergence between the interests of management and outside stakeholders, an audit of this information is required. With respect to the level of audit assurance and guarantee that the auditor should provide, Limperg adopted normative approach. The auditor should act in such a way that he meets the expectations of a rational outsider while on the other hand he should not stimulate greater expectations in his report than his examination warrants. So, given the possibilities of audit technology, the auditor should do enough to meet agreeable expectations. (Hayes et al., 2005). Wallace (1980), pointed out three hypotheses to explain the demand for auditing; the stewardship hypothesis. That is, the relationship between the internal audit and management, the information hypothesis and insurance hypothesis. It also limits auditor's responsibilities on arithmetic accuracy and on obstruction and detection of fraud, the role of internal auditor is necessary for substantiating the correctness and accuracy of assertions provided by corporations. Internal auditor acts as link between the management and the users of financial statements. Humphrey (1997) provided the most prudent distinctions between views of auditing as socio-oriented function in which the auditors are conveyed as ethical, socially responsible individuals and auditing as one man business. Based on these theories the researcher concludes that internal audit function in the public sector entities which includes county governments developed due to the demanding nature of the sector in that it is more vulnerable to fraud, misstatements and unaccountability by those charged with responsibility of the same. This study is guided mainly by agency theory since it shows what triggered development of internal audit and how it developed. It also analyzed the relationships between various departments in an organization in that it proposes that internal audit function be answerable to the top most level management. In this study the principals include the general public, the senate and the national government while the internal audit department is their agent.

2. Empirical Review

The study of O'Leary & Stewart (2007) used exploratory study; this had been done by presenting the five ethical dilemmas for 66 internal auditors. For each scenario, a key element of public finance management was operated in order to assess its influence on ethical decision making. These were audit committee support; management truthfulness regarding different accounting policies; management integrity regarding pressure on internal audit; external auditor characteristics; and organizational code of conduct. As a result, the researcher had been able to show the different ethical decision-making related to internal audit and corporate governance. This study majored on behavioral contribution of internal audit but never showed how these contributions were arrived at.

Mensah, Aboagye, Addo, and Buatsi (2003) discovered observational proof in Ghana that compelling internal control enhanced great administration hones and diminished the defilements. Pratolo (2007) found that the practical review control had positive association with awesome corporate organization at State Owned Projects in Indonesia. Tantamount with this finding, Nila and Viriyanti (2008) moreover found that inside review had a positive relationship with extraordinary corporate organization at State Owned Projects in West Java, Indonesia. ACFE (2014) report uncovered that the fake practices considered kept going a normal of year and a half before being recognized. The reviewed studies suggested that there was a need for more studies to be carried out to identify the specific roles of internal audit in public sector.

Fama (1980) used agency theory to examine the hierarchical relationships in large multidivisional companies. In this context, the company's top management is viewed as the principal who delegates responsibility and authority to subordinate managers (agents) for effective utilization of a portion of the firm's resources, leading to the possibility of moral hazard problems between divisions and top management. Top management tries to mitigate this problem by instituting organizational controls, including internal auditing (Miguel, 2002). This argument suggests that there is more need for internal auditing in large multi-divisional companies than in smaller ones (Chow, 1982; Abdel – Khalik, 1993).

Ahmed (2014) investigated the professional auditors' perception of the impact of audit firm rotation on audit quality in Egypt. Primary data were collected via questionnaires and used. A sample size of 83 auditors was drawn using non-probabilistic sampling technique. T-test was used to analyze the data. Findings revealed that the auditors' perception indicate that there is a negative relation between long audit tenure and audit quality. There is a negative relation between client-specific knowledge and mandatory auditor rotation. There is a positive relation between auditors' independence and mandatory auditor rotation. The study focused only on auditors perceptions. It ignored other interested parties such as clients, auditing profession associations and legislations which limit generalization. The use of questionnaires and non-probabilistic sampling technique by the researcher limited the validity and reliability of the findings.

ICAS, (2014) examined the influence of auditor independence, audit tenure and audit fee both partially and simultaneously on the audit quality of members of capital market accountant forum in Indonesia. The study used primary data that was collected via the distribution of questionnaires. The population where a sample size of 143 was taken comprised senior auditors, supervisors and managers. Linear regression model was used to analyze the data and findings showed generally that auditor independence, audit tenure and audit fee have a positive influence on audit quality. The use of questionnaire as data collection instrument if not handled professionally could have impaired generalization of findings.

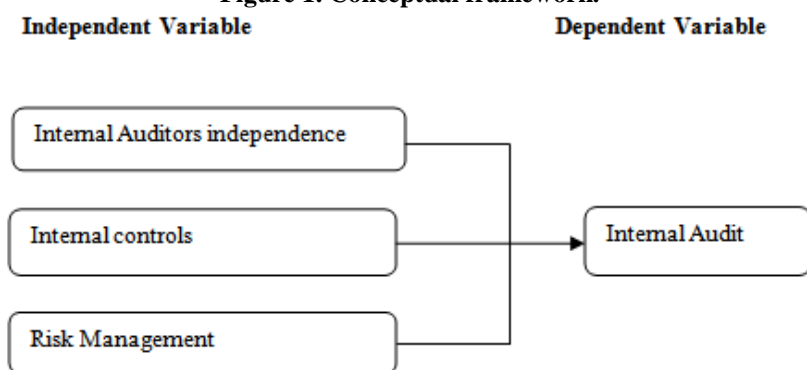
Keitany, (2000) in his study the internal audit control function and its implication for risk assessment by the external auditor: A case of quoted companies' aimed to establish whether the existence of an adequate internal audit function translates into a strong internal system that can be relied upon by the external auditor. The study adopted an exploratory research design and the population was all companies active in the NSE and their external auditors. The sample was 100% of the population. Primary data was collected using semi structured questionnaires with close ended questions. The data was analyzed using descriptive statistics such as mean, standard deviations and percentages. It was concluded that though the extent of reliance of internal controls is not sensitive to the strength of internal audit departments, companies should not do away with it. This is because as a management tool, it should assist management in its day to day operations and not necessarily of relevance to the external auditor. The researcher didn't gave clear distinction between internal audit and management in general, the study was also based on mostly private sector and some few entities partially owned by government. Therefore, this study sought to breach the gap by looking into role of internal audit in an organization with no share capital.

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

distribution tables, pie and bar charts. The study concluded that internal audit function played a role in corporate governance; the study did not specify roles played by internal auditors in those organizations. The study was also based on public sector entities with share capital, it never considered those organization with no share capital like the county governments.

Kibara (2007) conducted a survey of internal auditors risk management practices in the banking industry in Kenya. The study sought to establish banking internal auditors' perception of their distinct role in the bank wide ERM process, and whether there was any conflict between internal audit and risk management departments being established to take over the ERM process. The study did not show clearly whether the same factors applies in the public sector; he also discussed one role of internal audit, that is, risk management.

Figure 1. Conceptual framework.



Source: Researcher Data, 2019

VI. Methodology

This study adopted a descriptive cross-sectional design since it investigated and depicted the relationship between factors in their characteristic setting without controlling them. This research design also portrayed the characteristics of a population fully, (Chandran, 2004). The sample for the study was obtained using purposeful sampling techniques and stratified sampling methods. Since the organization had different layers of respondents, namely: - top management employees, middle level managers, Accountants, Examiners and Revenue collectors. The target population comprised of 108 employees of Vihiga County, Kenya. A sample of 53 respondents was obtained.

VII. Results and Findings

Descriptive Analysis

Table 1: Risk management activities.

Risk Management Function	Mean	%Extent
Risk identification	4.22	84.4
Risk assessment	4.38	87.6
Risk monitoring	4.12	82.4
Suggest risk management strategies	4.41	88.2
Assess ethics and values within the organization	3.38	67.6
Assess performance management	2.70	54.0
Ensure disbursements comply with specified procedures	3.73	74.6
Ensure public spending are within budgetary provisions	4.38	87.6
Assess communication risk	4.78	95.6

Source: Research data, 2019

The study was inquisitive to determine role of the internal auditing in risk management. From the findings, most of the respondents indicated that internal audit perform risk management to a very large extent as indicated by mean score of 4.21 (84.2%), risk assessment and ensuring that public spending is within budgetary provisions is to a very large extent role played by internal audit as shown by the mean of 4.38 (87.6%), risk monitoring, suggesting risk assessment strategies and assessing communication risk were also well performed by the internal audit department as reflected by the means of 4.12 (82.4%), 4.41 (88.2%) and 4.78 (95.6%) respectively. Respondents pointed out that assessment of ethics and values within the organization and ensuring disbursements comply with specified procedures was performed but to a moderate extent as shown by the mean of 3.38 (67.6%) and 3.73 (74.6%) respectively. Assessment of performance management according to

respondents was performed but to moderate extent as depicted by the mean of 2.70 (54.0%) obtained. This implied that the risk management is part of internal audit functions therefore having strong internal audit means reduction of various risks.

Table 2: Establishment of roles of internal audit.

Well established roles	Frequency	Percentage %
Yes	28	75.68
No	9	24.32
Total	37	100

Source: Research data, 2019

The respondents believed that the roles if internal audit in county governments were well established as 75.68% of respondents agreed compared to 24.32% who believed that the roles were not well established.

Table 3: Internal audit independence

Internal audit independence	Mean	Extent%
Ability of internal audit team to transcend all departments without fear of limitation of scope by being tied by management.	3.84	76.8
Was the information used by internal audit department first hand	4.62	92.4
Internal audit manages its contribution to risk management	4.32	86.4
Relationship between internal audit department and other departments in your organization	4.73	94.6
The internal audit report considered important	4.27	85.4
The internal audit recommendations were implemented	3.73	74.6
The position of internal audit was well established	4.76	95.2
Instances of conflict of interest and biasness in the internal audit department.	1.89	37.8
Performance of other non-auditing services by the internal audit team	2.62	52.4

Source: Research data, 2019

The results showed that the position of internal audit was well established in the county government as shown by the mean of 4.76 (95.2% very large extent) obtained implying that every employee was aware of the existence of the internal audit. They also believed that there was a good relationship between internal audit department and other departments within the organization as depicted by a mean of 4.73 (94.6%). The results also showed that information used by the internal auditors were first hand as shown by the mean of 4.62 (92.4%). Internal audit manages its contribution to risk management and its reports were considered to a slightly large extent as important by the users of these reports as evidenced by the mean of 4.32 (86.4%) and 4.27 (85.4%) respectively. Ability of internal audit team to transcend all departments without fear of limitation of scope by being tied by management and the implementation of internal audit recommendations were achieved to a larger extent as per the mean of 3.84(76.8%) and 3.73 (74.6%) respectively. The results showed that instances of conflict of interest and biasness in the internal audit department and performance of non-auditing services was minimal as it performed them to a less extent as shown by the mean of 1.89 (37.8%) and 2.62(52.4%) respectively.

Table 4: Internal control function.

Internal controls	Mean	%Extent
Examined county systems and processes	4.49	89.8
Controlled revenues and expenditures of the county	4.86	97.2
Assisted in formulation of finance management policies	3.49	69.8
Ensured reliability and integrity of financial information	3.62	72.4
Assisted in formulation of accounting policies	4.30	86.0
Reviewed financial performance	4.84	96.8
Provided information about any irregularities	4.86	97.2
Independent verification of books of accounts.	4.95	99.0

Source: Research data, 2019

The findings above show that independent verification of books of accounts was performed by internal audit to a very large extent as shown by the mean of 4.95 (99.0%), provision of information about various

irregularities and control of revenues and expenditures of the county as shown by a mean of 4.86 (97.2%) respectively. Examination of county systems and processes together with reviewing the financial performance and assisting in formulation of accounting policies to be used in preparation various books of accounts was also well performed by the internal audit to a slightly very large extent as depicted by the means of 4.49 (89.8%), 4.84 (96.8%) and 4.30 (86%) respectively. The respondents believed that internal audit assisted in formulation of financial management policies and ensuring reliability and integrity of financial information is carried out to a large extent as shown by the mean of 3.49 (69.8%) and 3.62 (72.4%) respectively. This implies that internal auditing influences internal control operation of the organization to a very large extent.

VIII. Discussion

From the study findings it was clear that one of the roles of internal auditing is risk management which involved assessment of communication, suggestion of risk management strategies and provision of assurance that the risks were appropriately managed, risk monitoring, risk mitigation and risk identification were performed well by the internal audit department of the County Government of Vihiga as it was shown by the percentage extent that ranged from 54%-95.6% on performance of various risk management activities.. This is in agreement with earlier findings by Kibet (2008) that internal audit played a role in corporate governance through functions such as risk management and enhancement of internal controls. Nila and Viriyanti(2008) also concluded that inside review through internal audit department had a positive relationship with extraordinary corporate organization at state owned projects.

The study found that internal audit independence was one of the main factors that affected the functionality and the effectiveness of the various internal audit activities various activities that relate to internal audit independence were assessed and the study found out that internal auditors had ability to carry out their activities without fear of being tied, they used firsthand information in their various assessments, internal audit managed its contribution the risk management, the reports from the department was considered important therefore implemented, its position was well established, internal auditors performed minimal non-audit services this implies that internal audit department was independent of the other department within the county government making it perform its roles more efficiently. These findings are in agreement with the previous studies such as, Miguel (2002) who concluded that top management tries to mitigate various organizational problems by instituting organizational controls such as independent internal audit function. Farma (1980) also concluded that top management was viewed as the agent who delegates responsibility and activities to subordinate managers (agents) for effective utilization of the portion of the firm's resources, leading to the possibility of moral division hence need for independent of subordinate managers internal audit department.

Further, the study found that assessment of internal control framework; accounting information and communication and reviews of individual systems and processes greatly affected the financial management of the county. Internal control provide financial controls, controlling revenues and expenditures, ensuring reliability and integrity of financial information, reviews on financial performance, ongoing and independent reconciliation of all balances, control information within the organization, methodical examination of business processes and connected controls, operational policies controls, managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were effective aspect to application of internal auditing. This is in line with Cai (1997) who indicated that by measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is directly linked to the organizational structure and the general rules of the business. Keitany (2000) found out that though the extent of reliance of internal controls is not sensitive to the strength of internal controls companies should not do away it. This is because as a management tool it should assist management in its day to day operations and not of necessarily of relevance to external audit.

IX. Conclusions

The study sought to find out roles of internal audit as a tool for public financial management in Kenyan county governments with special focus on County Government of Vihiga. Based on the study finding, the study concluded that internal auditing played a major role in risk management more particularly on assessment of communication risk, ensuring public spending are within budgetary provisions, assessments of risks suggest risk assessment strategies, risk identification and risk monitoring. Other roles played but not to a large extent included activities such as; ensuring disbursements comply with specified procedures, assessment of ethics and values within organisation and assessment of performance management.

On internal audit independence, the study found out that there was a well-established internal audit function within the organisation. The study also found out that the relationship between internal auditor department and other departments within the organisation, the information used by internal auditors were first hand which boosts the credibility and usefulness of the reports, management of various risk management strategies is also done and the county governments considered internal audit report important, therefore its

recommendations and advices were implemented. However, internal auditors had ability to transcend all departments without fear of limitation of scope by being tied by management but only to a less extent. On the other hand the study found out that there were minimal instances of conflict of interest and biasness in the internal audit department and also internal auditors performed few non-auditing services.

On assessments of internal controls as a role of internal audit, the study found out that; internal auditors performed independent examination of various books of accounts, provided information about irregularities noticed in relation to various finance department activities, control of revenues and expenditures of county is also well done. Review of financial performance of county in relation to collection and utilization of funds in various income periods is also one of the major roles performed by internal auditors, county systems and processes were well examined and assisting in formulation and implementation of the various accounting policies. The study found out that there were internal control activities performed by internal auditors but were not satisfactory, which included; ensuring reliability and integrity of financial information and assisting in formulation of financial management policies were they were performed to a less extent.

X. Recommendations

Policy recommendations.

The study recommended that in order for the county governments to be effective in its financial management they should recognize contribution of internal auditing. Additionally, the study recommends that for the county governments to be able to effectively mitigate risk they should apply internal auditing in its operation. On internal audit independence the study recommends that county governments should give a degree of independence to internal audit by making it report to the top most management such as chief executives or even the governor. Internal auditor's non-audit services should be more of advisory, internal audit independence enables it to perform its roles effectively and also defines the various activities expected to be performed by the department. On the role of internal auditing on internal control, the study recommends that all county government should apply internal control in its management to ensure effective public financial management. Likewise the study recommends that county governments to accept internal auditing as a tool for effective internal control so as to realize their objectives set with ease. To the implication of internal auditing on public financial management, the study recommends that all aspects related to creating good image and efficient delivery of services to the public should be enhanced through application of internal auditing for ease achievement of set goals.

Theoretical recommendations.

The agency theory cannot be transferred directly to public sector as the principal may be ambiguous in a sense that the public may not have a single united interest. It is thus challenging to ascertain the existence of any interest discrepancy that may exist between managers and the public at large. Therefore, the study recommends that the internal audit function should report to the top most management of the county governments such as the county governor, members of county assembly and the senator. This will improve internal audit independence in that it will be free from biasness from the immediate managers such as the chief officers and the chief executive committees of the said department hence performing its roles more clearly and effective. The study also recommends that the internal audit should report to the other third parties such as reporting directly to the general public through publication of the internal audit report. This will awaken the internal audit department to be aware that they are obliged to represent the public in curbing and minimizing wastage of the public resources by those charged with the responsibility of utilizing them for the benefit of the public.

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