

Forensic auditing and financial performance of Kenyan counties

Abstract

County governments collect a small percentage of their own source revenue potential and the absorption rate of their budgets are low, this has slowed performance and service delivery. The study sought to find the effect of forensic auditing on the financial performance of the counties in Kenya. Data was collected from financial statements of 45 counties in Kenya in the custody of the controller of budgets for nine years from financial year 2014/2015 to 2022/2023. The study used a dynamic panel model to examine the relationship between forensic auditing and financial performance of all counties in Kenya and analyzed using R statistical tool. The findings showed that forensic auditing has a significant effect on financial performance of counties at first lag. The study concluded that forensic auditing is important and that each county should ensure that they invest in the forensic auditing function. The study recommends that county leadership, including governors, senators, members of the county assembly, and employees, should invest in forensic auditing. The leadership should ensure that accountants are well-trained in forensic auditing processes and consistently apply these skills. All accounting personnel should possess and practice forensic auditing skills. Additionally, county officials should provide supporting evidence for all activities conducted within or outside their counties to facilitate the forensic auditing process. County leadership should focus on spending strictly on budgeted projects, avoiding both overspending and underspending by monitoring ongoing and upcoming projects. Counties should also exhaust all revenue collection avenues and ensure that collected revenue is utilized for its intended purposes to meet collection targets. The study also recommends that the Institute of Certified Public Accountants of Kenya (ICPAK) should ensure its members are equipped with knowledge of forensic auditing by organizing regular training sessions and seminars to support the function. ICPAK should provide recommendations on accounting policies in counties to enhance the quality of financial statements. Furthermore, through ICPAK's guidance, counties should establish fully functional audit departments and ensure the independence of audit committee members.

Keywords: Forensic auditing, financial performance, counties, Kenya