

**INFLUENCE OF INTERNAL AUDIT PRACTICES ON
PERFORMANCE OF COMMERCIAL PARASTALS UNDER THE
MINISTRY OF INDUSTRY, TRADE AND COOPERATIVES IN
KENYA.**

BY:

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DECLARATION

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This dissertation is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of the KCA University.

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DEDICATION

I would like to dedicate this research study to my precious family for their unending support despite the countless times I have been up and down working on this research work and academic tasks. Their loving support has been very immense that it gave me peace of mind to fully concentrate on accomplishing this academic task.

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LIST OF ABBREVIATIONS

CPA	Certified Public Accountant
ICPAK	Institute of Certified Public Accountants of Kenya
IIA	Institute of Internal Auditors
CGD	Centre for Governance and Development
ISA	International Standards on Auditing
MOITC	Ministry of Industry, Trade and Cooperative
NMC	Numerical Machining Complex Limited
USA	United States of America
PCOB	Public Company Accounting Oversight Board
IASB	International Accounting Standards Board
IAASB	International Auditing & Assurance Board
IPPF	International Professional Practices Framework
ICAEW	Institute of Chartered Accountants in England & Wales
EACC	Ethics & Anti-Corruption Commission
PFM Act	Public Finance Management Act of 2012
SCAC	State Corporations Advisory Committee
PTPR	Presidential Taskforce on Parastatal Reforms
IRM	Institute of Risk Management
OECD	Organization for Economic Co-operation & Development
HMT	Her Majesty Treasury

DEFINITION OF TERMS

Governance	The framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community) OECD (2004).
Performance	To achieve the objectives and goals set or given in convergence with the corporation mandate and guidelines by comparing results and targets. It involves assessment whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.
Risk Management	Managareial function aimed at protecting the organisation and its people, assets and profits against the physical,financial and operational consequences of risk. It involves planning, coordinating and directing the risk-control and the risk-financing activities in the organisation. It also involves handling the uncertainties that occur which cause variations in profits and losses Valsamakis et al (2010)
Internal Audit	An independent, objective assurance, and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its aims by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (The Institute of Internal Auditors (IIA), 2005).
Internal Audit Practice	Provision of reasonable assurance that management's risk management system is effective; system of internal control is adequate, effective and efficient, governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability (IIA 2013).
Control	Any action taken by management to enhance the likelihood that established objectives and goals will be achieved (IIA 2013).

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ABSTRACT

The purpose of this study was to examine the influence of internal audit practice on performance of state corporations; with reference to the commercial state corporations under the Ministry of Industry, Trade and Cooperatives. The specific objectives were to determine the influence of governance on performance of state corporations, to determine the influence of risk management on performance of commercial state corporations and to determine the influence of controls on performance of commercial state corporations. In literature review, aspects covered were theoretical reviews, the empirical review and the conceptual framework. The study adopted the methodology that guided data collection approaches. The study design was descriptive research design. The target population was the management staff of the commercial state corporations that was 247 employees. The sampling approach adopted was stratified random sampling, after sampling, the sample size was 74 and response rate was 94.5%. When data collection was done, the data was analyzed by adopting descriptive and regression analysis. The presentations were done by adopting figures, pie charts, graphs and tables. The findings indicated that when all the factors were held constant the performance of commercial state corporations would increase by 0.728 Units. When all the factors were held constant one unit use of risk management increases the performance by 0.368 units. Similarly, when all the factors were held constant one unit use of controls would increase the performance by 0.452 units. This showed that the use of risk management and controls have had a significant influence on the performance of commercial state corporations in Kenya. The research recommends that internal audit practice be supported adequately by all stakeholders in commercial state corporations because they influences significantly performance.

Key words:

Internal audit practice, corporate governance, risk management, controls, performance

CHAPTER ONE

INTRODUCTION

This chapter details the background to the study, the statement of the research problem, objectives of the study, the research questions, justification of the study, significance of the study and the scope of the study.

1.1 Background to the Study

In Kenya there has been many scandals involving misuse and outright plunder of public resources by those entrusted with the responsibility of ensuring that the said resources are safeguarded, resulting to mega financial scandals. This is not peculiar in Kenya as in 2011, Soh and Martinov-Bennie stated that in the aftermath of corporate scandals and global financial crisis, corporate governance has received significant attention from regulators and public.

A recent national survey by a research company on the attitude towards misuse of public resources to enrich oneself established that corruption has become an accepted way of life (Infrotrak Research & Consulting, 2016). Young people of below thirty five years as defined in our supreme law (Constitution, 2010), when asked of their response to worrying levels of corruption said they would actually perpetrate corruption if they got a chance (Infrotrak Research & Consulting, 2016). This is concurred by another survey by Awiti and Scott (2016) that found out that 50% of youth believe it doesn't matter how one makes money as long as one does not end up in jail, 47% admire those who make money through hook or crook and 30% believe corruption is profitable. This indicates a ticking time bomb when the role models in the society are the corrupt and those who are responsible of the sorry state of the public institutions. Those growing up wish they get a chance to enrich themselves unjustly.

The government of any country is mainly the largest consumer, supplier and employer in the economy of the specific country (Bell & Pavitt, 2005). When the largest consumer, supplier and employer is thus mismanaged the trickle effect can have an enormous effect in the whole

economic system. Thus, the accepted way of corruption and misuse of public resources has had devastating effects on the way of life of people; that includes poor health because no medical facilities and medication, wanting education system because there is less schools, less teachers and the learning environment is wanting, inadequate and efficient transportation system in existence etc. These are but just a few of the cascaded effects of the misuse of public resources that ought to be applied for the good of the populace in a country.

The national government is structured into three arms; the executive, the legislature and the judiciary (Constitution, 2010). Each arm is independent of each other, they check each other and complement each other in the performance of their constitutional duties. In order to realise its mandate the executive appoints cabinet secretaries who run the ministries as the accounting officers. The ministries too implements their functions through government bodies known as parastatals or state corporations that are tasked with specific mandates to pursue for the good of the nation as a whole. These state agencies are allocated resources that are used to realise their objects (Mohamed & Awuondo, 2013). These resources have been a target of those tasked with the role of managing and safeguarding them for self-enrichment at the expense of the common good of all Kenyans (Centre for Governance and Development (CGD), 2005).

The parastatals in Kenya are classified as either commercial, non-commercial, regulatory or research based. Report of the Presidential Taskforce on Parastatal Reforms (2013) (hence forth PTPRs) postulates that where the state engages in business, in the manner of state capitalism, it should do so on a purely commercial basis. Thus, commercial state corporations ought to be efficient in their operations just like the private sector. The value for money expended should guide and inform decisions undertaken and utmost care should be taken to safeguard the state corporations' resources.

State corporations in Kenya fall within the ambit of the State Corporations Act (Cap 446) of the Laws of Kenya. The Act is the main regulation in matters relating to the management and

control of state corporations. Okundi (2013) rightly observes that currently in Kenya there are over three hundred parastatals operating in different sectors of the economy such as agriculture, transport, communications, manufacturing and trade. Mohamed and Awuondo (2013) stated that “available data shows that the output of State Corporations to GDP in nominal terms has been increasing from 9.54% in 2008/2009 to 11.64% in 2010/2011, based on internally generated income.”

The business dictionary defines performance as the accomplishment of a given task measured against pre-set known standards of accuracy, completeness, cost and speed. Therefore, performance of the state corporations are measured against their prescribed mandates as set out in the instruments creating them. So, internal audit practice is concerned with adherence to this mandate. The Institute of Internal Auditors (IIA) defines internal audit as an independent, objective assurance, and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its aims by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (The Institute of Internal Auditors (IIA), 2005).

Salameh, Al-Weshah, Al-Nsour, and Al-Hiyari (2011) stated that internal auditing functions have more emphasis in public than private organisations because fraud and embezzlement cost organisations millions of dollars annually. A study of the audited accounts of state corporations over the 1993-2002 period titled A Decade of Parastatal Waste conducted by The Centre for Governance and Development (CGD), estimates that the twelve most wasteful state corporations conservatively lost up to Ksh 54 billion from 1993-2002 (CGD, 2005). This could be a pointer to the loss of resources and squandering of economic opportunities that can be occasioned by these government entities. There is therefore need to ensure that the performance of these corporations is put to check, with a view to nip at the bud the occurrence of this.

The performance of the state corporations can be enhanced by instituting adequate and appropriate internal controls and ensuring that they are adhered to. To assess the adequacy and where they are inadequate recommend controls is the job description of internal auditors, whether in the private sector or in the public sector. International Standards on Auditing (ISA 315 Revised), contends that public sector auditors often have additional reporting responsibilities (International Auditing and Assurance Standards Board (IAASB), 2013).

Internal auditors are currently receiving tremendous attention by the accounting profession, business community and legislators (Rezaee, 1995). Rezaee after that remark goes on to cite the setting up of the Treadway Commission and its report in the USA. However, it is not different in Kenya, despite the time gap between then and now. For instance, the former ICPAK chief executive remarked that county governments in Kenya should heed Auditor-Generals advice to hire county internal auditors (Ngumi, 2016). The current Permanent Secretary, National Treasury in the Acknowledgement on the Gazette notice number 2690 and number 2691 on Audit Committee Guidelines 2016 reckons that internal audit is one of the pillars of corporate governance. This emphasis on internal audit shows its importance.

In the public sector, internal auditing has developed as a substantial element of management (Dittenhofer, 2001). Internal auditors are required to report to the highest office of the state corporation administratively and functionally to the Audit Committee of the board of directors. This is exceptional as no other department in an organization is required to report to the directors and by extension by rule. It is only the Chief Executive who reports to the board or its committees. This goes a long way to emphasize the critical and integral role of the internal auditors in an organization. Actually, in some jurisdictions internal audit has been entrenched in law. For instance, Israel enacted a law requiring an internal audit unit in all public organisations and mandated its functions (Eden & Moriah, 1996). Further, as articulated in Australian National Audit Office (2012) p. 13, Better Practice Guide, internal audit is uniquely

placed in that it operates across the whole of the organisation. This study will therefore seek to establish the influence of internal audit practice in the performance of commercial state corporations under the Ministry of Industry, Trade and Cooperative Development of the Government of Kenya.

In Best Practice, entities consider an investment in internal audit an important business decision (Australian National Audit Office, 2012). This must be due to the value derived from an effective internal audit function. Salawu and Agbeja (2007) observes that public sector has experienced considerable expansion throughout in the world. In Kenya it is a legal requirement to institute an internal audit department in every government body whether national or county (PFM Act, 2012). The PFM Act regulations lists the role of the internal auditors. The mandatory creation of the department of internal auditors as demanded by a substantive law shows the weight placed on the role the department should play. There is need therefore, to establish whether the internal auditors in execution of their roles have been effective in the eyes of the various stakeholders they interact with. And this marks the main objective of this envisioned research.

1.2 Statement of the Problem

“The sad story that is the mismanagement of State Corporations has meant that Kenya has lost opportunities to other countries in the region and the world. This has worked to the detriment of the economy and the people of Kenya in terms of lost wealth creation opportunities” (Mohamed & Awuondo, 2013). This was a remark of acceptance and realisation of the wanting performance of the parastatals in Kenya. In another epic example of dismal performance by some of the bodies (Njoroge, 2015), contends that, “The Kenya Broadcasting Corporation (KBC), Postbank and South Nyanza Sugar Company (Sony) reported a combined Sh7.6 billion loss in the year ending June 2015, leading the list of government commercial entities that made negative returns.” In these examples the parastatals in question are depicted as lacking in

governance, risk management and requisite controls, a contribution an effective internal audit activity would provide.

According to the World Bank (2002) the Kenyan government has failed to properly account for the financial resources available to it. Moreover, the report noted that the performance of government financial management is poor and lacks reliable and timely financial information for decision making and does not utilize the scarce development resources availed to it despite the high levels of poverty in the country. Given the elaborate mandate of internal audit (Australian National Audit Office, 2012) there was need to assess the influence of internal audit practice on performance of state corporations.

Mohamed and Awuondo (2013) in the PTPRs enumerates the various benefit of state corporations. These benefits include promoting or accelerating economic growth and development, building capability and technical capacity of the country in facilitating and/or promoting national development, being instruments of improving the delivery of public services, creation of meaningful employment, building international partnerships and enabling social and economic transformation of the economy. Therefore, anything that impedes realisation of above benefits from accruing ought to be eliminated or at worst reduced or managed. Internal Audit would influence the performance of the various stakeholders to do their best through their assurance reports to realise above mentioned benefits

A retinue of reports have emerged pointing fingers at County Governments for mismanaging public resources. A case in point is the 2013/2014 Auditor-General's report which revealed misappropriation of funds, wastage, pilferage, procurement irregularities, expenses not supported by documentation and official disregard for due process of law and procedures. This led to advocating by Auditor-General for establishment of internal audit departments in every county (Ngumi, 2016). This is to ensure the earlier mentioned malpractices are arrested on time and the County Governments benefits from the advice of internal auditors through their

recommendations. The Auditor-General reckons that the internal auditor will be expected to work closely with him as envisioned in Section 33 of the Public Audit Act, which provides that the final report by an internal auditor which has been deliberated on and adopted by an audit committee of a state organ or public entity may be copied to him. This goes a long way to emphasise the significance of the internal auditors reports and eventually giving the internal auditing the impetus it deserves to effectively deliver on its mandate.

Wainaina (2013), posed the question, ‘public service or self-service?’ Therefore, study on influence of internal auditing practices on performance of state corporations will ensure the former is practiced and not the latter through its findings contribution. Globally various facets of internal audit activity and its effectiveness have been studied. For instance, Soh and Martinov-Bennie (2011) sought to find the perceptions of internal audit roles, effectiveness and evaluation in Australia while Cohen and Sayag (2010) researched on effectiveness of internal auditing in Israel organisations. Though these studies as highlighted concerns study in internal audit practice effectiveness and as much as the internal audit activity is global in nature as guided by IIA, there is need to conduct a study on the influence of internal audit practice in Kenyan organisations. A gap this study sought to fill with specific reference to performance of commercial state corporations under the Ministry of Industry, Trade and Cooperatives.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this research was to assess the influence of the internal audit practice on performance of commercial state corporations under the Ministry of Industry, Trade and Cooperative.

1.3.2 Specific Objectives

Specifically the study sought;

- i. To determine the influence of corporate governance on performance of state corporations.
- ii. To determine the influence of risk management on performance of state corporations.
- iii. To determine the influence of control on performance of state corporations.

1.4 Research Questions

The study sought to answer the following research questions:

- i. How does internal audit practice in corporate governance processes influence performance of state corporations?
- ii. How does internal audit practice in risk management process influence performance of state corporations?
- iii. How does internal audit practice in internal control processes influence performance in state corporations?

1.5 Justification of the Study

International Auditing and Assurance Standard Board (IAASB)(2013) on International Standard on Auditing (IAS) 610 (revised) on using the work of internal auditors by the external auditors reckons that monitoring controls performed by an owner or manager would not be considered equivalent to an internal audit function. This demonstrates the distinct function of internal auditors in the eyes of an external auditor performing a statutory function. This standard also serves to entrench the required segregation of duties and putting in place by an organisation the appropriate checks and balances.

Occurrence of myriad cases of collapsing corporate entities has occasioned finger-pointing amongst the various stakeholders in the corporate management (Chabeda, 2016). He further argues that no institution is safe from collapse if those charged with safeguarding its assets become its main threat. This has brought to the fore the execution of the mandate of internal

auditors and with what effectiveness in forestalling malpractices in the corporate entities. For instance, the accountants' watchdog plans to investigate internal auditors at the collapsed Chase Bank (Otuki, 2016). The ICPAK reckons auditing is a legal process and as such any established misconduct by the internal auditors will attract prosecution as in the case of Chase Bank.

In the article headlined, 'Kenya Power sends home top managers for 'sleeping' on job'. It was reported in the said article that the board of directors of Kenya Power did suspend two of its senior managers suspected to have engineered operational irregularities through which the company could have lost billions of shillings. This timely action was taken after internal auditors revealed the irregularities (Sambu, 2014).

Omwenga (2014) reported that NACADA's internal audit department discovered that Ksh. 18.4 million had been lost from issue of licences across several districts. In another epic example of the misuse of public resources Gibendi (2015) narrates the crippling of Mumias Sugar Company a fairly large parastatal. He quotes a KPMG forensic report that found out that, the then management of the mentioned organisation ignored consistently the recommendations of stakeholders amongst them the internal auditors. In a more recent one of a kind development in the banking industry in Kenya, a chief executive and five of his managers were sent on compulsory leave by the board of the National Bank of Kenya to allow internal auditors to conduct an internal audit on the directive of the Central Bank of Kenya being the regulator (Omondi & Alushula, 2016), (Ngigi, 2016). This development was occasioned by concerns of the management of the bank which is largely owned by the government. These scenarios serve to demonstrate the impact of internal audit to state corporations' performance.

To sum it all, as argued by Dittenhofer (2001) because of its importance and because of its continuous escalation into the management process, it is essential that action be taken to ensure that the performance of internal auditing conforms to high quality standards and it enhances the goals and objectives of the entity. This can only be realised by considering the influence of

internal auditing practice. Therefore, this study sought to underscore the influence of the internal audit practice in the performance of commercial state corporations.

1.6 Significance of the Study

The results of the study on influence of internal audit practice on the performance of commercial state corporations will greatly benefit the various stakeholders in the work of internal auditors. These stakeholders include internal auditors as practitioners, external auditors, board members as policy makers, management of the corporations, taxpayers, customers and suppliers to the entities, government regulatory authorities like Kenya Revenue Authority, Capital Market Authority, Ethics and Anti-Corruption Commission etc and eventually add to the body of knowledge on internal audit as a discipline.

1.6.1 Internal auditors

In performance of their role internal auditors have to face a number of challenges, especially in today's turbulent economy; one of them being to prove their relevance and necessity within the organisation. In this context, the added value delivered by internal auditors becomes more important and internal auditors are interested to find the most relevant methods for measuring and assessing internal audit's effectiveness and efficiency.

By identifying the impact of internal audit practice on performance of state corporations the internal audit function is more appreciated, accorded the requisite support it needs to deliver on its mandate, assessed on its effectiveness, productivity and efficiency, and evaluated on the value for money of resources utilized by the function. Badara and Saidin (2012) postulates that internal audit provide constant review and appraisal of the systems and procedures introduced by the management with the intention to enable the management to control and utilise their resources properly and effectively as also suggested by (Simona & Elisabeta, 2014) .

1.6.2 Taxpayers and government regulatory authorities

Highlighting the performance of state corporations as impacted by internal auditors will foster a reduction of mismanagement of public resources and if such mismanagement occurs the malpractice will be identified on time before extensive damage is done. Where the damage is already done the culprits are zeroed down to and evidence is availed enough to nail them. This enhances accountability, transparency, and return of value for money to the taxpayers and thus guarantee improvement of the Kenyan economy.

1.6.3 External auditors

The IAASB has issued ISA 610 (Revised) to contextualise the reliance by the external auditor on the work of the internal auditor. The findings of this study could improve and enhance the collaboration between the external auditor and the internal auditor.

1.6.4 Board of directors and other policy makers

The findings of this study provides insight to policy makers in designing policies that facilitates effectiveness of internal auditors. This enhances sound corporate governance, risk management processes and controls on the operations of an organisation.

1.6.5 Customers and suppliers to state corporations

The findings of this study helps the customers and suppliers of state corporations understand the internal audit function towards a better managed, governed and controlled organisation.

1.6.6 Management

This study and its findings helps management assess its position in giving prominence to the function of internal audit. Management thus, discovers the importance of internal auditing practice.

1.6.7 Future scholars and researchers

This study and its findings contributes to body of knowledge on internal auditing. Future researchers and scholars may use the findings of this study as a base on researching on internal auditing.

1.7 Scope of the Study

The study investigates the influence of internal audit practice on performance of parastatals in Kenya with specific reference to staff of Commercial State Corporation under the Ministry of Industry, Trade and Cooperative. The information and data was obtained from supervisory and management staff as they are responsible for the steering of the organisation to perform. The management is tasked to ensure the entity performs and are evaluated periodically through the performance contracting framework.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides the contributions of various authors on the subject of research. The chapter comprises the introduction, theoretical literature, empirical review and the conceptual framework.

2.2 Theoretical review

This section details the theoretical perspectives that informed and guided the study. These theories are agency theory, theory of rational expectations, information theory and insurance theory.

2.2.1 Agency theory

Agency relationship arises whenever one party called the principal hires or appoints another party called an agent and delegates to him decision making authority to perform some services on his behalf (Brealey, Myers, & Allen, 2011). Hence, an agency problem arises whenever there is a divergence or divorce of interest between the principal and the agent. This conflict of interest between management and shareholders is called the agency problem or agency theory of the firm. Milichamp and Taylor (2008) quotes the Institute of Chartered Accountants in England & Wales (ICAEW), in November 2006 to have described agency theory as “in principle the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavours so that they will not be tempted to go into business for themselves using the principal’s assets.”

Ongore (2011) contends that the agency theory became particularly prominent with the advent of industrial revolution of the early 18th Century when the size of the firm drastically increased.

When the separation of ownership of companies from their control was occasioned by the increase in size. This prompted engagement of agents to manage the firm on behalf of the principal, these agents are managers. The various forms of agency problems exist (Pandey, 2007 p. 332) between the stakeholders in the firm, for instance: shareholders (principal) and management or board of directors (agent), creditors/lenders (principal) and shareholders (agent), government (principal) and shareholders (agent), shareholders (principal) and auditors (agent), multinationals/head office (principal) and subsidiaries/branches (agent), shareholders (principal) and employees (agent) and shareholders (principal) and customers or suppliers (agent). Pandey (2007) aptly remarks that agency problem results into agency costs which includes less than optimal wealth maximisation to shareholders and costs incurred to monitor the actions of agents and control their behaviour.

The agency problem of concern in this context is the one involving internal auditors and the rest of the stakeholders. The internal auditors as agents of management are required to offer non-partisan and optimal advisory to management (National Treasury, 2008), ensuring the management institutes a functional institutional risk framework (National Treasury, 2009) and guiding the audit committees as their secretariat (National Treasury, 2005).

The internal auditors adversely affect the interests of the shareholders (government) in a government owned entity by colluding with management in the performance of their duties whereby their independence is impaired, failure to apply professional care and due diligence in the performance of their audit work and hence failing to detect errors and fraud which they could have otherwise detected (Milichamp & Taylor, 2008). However, the government as a shareholder remedies above by use of audit committees who review the work of internal auditor and approve or vary their annual work plan and audits conducted as per the work plan (National Treasury, 2005), PFM Act 2012 and PFM Act Regulations 2015. Also there is a recourse to seek action against a negligent internal audit through legal actions especially where a loss has

been occasioned by negligence, firing or referring the auditor to the professional body for disciplinary action.

2.2.2 Theory of Rational Expectations

As discussed by Millichamp and Taylor (2012) in their book 'Auditing', in 1926 Professor Theodore Limperg developed a theory, known as the Theory of Inspired Confidence, which, eventually, became known as the Theory of Rational Expectations. The theory holds that the value of the auditor's report derives from the expert nature of the auditor as an independent, competent professional. Millichamp and Taylor (2012) held that broadly this is a dynamic theory which holds that as the business community changes so the expectations it has of the auditors' function also changes.

By also quoting Limperg, (Sijpesteijn, 2011) concurs that The Theory of Inspired Confidence connects the community's needs for reliability of financial information to the ability of audit techniques to meet these needs, and it stresses the development of the needs of the community and the techniques of auditing in the course of time (Limperg Institute, 1985, 3).

2.2.3 Information theory

Information theory is premised on the fact that information determine and add value to investor decision and investor will continuously endeavour to improve quality of information (Wamae, 2005). He further, argues that information supplied by agents contain impurities either by design or otherwise. These impurities are noise, bias and fineness. He expounds that noise is an error in measurement, bias is a one-sided misstatement and fineness is the extent to which the information measures substance of subject at hand.

Wamae (2005) rightly sums that despite inherent limitations of the profession, audit attempts to expose or minimise the error and thus the noise in financial statements. The requirements by the International Standards of Auditing that auditor should be objective and independent

reduces the biasness of management that could arise in absence of auditors. Fineness is remedied by adherence to set frameworks in both reporting operations of an entity and auditing the same.

To cure the noise, bias and fineness in information supplied by the agents the principal is willing to incur a cost. Thus, the internal auditor is engaged to bridge this gap.

2.2.4 Insurance theory

Existence of internal auditors lends credibility to the internal control system, corporate governance and the general operations of the company. This is because internal audit practice provides assurance to investors that their interests are safeguarded and in the event of an oversight they have a recourse (Wamae, 2005). The insurance theory was exemplified in the recent collapsing of the Chase Bank where the accounting profession regulator sought to hold the internal auditor responsible due to negligence. ICPAK sought to know, why did the internal auditor not pick the insider dealings at the lender and escalate the same to the audit committee?

2.3 Empirical Review

This section sought to review the empirical context in which the research was premised. It endeavoured to explain the various concepts that were explored in this research.

2.3.1 Internal audit practice and performance of commercial state corporations

Abuazza, Mihret, James, and Best (2015) argues that the role of internal audit function has changed in response to shifts in global business practices. Changes that have created opportunities for internal audit, to offer consulting services to management and boards of directors.

Internal audit practice stems from internal audit, Mwindi (2005) in reference to ISA 610 paragraph 3 defines internal audit as an appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, examining, evaluating and

monitoring the adequacy and effectiveness of the accounting and internal control systems. IIA (2013) in the Practice Advisory 2100-1 postulates that the internal audit practice should evaluate and contribute to the improvement of risk management, control and governance processes. Further, IIA (2013) contends that the comprehensive scope of work of internal auditor's practice should provide reasonable assurance that management's risk management system is effective; system of internal control is adequate, effective and efficient, governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability.

Milichamp and Taylor (2008) in their interpretation of the definition of internal audit as defined by IIA (IPPF 2005), reckons that as per the IIA's definition internal audit sees itself very much as part of the management function, an aspect also observed by (Dittenhofer, 2001). It does not see itself as a corporate police-force. They add that internal audit is intended to be proactive and the internal audit intention is to add value to a firm.

In regard to the role of the internal audit in the public sector (Milichamp & Taylor, 2008) p. 264 are of the view that the internal audit plays a much more significant role than in private sector companies, due to factors of accountability and regularity. Salawu and Agbeja (2007) concedes that because of rapidly changing technology and the increasing demand for good governance, transparency and accountability in the public sector, it is important to revise auditing practices to assess their adequacy, reliability, efficiency and effectiveness in promoting these ends. However, before internal audit practices revision there is need to assess their influence first and foremost. The results of the study by Soh and Martinov-Bennie (2011), suggested significant expansion and refocus of the role of internal auditors and perceptions of their effectiveness. They established a misalignment between the role and the evaluation of the internal audit which gives rise to difficulty in assessing the extent to which internal audit practice meets its stakeholders expectations.

HM Treasury (2010) p. 5, notes that “the main purpose of internal audit activity within central government is to provide the Accounting Officer with an objective evaluation and opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.” This concurs with definition of internal auditing as advanced by IIA. It further emphasises the role of internal audit in the performance of public entities. This study will seek to establish to what effective extent has internal audit done their role and areas of improvement in the Kenyan context. In the prevailing circumstances where, as noted by Rupsys and Boguslauskas (2007) changed internal control landscape requires modern and challenging internal audit activity, which should be the main support function for its stakeholders. Salameh, et al (2011) adds that despite the increasing focus on internal audit, there has been little research on the benefits and importance of this function.

2.3.2 Corporate governance and performance of commercial state corporations

IPPF (2012)(Standard) 2110 provides that the internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the objectives of promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; communicating risk and control information to appropriate areas of the organization; and coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Corporate governance has been defined as the manner in which a corporation is directed, controlled and made accountable (Johnson, Scholes, & Whittington, 2008) (Young & Coleman, 2009) p. 31. Johnson et al (2008) further contends that it encompasses authority, accountability, stewardship, leadership, direction and control in a corporation. Corporate governance is based on agency theory, which is the relationship between agents and principals. Agency theory explains how best the relationship between agents and principals can be tapped

for purposes of governing a corporation to realize its goals (Ongore, 2011). The agency relationships occasions conflicts of interests amongst the various stakeholders in a corporation. Thus the link between corporate governance and internal audit practice, since internal auditors are an agency cost. Corporate governance is the system of principles, policies, procedures, and clearly defined responsibilities and accountabilities used by stakeholders to overcome the conflicts of interest inherent in the corporate form (Ungureanu, 2010).

Corporate governance has also been defined by Seifert (2003) who explains that it is an internal system encompassing policies, processes, and people which serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business sense, objectivity, accountability and Integrity.

Stapelon (2007) indicated that corporate governance will involve structuring, operating, and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements as well as meeting environmental and local community needs. Since the organizations are the ones that support the economy, it is therefore necessary they comply with the principles and rules by which corporate governance is upheld.

According to Stapelon (2007) an economy's corporate governance system has a significant impact on the profitability and growth of corporations, their access to capital and their cost of capital. It can influence the decisions undertaken by firms and ultimately the wealth created in a country. Corporate governance helps to increase share price of a firm and help boost investor confidence. Investors are not willing to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles.

Ongore (2011) postulates that arising from many high profile corporate failures, coupled with generally low corporate profits across the globe, the credibility of the existing corporate governance structures has been put to question. Soh and Martinov-Bennie (2011) concurs that

in aftermath of corporate scandals and global financial crisis, corporate governance has caught attention of regulators and public. They postulates that regulators response has been requiring more disclosures on corporate governance hence increasing awareness and demand for internal assurance on corporate governance processes, internal control and risk management. The major far reaching response to corporate failures was the development and issuance of the corporate governance principles by OECD in 1998 (OECD, 2004). The principles were the responsibilities of the board, the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders and the requirement for disclosure and transparency (OECD, 2004). Crowther and Seifi (2011) also believes that after big corporate scandals investors are demanding that firms put in place rigorous corporate governance principles so as to achieve better returns on their investment and to reduce agency costs. In 2002 Sarbanes-Oxley Act came into existence in USA as a reaction to loss of investor confidence after demise of Enron and other major organisations like Andersen, WorldCom and Tyco (Young & Coleman, 2009). In UK after the collapse of big corporates like Coloroll, Polly Peck and Maxwell Communications Corporation in early 1990s precipitated formation of Cadbury Commission that was tasked to look into financial aspects of corporate governance (Milichamp & Taylor, 2008).

In Kenya, corporate governance has been an important part of company law for many decades even before the various codes of corporate governance were drawn up. Company Law has since time back provided for the accountability and responsibility of the directors to the shareholders. The Companies Act and Financial Reporting Standards require that directors should provide certain information to shareholders on both quarterly, half yearly or annually and also company to hold an Annual General Meeting through which the directors can be held into account by the shareholders, as articulated by (Choe, 1998). This in Kenyan public sector has been put into perspective by the Mwongozo, the code of governance for state corporations.

2.3.3 Risk Management and performance of commercial state corporations

IPPF (2012)(Standard) 2120 provides that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Standard 2120 further clarifies that internal auditor can determine effectiveness of risk management processes by exercising judgments on assessment that: organizational objectives support and align with the organization's mission; significant risks are identified and assessed; appropriate risk responses are selected that align risks with the organization's risk appetite; and relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities. Abuazza et al (2015) holds that internal audit has become a value-adding service to firms by assisting them in management of risk.

Brodeur and Pitsch (2008) defines risk as the probability that a hazard will turn into a disaster. They further argue that vulnerability and hazards are not dangerous, taken separately. But if they come together, they become a risk or, in other words, the probability that a disaster will happen. IRM (2002) defines risk management as the process whereby firms methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. Valsamakis, Vivian and Toit (2010) defines risk management as a managareial function aimed at protecting the organisation and its people, assets and profits against the physical and financial consequences of risk. Valsamakis et al (2010) concludes risk management involves planning, coordinating and directing the risk-control and the risk-financing activities in the organisation.

State Corporations Advisory Committee (SCAC) (2015) opines that the Board of a state corporation has a responsibility to ensure that the parastatal they oversee has adequate systems and processes of accountability, risk management and internal controls. The roles of the board can best be realized by employing the services of internal auditors to give assurance of their

existence, adequacy and where they do not exist recommend the requisite measures, procedures and controls to ensure that the mandate of board is fulfilled. The Code of Governance for State Corporations further requires the operations of the public entities to be guided by ethical practices that seek to promote good corporate citizenship. This again falls squarely within the purview of internal auditors work to confirm or dispel the assertion of its existence and execution.

Spira and Page (2003) contends that internal auditors reports on and provides their opinions about their organization's compliance with its own governance and risk assessment requirements. In particular, auditors may need to express opinions in the areas of corporate governance, risk management, and internal controls. Organizations of all types, sizes, and complexity are facing a variety of risks that affect the reliability of financial statements and effectiveness of internal controls. Boockholdt (2008) argues that effective assessment and appropriate reporting on the organization's risk management requires internal auditors to understand the risk assessment process from start to finish.

Before auditors can formulate an opinion on risk management, Wallace and Zinis (2005) suggests that they must identify and measure risks, and weigh those risks against potential rewards to create sustainable performance. Internal auditors should ensure that the established risk assessment process is improving strategic decision-making and supporting the achievement of organizational objectives (Spira & Page, 2003). Botha (2001) also says that they should provide adequate risk assessment information to the board and senior management to enable them to make risk-informed, strategic decisions. Moreover, internal auditors should provide assurance and consulting services to the board, audit committee, and management on the organization's risks and risk appetite as well as the effectiveness of the process designed to manage the risks and minimize their impact on financial reporting. In his review of the Turnbull Report (Kendrick, 1999) observes that the report require directors to disclose whether

there is an on-going process for identifying, evaluating and managing significant corporate risks, and whether this process is regularly reviewed by the board and complies with the guidance given.

2.3.4 Control and performance of commercial state corporations

The Practice Advisory 2100-1 by IIA(2013) defines control as any action taken by management to enhance the likelihood that established objectives and goals will be achieved. IIA (2013) disintegrates controls further that, controls may be preventive (to deter undesirable events from happening), detective (to detect and correct undesirable events which have occurred), or directive (to cause or encourage a desirable event to occur).

The International Standards for the Professional Practice of Internal Auditors (Standard) 2130 provides that the internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The requirements of Standard 2130 are to be met by evaluating the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the: achievements of the organization's strategic objectives; reliability and integrity of financial and operational information; effectiveness and efficiency of operations and programs; safeguarding of assets; and compliance with laws, regulations, policies, procedures, and contracts (IPPF 2012), (Committee on Law and Accounting, 1994).

Haron, Chambers, Ramsi, and Ismail (2004) argues that internal auditors usually assist management in ensuring that there is a proper internal control system in place and that the operations of the company are carried out efficiently, economically and effectively. As opposed to external auditors who concern themselves mainly to the truth and fairness of the financial statements. Effective internal control system can help a firm to meet its goals and objectives (Abuazza, Mihret, James, & Best, 2015)

Hay (1993) remarked that the concept of internal control, as embodied in auditing standards and other statements by professional accounting bodies, has varied over time and geographically. In USA it's a requirement by the Public Company Accounting Oversight Board (PCAOB) auditing standard that the external auditor should review and certify the effectiveness of internal control over financial report Haron et al (2004). ISA 315 also requires the external auditor to understand the internal controls of the auditee (International Auditing and Assurance Standards Board (IAASB), 2013).

Mwindi (2005) describes internal control as the process designed and effected by management aimed at facilitating realisation of company objectives. Thus, internal audit has to evaluate the internal control as designed by management with a view to give an assurance to the reliability of the controls in place, effectiveness and efficiency of the same.

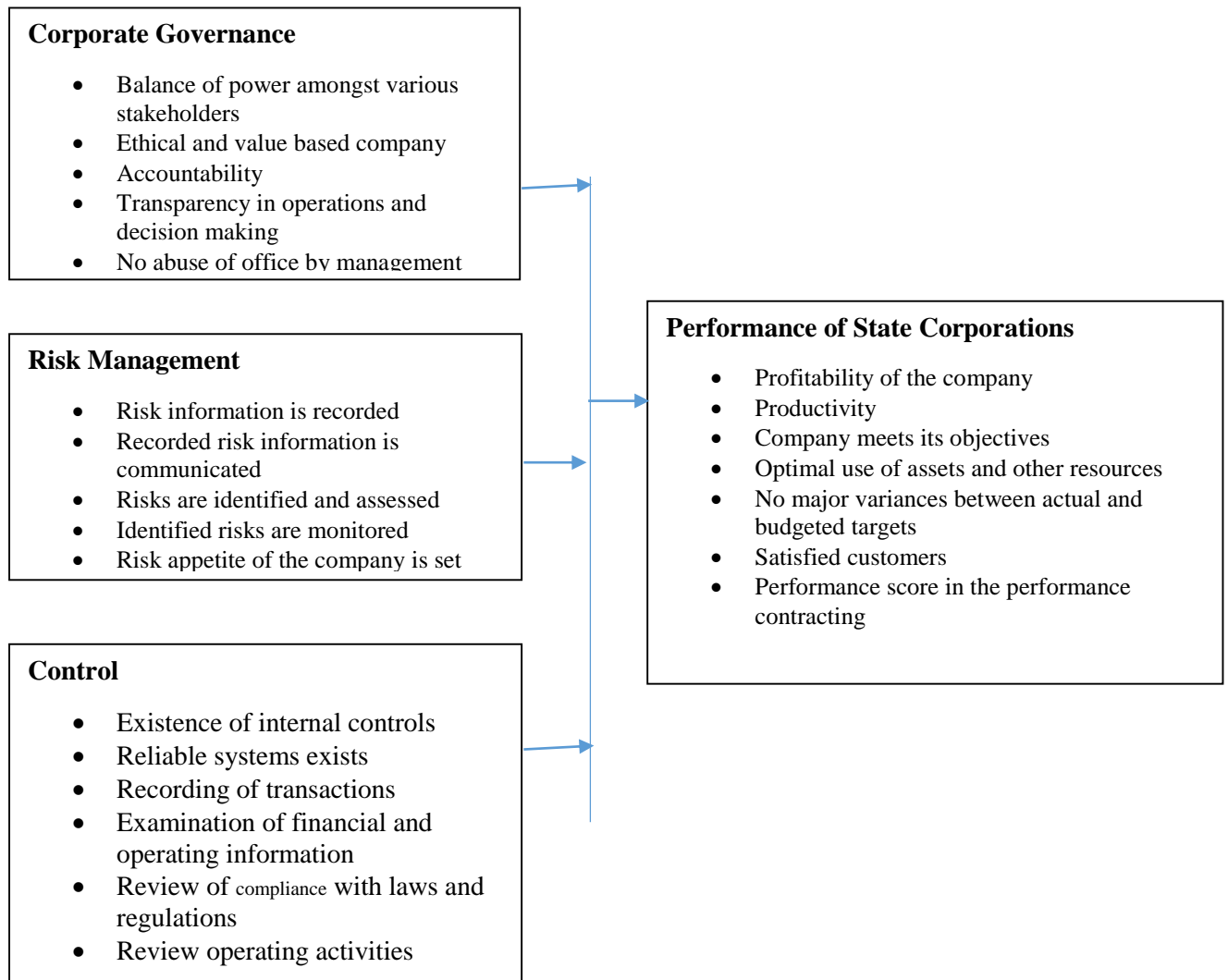
Internal auditors traditionally have used a risk-based approach in auditing controls over their company's operational effectiveness, reliability of financial reports, and compliance with applicable rules and regulations. Auditors should make recommendations about remedial actions to improve internal controls and take notice of management's willingness and commitment to implement those remedies. The quality and reliability of internal audit opinions depends on transparency, constructive recommendations, and the objectivity, independence, and organizational status. And to work with the organization's board, audit committee, and management to facilitate improvements in the internal control structure (Fadzil, Haron, & Jantan, 2005).

2.4 Conceptual framework

Figure 1: Conceptual Framework

Independent Variables

Dependent Variable



Source: Author (2016)

2.5 Operationalization of Variables

The objectives of this study were motivated by the objectives of internal audit as defined by IIA in the International Professional Practices Framework (IPPF) (2005), “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve

an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” p.xxvii

The study thus, aimed to assess the influence of internal audit practices on performance of parastatals in Kenya. The independent variables are, corporate governance, risk management and control. The dependent variable is performance of the commercial state corporations. The following table gives the insight on how variables were measured, analysed and conclusions made.

Table 1: Operationalization of the Study Variables

Objective	Variable	Indicators	Measurement	Question in Questionnaire
To determine the influence of corporate governance on performance of state corporations	Corporate governance	Optimal application of resources Balance of power amongst various stakeholders Ethical and value-based company Accountability	Nominal/ Ordinal	Section B Question iv-vi
To determine the influence of risk management on performance in state corporations	Risk management	Risks are identified Risk appetite is set Objectives of organisation are realised Risks identified are monitored Risk information is recorded Occurrence of frauds	Nominal/ Ordinal	Section C Question vii-ix
To determine the influence of control on performance of state corporations	Control	Recording of transactions Assets accounted for Existence of controls Reliable systems Segregation of duties	Nominal/ Ordinal	Section D Question x-xiii

Source: Author (2016)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions (Kothari, 2004). Cooper and Schindler (2006) summarized the essentials of research design as an activity and time based plan; always based on research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research activity.

The researcher adopted descriptive study method. A descriptive study describes or associates characteristics of a subject population and eases analysis of data collected. Kumar (2011), explains the descriptive study as an attempt to describe systematically a situation, problem, phenomenon, service or program, or provides information. Monsen and Horn (2007) described descriptive research as an effective way to obtain information used in proposing associations between variables and producing accurate representations of events or situations.

3.2 Population of Study

Cooper and Schindler (2006) defines a population as total set of elements that a researcher wishes to infer inferences from. Sekaran (2006) describes population as the entire group of people, events, or things of interest that researcher intends to investigate. While Saunders, Lewis, and Thornhill (2012) says population is the full set of cases from which a sample is taken. The population of study will be the senior staff of commercial state corporations under Ministry of Industry, Trade and Cooperatives. The senior staff population of the target parastatals is two hundred and forty seven.

3.3 Sample and Sampling Procedure

A sample is a subgroup or subset of the population (Sekaran, 2006). Zikmund (2003) defines a sample as a subset or some part of a larger population. Sekaran (2006) further opines that by studying the sample, the researcher can be able to draw conclusions that would be generalizable to the population of interest.

Sampling is process of using a small number of items or part of the whole to make conclusions about or regarding the whole population (Zikmund, 2003), (Sekaran, 2006), (Saunders et al 2012). According to Mugenda and Mugenda (2003) 10% -20% of the target population may suffice to form a reliable sample that can enable generalization of the research observations to represent the population.

The researcher used a sample size of thirty percent of the population using a stratified random sampling. Sample size is the number of subjects chosen to represent the population (Sekaran, 2006). Krishnaswamy, Sivakumar, and Mathirajan (2006) contends that a sample size may be determined based on judgement or statistically on the requirements of error and confidence. However, the 30% was chosen as it above 20% as per Mugenda and Mugenda (2003) and it's above 30 cases as required for correlational research.

Stratified random sampling was used to identify the respondents among the whole population of the supervisory and managerial staff. Sekaran (2006) has described Stratified random sampling as a probability sampling design that first divides the population into meaningful, non-overlapping subsets, and then randomly chooses the subjects from each subset. Also stratified random sampling has been explained by Krishnaswamy et al (2006)p. 564 as a variation of random sampling in which a population is divided into strata based on some critical dimension and participants are then selected randomly from each of the strata in the same proportion that the strata are represented in the population. Stratified random sampling

increases the representativeness of the sample. Stratified random sampling with 30% (74 respondents) of the total population was ideal since the commercial parastatals are in different operations and engage in different activities and thus there was need to have all of them represented, illustrated as follows:

Table 2: Target population and Sample Size

Entity	Number of employees	Sample size
Numerical Machining Complex Limited	34	10
New Kenya Creameries Cooperative	44	13
Kenya Wine Agency Limited	27	8
Kenya Industrial Estates Limited	23	7
East Africa Portland Cement Limited	76	23
Africa Trade Insurance Agency	17	5
Industrial Development Bank Capital Limited	11	3
Kenya National Trading Corporation	15	5
Total	247	74

Source: Author (2016)

3.4 Instrumentation

Data was collected using questionnaires. Bryman and Bell (2011) and Saunders et al (2012) postulates that a questionnaire is a method for the elicitation, recording and collecting of information. The researcher used self-administered questionnaire method for the respondents as it allows the respondents to complete the questionnaire at their convenient time, Kuter and Yilmaz (2001). Interviews were conducted to give the researcher a chance to interact with respondents and facilitate venting of their perceptions not captured in the questionnaires.

3.5 Data Collection

The researcher collected data from the primary and secondary sources. Questionnaires were the tools used to collect primary data while secondary data was collected from books in the library, internet materials like electronic journals and magazines. The questionnaire method is preferred because it presents respondents with a relatively easy task of picking one or more answers which were spelt, thus, the data collected was very unlikely to be contaminated through variations in the wording as variables were clearly spelt out. In this study, the questions were constructed using Likert's 5 Point Scale based on the study objectives.

3.6 Pilot Test

Pilot testing is a trail collection of data to detect weaknesses in design and instrumentation while pretesting is assessment of questions and instruments before start of a research (Cooper & Schindler, 2011). A pilot study was done to detect face validity of the instruments used in collecting the information from respondents. This corrected errors that could have occurred when researching and ensure that the research instrument functioned well as a whole (Bryman & Bell, 2011). Bryman and Bell (2011) argues that pilot study is particularly important for research based on self-completion questionnaire as interviewer may not be at hand to clear up any confusion.

3.7 Validity and Reliability

Validity according to (Sekaran, 2006) is the evidence that the instrument, technique or process used to measure a concept does actually measure the intended concept. According to Saunders et al (2012) validity is the extent to which data collection method accurately measure what they were intended to measure. Both face and content validity were conducted on the study instrument. Face validity is the aspect of validity examining ambiguity of questions and content validity is aspect of validity examining coverage of variables under study (Sekaran,

2006). Face validity was established by pretesting and content validity by the input of supervisor and respondents during pilot study.

Reliability is a measure of the accuracy, precision and consistency of the measuring instrument (Sekaran, 2006), (Cooper & Schindler, 2011) and (Saunders, Lewis, & Thornhill, 2012). It is a necessary but not sufficient condition for validity *ie* if a measure is not reliable it cannot be valid. Reliability is a measure of the degree to which a research instrument would yield the same results or data after repeated trials (Mugenda, 2008). According to (Mugenda, 2008) Cronbach’s Alpha is the most commonly used coefficient of internal consistency. Therefore, the Cronbach’s Alpha was used to assess reliability and since it was ≥ 0.710 the instrument was adopted.

3.8 Data Analysis Techniques

Data analysis for this study was both quantitatively and qualitatively. Qualitative data was analysed via content analysis. Kumar (2011:278), defines content analysis as the analysing of the contents of interviews or observational field notes in order to identify the main themes that emerge from the responses given or the observation notes made. After analysis data was presented using tables, graphs and charts. Quantitative data analysis was done by use of Statistical Package for Social Sciences (SPSS) version 20.0.

The regression model was;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i \dots \dots \dots (i)$$

Where:

Y = Dependent variable,

α = Constant

$\beta_{i=n}$ = Regression coefficients

$X_1 =$ Corporate governance

$X_2 =$ Risk management

$X_3 =$ Control

$\varepsilon =$ Error term

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF THE RESEARCH FINDINGS

4.1 Introduction

This chapter details the data analysis, presentation and interpretation of the results of the study. The aim of this study was to assess the influence of internal audit practices on performance of commercial state corporations under the Ministry of Industry, Trade and Cooperatives in Kenya. The data was collected using a questionnaire that was submitted to management staff of the commercial corporations at their various headquarters. The data obtained was input into the SPSS for analysis after checking for completeness.

Descriptive analysis was done to examine the profile of respondents and gauge the responses to statements on objectives of the study. Regression analysis was conducted to answer the research objectives and to establish the strength of the relationship between the variables. The results and interpretations are presented in the form of tables, charts and graphs.

4.2 Response Rate

The target respondents was 74 employees who constitutes the 30% of the management staff of the commercial state corporations under the Ministry of Industry, Trade and Cooperatives. Out of the 74 questionnaires distributed, 70 were collected having been filled. This is 94.5% response rate. Mugenda and Mugenda (2003) postulates that questionnaires having a response rate of 50% are adequate for analysis and a response rate of 70% is very good. Therefore 94.5% is excellent. This high response rate was realised because the target respondents were staff who are based at the respective head offices and all the head offices are within Nairobi. The researcher also personally delivered the questionnaires, explained to the management staff the utility of the questionnaires and collected them after a reminder.

The responses obtained from the study are summarised in Table 3 below.

Table 3: Response Rate

Response	Frequency	Percentage
Responded	70	94.59
Not Responded	4	5.41
Total	74	100

Source: Author (2017)

4.3 Demographic Information

The research instrument collected various information to assist in establishing a general demographic profile of the respondents. Below is a discussion of these attributes.

4.3.1 Gender of Respondents

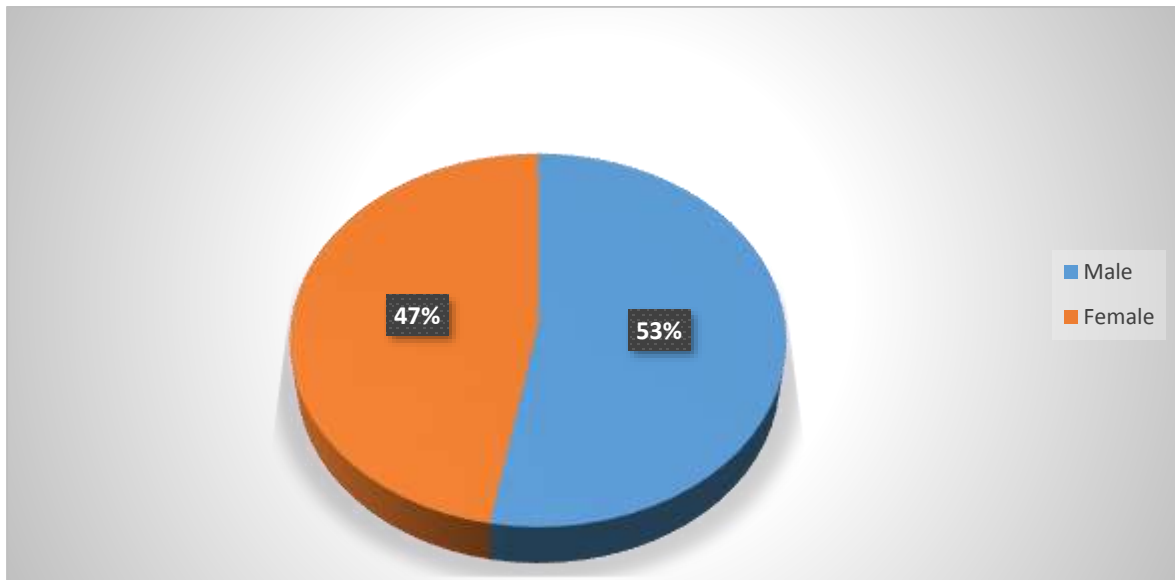
The respondents sampled were expected to comprise both male and female staff working in commercial state corporations. The question of gender was considered important as it could help to get a balanced view from both genders. According to the results shown below in Table 4 and Figure 2, majority (52.9%) of the respondents were male, while 47.1% of them were female.

Table 4: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	37	52.9	52.9	52.9
Female	33	47.1	47.1	100.0
Total	70	100.0	100.0	

Source: Author (2017)

Figure 2: Gender Respondents



Source: Author (2017)

The findings show that commercial state corporations are gender sensitive and are in compliance with the affirmative action initiated in the government of Kenya that require no gender that may exceed a third of the workforce. Further, it shows that both men and women are engaged at the management level and thus the findings will represent the opinions of both gender in respect to the factors influencing the internal audit practices on performance of their respective organisations.

4.3.2 Length of Service Category

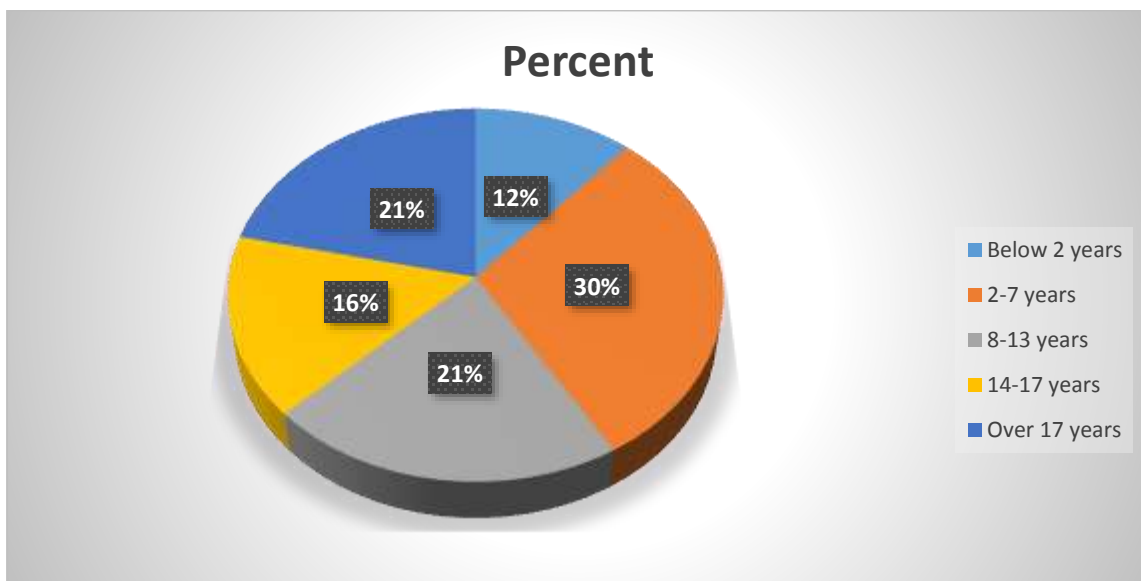
The study sought to know the composition of the respondents in terms of length of service brackets. This was important to show the distribution across the various length of service brackets and their opinions on the topic of study. The length of service determines the extent one is aware of the issues sought by the study. The findings as shown on Table 5 and Figure 3 below, only 11.4% of the respondents have been with the respective commercial state corporation for less than two years. This shows that majority (88.6%) of the respondent have

been in their various organisations for more than two years and therefore understands the operations and performance of their organisations. This wealth of experience informed the depth of the response to influence of internal audit practices on performance.

Table 5: Length of Service brackets of Respondents
Service Length

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 2 years	8	11.4	11.4
	2-7 years	21	30.0	41.4
	8-13 years	15	21.4	62.9
	14-17 years	11	15.7	78.6
	Over 17 years	15	21.4	100.0
	Total	70	100.0	100.0

Figure 3: Length of Service brackets of Respondents



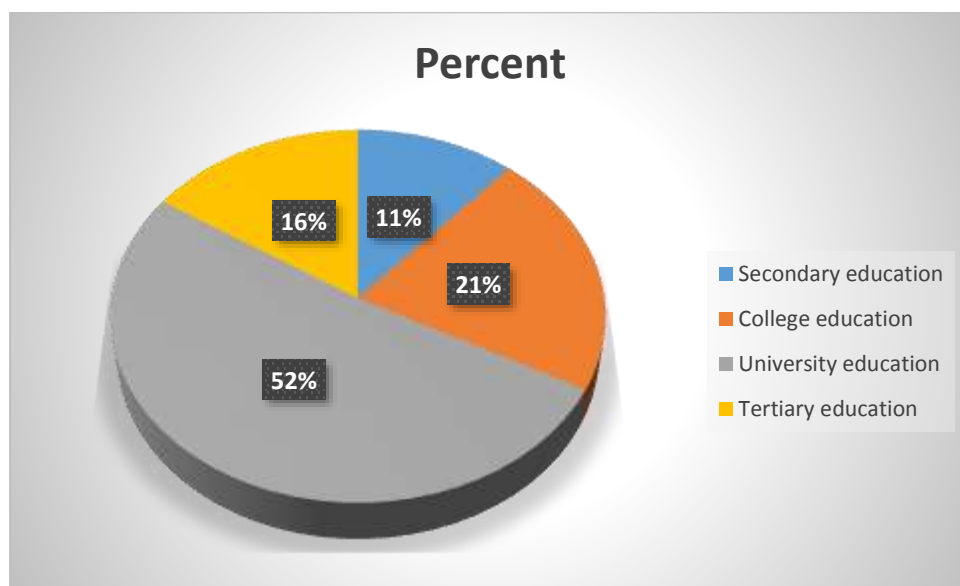
4.3.3 Level of Education

The target respondents was management staff, hence the finding that majority of the respondents were university graduates at 51.4%. Academic qualification is important in allocation of duties and responsibilities. However there are other levels of education in management ie secondary education 8%, college education 21.4% and tertiary education 15.7% as can be observed in Table 6 and Figure 4 below.

Table 6: Level of Education

		Education			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary education	8	11.4	11.4	11.4
	College education	15	21.4	21.4	32.9
	University education	36	51.4	51.4	84.3
	Tertiary education	11	15.7	15.7	100.0
	Total	70	100.0	100.0	

Figure 4: Level of Education



4.4 The influence of Corporate Governance on Performance

The first objective of the study was to determine the influence of corporate governance and internal audit practice on the performance of commercial state corporations in Kenya. The respondents responded to statements on influence of corporate governance on performance. The responses were rated on a five Likert point scale, ranging from 1 = strongly disagree, 2=disagree, 3=moderately agree, 4=agree and 5=strongly agree. The responses obtainable are as shown below in Table 7 and Table 8. The low standard deviation of 0.86381 indicates that the variation among the respondents was low. The respondents were in agreement Transparency in the company operations and decision making ensures high performance (

mean = 4.0857) at 74.2%, Accountability in the company guarantees high performance (mean = 4.0571) at 77.1%, Deterrence of abuse of office by management improves performance (mean = 3.9571) at 72.9%, Corporate governance enhances performance (mean = 3.9000) at 75.7%, Existence of effective performance appraisals increases performance (mean =3.8714) at 77.1%, Clear channels of communication in the company promotes corporate performance (mean =3.6571) at 57.2% and Upholding ethics and values within the organization improves performance (mean = 3.5000) at 57.1%. Further, the respondents moderately agreed Optimal application of resources and assets ensures high performance (mean = 3.3286) at 25.7%, When interests of all stakeholders are safeguarded performance improves (mean = 3.0571) at 37.1% and Balance of power amongst various stakeholders in the organization fosters performance (mean = 3.0000) at 30%.

Table 7: Governance

Statement	N	Mean	Std. Deviation
Transparency in the company operations and decision making ensures high performance	70	4.0857	.86381
Accountability in the company guarantees high performance	70	4.0571	1.01989
Deterrence of abuse of office by management improves performance	70	3.9571	.87536
Corporate governance enhances performance	70	3.9000	.88711
Existence of effective performance appraisals increases performance	70	3.8714	1.04841
Clear channels of communication in the company promotes corporate performance	70	3.6571	1.04792
Upholding ethics and values within the organization improves performance	70	3.5000	1.07339
Optimal application of resources and assets ensures high performance	70	3.3286	1.05942
When interests of all stakeholders are safeguarded performance improves	70	3.0571	1.15327
Balance of power amongst various stakeholders in the organization fosters performance	70	3.0000	1.12932

Table 8: Governance

	Frequency	Percent	Valid Percent	Cumulative Percent
Transparency in the company operations and decision making ensures high performance				
Strongly disagree	1	1.4	1.4	1.4
Moderately agree	17	24.3	24.3	25.7
Agree	26	37.1	37.1	62.9
Strongly agree	26	37.1	37.1	100.0
Accountability in the company guarantees high performance				
Strongly disagree	2	2.9	2.9	2.9
Disagree	4	5.7	5.7	8.6
Moderately agree	10	14.3	14.3	22.9
Agree	26	37.1	37.1	60.0
Strongly agree	28	40.0	40.0	100.0
Deterrence of abuse of office by management improves performance				
Strongly disagree	1	1.4	1.4	1.4
Disagree	2	2.9	2.9	4.3
Moderately agree	16	22.9	22.9	27.1
Agree	31	44.3	44.3	71.4
Strongly agree	20	28.6	28.6	100.0
Corporate governance enhances performance				
Disagree	7	10.0	10.0	10.0
Moderately agree	10	14.3	14.3	24.3
Agree	36	51.4	51.4	75.7
Strongly agree	17	24.3	24.3	100.0
Existence of effective performance appraisals increases performance				
Strongly disagree	3	4.3	4.3	4.3
Disagree	6	8.6	8.6	12.9
Moderately agree	7	10.0	10.0	22.9
Agree	35	50.0	50.0	72.9
Strongly agree	19	27.1	27.1	100.0
Clear channels of communication in the company promotes corporate performance				
Strongly disagree	4	5.7	5.7	5.7
Disagree	2	2.9	2.9	8.6

Moderately agree	24	34.3	34.3	42.9
Agree	24	34.3	34.3	77.1
Strongly agree	16	22.9	22.9	100.0

Upholding ethics and values within the organization improves performance

Strongly disagree	4	5.7	5.7	5.7
Disagree	8	11.4	11.4	17.1
Moderately agree	18	25.7	25.7	42.9
Agree	29	41.4	41.4	84.3
Strongly agree	11	15.7	15.7	100.0

Optimal application of resources and assets ensures high performance

Strongly disagree	4	5.7	5.7	5.7
Disagree	12	17.1	17.1	22.9
Moderately agree	18	25.7	25.7	48.6
Agree	29	41.4	41.4	90.0
Strongly agree	7	10.0	10.0	100.0

When interests of all stakeholders are safeguarded performance improves

Strongly disagree	9	12.9	12.9	12.9
Disagree	10	14.3	14.3	27.1
Moderately agree	26	37.1	37.1	64.3
Agree	18	25.7	25.7	90.0
Strongly agree	7	10.0	10.0	100.0

Balance of power amongst various stakeholders in the organization fosters performance

Strongly disagree	7	10.0	10.0	10.0
Disagree	17	24.3	24.3	34.3
Moderately agree	21	30.0	30.0	64.3
Agree	19	27.1	27.1	91.4
Strongly agree	6	8.6	8.6	100.0
Total	70	100.0	100.0	

The respondents were affirmative (52.9% said Yes) to the dichotomous statement Does governance determine performance of state corporations (mean = 1.4714) and the low standard deviation of 0.50279 indicates that the variation among the respondents was low as obtained

on Table 9 and Table 10 below. The statement was important to ascertain that the respondents were versed with the aspect of governance in the commercial state corporations.

Table 9: Governance

Statement	N	Mean	Std. Deviation
Does governance determine performance of state corporations	70	1.4714	.50279

Table 10: Governance

Does governance determine performance of state corporations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	37	52.9	52.9	52.9
No	33	47.1	47.1	100.0
Total	70	100.0	100.0	

4.5 The influence of Risk Management on Performance

The second objective of the study was to determine the influence of risk management an internal audit practice on the performance of commercial state corporations in Kenya. The respondents responded to statements on influence of risk management on performance. The responses were rated on a five Likert point scale, ranging from 1=strongly disagree, 2=disagree, 3=moderately agree, 4=agree and 5=strongly agree. The responses obtained are as shown below in Table 11 and Table 12. The low standard deviation of 0.84943 indicates that the variation among the respondents was low.

The respondents were in agreement Effective risk management improves performance (mean =4.0286) at 74.3%, Compliance to laws, regulations, policies, procedures and contracts avoid penalties and fines that would lower performance (mean = 3.8) at 65.7% and Reliability and integrity of financial and operational information improves performance (mean = 3.7857) at 62.8%. Further, the respondents moderately agreed Deterrence of fraud improves performance (mean =3.3429) at 50%, Realization of organizational objectives fosters performance (mean =

3.3286) at 31.4%, Communication of risk information improves performance (mean = 3.2429) at 24.3%, Deterrence of unreasonable exposures of the company by the management ensures high performance (mean = 3.2429) at 21.4%, Monitoring identified and assessed risks improves performance (mean = 2.6857) at 25.7% and Proper and adequate risk assessment ensures high performance (mean = 2.6143) at 21.4%. However, the respondents disagreed that Risks identification improves performance (mean = 2.2714) at 14.3%.

Table 11: Risk Management

Statement	N	Mean	Std. Deviation
Effective risk management improves performance	70	4.0286	1.00681
Compliance to laws, regulations, policies, procedures and contracts avoid penalties and fines that would lower performance	70	3.8	1.05775
Reliability and integrity of financial and operational information improves performance	70	3.7857	0.84943
Deterrence of fraud improves performance	70	3.3429	1.17813
Realization of organizational objectives fosters performance	70	3.3286	1.18837
Communication of risk information improves performance	70	3.2429	1.29027
Deterrence of unreasonable exposures of the company by the management ensures high performance	70	3.2429	1.42885
Monitoring identified and assessed risks improves performance	70	2.6857	1.33561
Proper and adequate risk assessment ensures high performance	70	2.6143	1.33289
Risks identification improves performance	70	2.2714	1.3823

Table 12: Risk Management

	Frequency	Percent	Valid Percent	Cumulative Percent
Effective risk management improves performance				
Disagree	8	11.4	11.4	11.4
Moderately agree	10	14.3	14.3	25.7
Agree	24	34.3	34.3	60.0
Strongly agree	28	40.0	40.0	100.0
Compliance to laws, regulations, policies, procedures and contracts avoid penalties and fines that would lower performance				
Strongly disagree	1	1.4	1.4	1.4
Disagree	9	12.9	12.9	14.3
Moderately agree	14	20.0	20.0	34.3
Agree	25	35.7	35.7	70.0
Strongly agree	21	30.0	30.0	100.0
Reliability and integrity of financial and operational information improves performance				
Disagree	4	5.7	5.7	5.7
Moderately agree	22	31.4	31.4	37.1
Agree	29	41.4	41.4	78.6
Strongly agree	15	21.4	21.4	100.0
Deterrence of fraud improves performance				
Strongly disagree	5	7.1	7.1	7.1
Disagree	13	18.6	18.6	25.7
Moderately agree	17	24.3	24.3	50.0
Agree	23	32.9	32.9	82.9
Strongly agree	12	17.1	17.1	100.0
Realization of organizational objectives fosters performance				
Strongly disagree	6	8.6	8.6	8.6
Disagree	10	14.3	14.3	22.9
Moderately agree	22	31.4	31.4	54.3
Agree	19	27.1	27.1	81.4
Strongly agree	13	18.6	18.6	100.0
Communication of risk information improves performance				
Strongly disagree	9	12.9	12.9	12.9
Disagree	11	15.7	15.7	28.6
Moderately agree	17	24.3	24.3	52.9

Agree	20	28.6	28.6	81.4
Strongly agree	13	18.6	18.6	100.0

Deterrence of unreasonable exposures of the company by the management ensures high performance

Strongly disagree	13	18.6	18.6	18.6
Disagree	8	11.4	11.4	30.0
Moderately agree	15	21.4	21.4	51.4
Agree	17	24.3	24.3	75.7
Strongly agree	17	24.3	24.3	100.0

Monitoring identified and assessed risks improves performance

Strongly disagree	16	22.9	22.9	22.9
Disagree	18	25.7	25.7	48.6
Moderately agree	18	25.7	25.7	74.3
Agree	8	11.4	11.4	85.7
Strongly agree	10	14.3	14.3	100.0

Proper and adequate risk assessment ensures high performance

Strongly disagree	19	27.1	27.1	27.1
Disagree	16	22.9	22.9	50.0
Moderately agree	15	21.4	21.4	71.4
Agree	13	18.6	18.6	90.0
Strongly agree	7	10.0	10.0	100.0

Risks identification improves performance

Strongly disagree	31	44.3	44.3	44.3
Disagree	10	14.3	14.3	58.6
Moderately agree	15	21.4	21.4	80.0
Agree	7	10.0	10.0	90.0
Strongly agree	7	10.0	10.0	100.0
Total	70	100.0	100.0	

The respondents were affirmative to the dichotomous statement Does risk management processes determine corporate performance? (mean = 1.2429) at 75.7% and the low standard deviation of 0.43191 indicates that the variation among the respondents was low as obtained on Table 13 and Table 14 below. The statement was important to ascertain that the respondents were versed with the aspect of governance in the commercial state corporations.

Table 13: Risk Management

Statement	N	Mean	Std. Deviation
Does risk management processes determine corporate performance?	70	1.2429	0.43191

Table 14: Risk Management**Does risk management processes determine corporate performance?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	53	75.7	75.7	75.7
Valid No	17	24.3	24.3	100.0
Total	70	100.0	100.0	

4.6 The influence of Control on performance

The third objective of the study was to determine the influence of control an internal audit practice on the performance of commercial state corporations in Kenya. The respondents responded to statements on influence of control on performance. The responses were rated on a five Likert point scale, ranging from 1 = strongly disagree, 2=disagree, 3=moderately agree, 4=agree and 5=strongly agree. The responses obtained are as shown below in Table 15 and Table 16.

The low standard deviation of 0.84943 indicates that the variation among the respondents was low. The respondents were in agreement Enhanced checks and balances in the organization fosters performance (mean = 3.8857) at 70%, Proper recording of transactions improves performance (mean = 3.8) at 65.7%, Proper accounting of assets increases performance (mean = 3.7857) at 62.8%, Internal control system improves performance (mean = 3.6143) at 52.8%, Cost control measures improves performance (mean = 3.5714) at 57.1% and Verification of whether business liabilities are properly stated in books of the business improves performance (mean = 3.4571) at 62.8%. Lastly, respondents moderately agreed Establishing whether the accounting system is reliable enhances performance (mean = 3.1143) at 40%.

Table 15: Control

	N	Mean	Std. Deviation
Enhanced checks and balances in the organization fosters performance	70	3.8857	1.07059
Proper recording of transactions improves performance	70	3.8000	1.07137
Proper accounting of assets increases performance	70	3.7857	1.10195
Internal control system improves performance	70	3.6143	.99699
Enhanced segregation of duties improves performance	70	3.6143	1.26597
Cost control measures improves performance	70	3.5714	1.02958
Minimized costs and pilferage through value for money audit improves performance	70	3.4571	1.25900
Verification of whether business liabilities are properly stated in books of the business improves performance	70	3.4571	1.31530
Establishing whether the accounting system is reliable enhances performance	70	3.1143	1.30265
Establishment of whether the cost-benefit analysis justifies the controls instituted improves performance	70	2.8571	1.17073

Table 16: Control

	Frequency	Percent	Valid Percent	Cumulative Percent
Enhanced checks and balances in the organization fosters performance				
Strongly disagree	3	4.3	4.3	4.3
Disagree	4	5.7	5.7	10.0
Moderately agree	14	20.0	20.0	30.0
Agree	26	37.1	37.1	67.1
Strongly agree	23	32.9	32.9	100.0
Proper recording of transactions improves performance				
Strongly disagree	2	2.9	2.9	2.9
Disagree	7	10.0	10.0	12.9
Moderately agree	15	21.4	21.4	34.3
Agree	25	35.7	35.7	70.0
Strongly agree	21	30.0	30.0	100.0
Proper accounting of assets increases performance				
Strongly disagree	3	4.3	4.3	4.3
Disagree	5	7.1	7.1	11.4
Moderately agree	18	25.7	25.7	37.1
Agree	22	31.4	31.4	68.6
Strongly agree	22	31.4	31.4	100.0
Internal control system improves performance				
Strongly disagree	2	2.9	2.9	2.9

Disagree	5	7.1	7.1	10.0
Moderately agree	26	37.1	37.1	47.1
Agree	22	31.4	31.4	78.6
Strongly agree	15	21.4	21.4	100.0

Enhanced segregation of duties improves performance

Strongly disagree	7	10.0	10.0	10.0
Disagree	5	7.1	7.1	17.1
Moderately agree	17	24.3	24.3	41.4
Agree	20	28.6	28.6	70.0
Strongly agree	21	30.0	30.0	100.0

Cost control measures improves performance

Strongly disagree	4	5.7	5.7	5.7
Disagree	4	5.7	5.7	11.4
Moderately agree	22	31.4	31.4	42.9
Agree	28	40.0	40.0	82.9
Strongly agree	12	17.1	17.1	100.0

Minimized costs and pilferage through value for money audit improves performance

Strongly disagree	7	10.0	10.0	10.0
Disagree	7	10.0	10.0	20.0
Moderately agree	21	30.0	30.0	50.0
Agree	17	24.3	24.3	74.3
Strongly agree	18	25.7	25.7	100.0

Verification of whether business liabilities are properly stated in books of the business improves performance

Strongly disagree	9	12.9	12.9	12.9
Disagree	9	12.9	12.9	25.7
Moderately agree	8	11.4	11.4	37.1
Agree	29	41.4	41.4	78.6
Strongly agree	15	21.4	21.4	100.0

Establishing whether the accounting system is reliable enhances performance

Strongly disagree	9	12.9	12.9	12.9
Disagree	15	21.4	21.4	34.3
Moderately agree	18	25.7	25.7	60.0
Agree	15	21.4	21.4	81.4
Strongly agree	13	18.6	18.6	100.0

Establishment of whether the cost-benefit analysis justifies the controls instituted improves performance

Strongly disagree	10	14.3	14.3	14.3
Disagree	18	25.7	25.7	40.0
Moderately agree	19	27.1	27.1	67.1
Agree	18	25.7	25.7	92.9
Strongly agree	5	7.1	7.1	100.0
Total	70	100.0	100.0	

To ascertain that the respondents were versed with the aspect of influence of control an internal audit practice on the performance of commercial state corporations in Kenya and its indicators, they were asked to respond to a statement on a Yes or No answer (with Yes = 1 and No = 2). The respondents were affirmative to the dichotomous statement Do evaluation and assessment of internal controls lead to cost reduction or cost-containing measures that influences performance?? (mean = 1.3143) at 68.6% and the low standard deviation of 0.46758 indicates that the variation among the respondents was low as obtained on Table 17 and Table 18 below.

Table 17: Control

Statement	N	Mean	Std. Deviation
Do evaluation and assessment of internal controls lead to cost reduction or cost-containing measures that influences performance?	70	1.3143	0.46758

Table 18: Control

Do evaluation and assessment of internal controls lead to cost reduction or cost-containing measures that influences performance?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	48	68.6	68.6	68.6
Valid No	22	31.4	31.4	100.0
Total	70	100.0	100.0	

Further, the respondents were asked in their estimation what was the impact of cost control on a scale of 1 to 4, with 1= Great impact and 4 = Very low impact. The respondents responded that internal audit greatly impacts cost control in state corporations with a mean of 1.3 at 70% and a standard deviation of 0.46157 as shown on Table 19 and Table 20 below.

Table 19: Control

Statement	N	Mean	Std. Deviation
What is the impact of internal audit in managing cost control in state corporations?	70	1.3	0.46157

Table 20: Control

What is the impact of internal audit in managing cost control in state corporations?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Great impact	49	70.0	70.0	70.0
Average impact	21	30.0	30.0	100.0
Total	70	100.0	100.0	

4.7 Performance of commercial state corporations

The dependent variable was performance of commercial state corporations in Kenya. The respondents responded to statements on performance of commercial state corporations in Kenya as influenced by corporate governance, risk management and control. The responses were rated on a five Likert point scale, ranging from 1 = strongly disagree, 2=disagree, 3=don't know, 4=agree and 5=strongly agree. The responses obtainable are as shown below in Table 21 and Table 22.

The respondent were in agreement with the indicators of performance that: The organization has met its objectives as per its mandate (mean = 3.8) at 60%, Performance score is above average as assessed during the annual evaluation in the performance contracting (mean = 3.7) at 61.5%, There is a positive return on investments as set by the Board of directors (mean = 3.6857) at 60% and Performance reports are submitted on time (mean = 3.6143) at 57.2%. Additionally, respondents were moderately in agreement No major variances from the budgeted estimates without justification (mean = 3.4429) at 44.3%, The management is positively receptive of the performance feedback from regulatory authorities (mean = 3.3571) at 34.3%, The organization breaks-even in its operations (mean = 3.0286) at 38.6%, Value for money audits are conducted periodically and there recommendations adhered to (mean = 2.6429) at 28.6% and The parastatal has met its objectives as set by the Board (mean = 2.5286) at 11.4%. Lastly, respondents disagreed that Customers of the company are satisfied by the

service delivery or company products (mean = 2.0143) at 70%. The low standard deviation of 0.98603 indicates that the variation among the respondents was low.

Table 21: Performance

Statement	N	Mean	Std. Deviation
The organization has met its objectives as per its mandate	70	3.8	1.19903
Performance score is above average as assessed during the annual evaluation in the performance contracting	70	3.7	1.02646
There is a positive return on investments as set by the Board of directors	70	3.6857	0.98603
Performance reports are submitted on time	70	3.6143	1.12021
No major variances from the budgeted estimates without justification	70	3.4429	1.11167
The management is positively receptive of the performance feedback from regulatory authorities	70	3.3571	1.04999
The organization breaks-even in its operations	70	3.0286	1.20351
Value for money audits are conducted periodically and there recommendations adhered to	70	2.6429	1.33009
The parastatal has met its objectives as set by the Board	70	2.5286	1.62161
Customers of the company are satisfied by the service delivery or company products	70	2.0143	1.49872

Table 22: Performance

	Frequency	Percent	Valid Percent	Cumulative Percent
The organisation has met its objectives as per its mandate				
Strongly disagree	4	5.7	5.7	5.7

Disagree	5	7.1	7.1	12.9
Moderately agree	19	27.1	27.1	40
Agree	15	21.4	21.4	61.4
Strongly agree	27	38.6	38.6	100

Performance score is above average as assessed during the annual evaluation in the performance contracting

Strongly disagree	3	4.3	4.3	4.3
Disagree	4	5.7	5.7	10
Moderately agree	20	28.6	28.6	38.6
Agree	27	38.6	38.6	77.1
Strongly agree	16	22.9	22.9	100

There is a positive return on investments as set by the Board of directors

Strongly disagree	2	2.9	2.9	2.9
Disagree	5	7.1	7.1	10
Moderately agree	21	30	30	40
Agree	27	38.6	38.6	78.6
Strongly agree	15	21.4	21.4	100

Performance reports are submitted on time

Strongly disagree	4	5.7	5.7	5.7
Disagree	6	8.6	8.6	14.3
Moderately agree	20	28.6	28.6	42.9
Agree	23	32.9	32.9	75.7
Strongly agree	17	24.3	24.3	100

No major variances from the budgeted estimates without justification

Strongly disagree	4	5.7	5.7	5.7
Disagree	6	8.6	8.6	14.3
Moderately agree	31	44.3	44.3	58.6
Agree	13	18.6	18.6	77.1
Strongly agree	16	22.9	22.9	100

The management is positively receptive of the performance feedback from regulatory authorities

Strongly disagree	4	5.7	5.7	5.7
Disagree	9	12.9	12.9	18.6
Moderately agree	24	34.3	34.3	52.9
Agree	24	34.3	34.3	87.1
Strongly agree	9	12.9	12.9	100

The organisation breaks-even in its operations

Strongly disagree	9	12.9	12.9	12.9
Disagree	12	17.1	17.1	30
Moderately agree	27	38.6	38.6	68.6
Agree	12	17.1	17.1	85.7
Strongly agree	10	14.3	14.3	100

Value for money audits are conducted periodically and there recommendations adhered to

Strongly disagree	19	27.1	27.1	27.1
Disagree	13	18.6	18.6	45.7
Moderately agree	20	28.6	28.6	74.3
Agree	10	14.3	14.3	88.6
Strongly agree	8	11.4	11.4	100

The parastatal has met its objectives as set by the Board

Strongly disagree	32	45.7	45.7	45.7
Disagree	6	8.6	8.6	54.3
Moderately agree	8	11.4	11.4	65.7
Agree	11	15.7	15.7	81.4
Strongly agree	13	18.6	18.6	100

Customers of the company are satisfied by the service delivery or company products

Strongly disagree	44	62.9	62.9	62.9
Disagree	5	7.1	7.1	70
Moderately agree	6	8.6	8.6	78.6
Agree	6	8.6	8.6	87.1
Strongly agree	9	12.9	12.9	100
Total	70	100	100	

To ascertain that the respondents were versed with the aspect of influence of performance of commercial state corporations in Kenya and its indicators, they were asked to respond to a statement on a Yes or No answer (with Yes = 1 and No = 2). The respondents were affirmative to the dichotomous statement; Has the organisation made profits consistently? (mean = 1.3143

) at 68.6% and the low standard deviation of 0.46758 indicates that the variation among the respondents was low as obtained on Table 23 and Table 24 below.

Table 23: Performance

Statement	N	Mean	Std. Deviation
Has the organization made profits consistently	70	1.3143	0.46758

Table 24: Performance

Has the organisation made profits consistently

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	48	68.6	68.6	68.6
Valid No	22	31.4	31.4	100.0
Total	70	100.0	100.0	

4.8 Reliability Test

Table 25: Reliability Test

Reliability Statistics

Cronbach's Alpha	N of Items
.934	45

The researcher carried out a reliability test using the variables and the results appeared above on Table 25 indicating a Cronbach's Alpha 0.934. Thus the instrument is reliable since Chronbach's Alpha ≥ 0.710 .

4.9 Regression Analysis

To establish the relationship between the independent variables and the dependent variable of the study an inferential analysis was conducted. The study endeavoured to compliment the descriptive analysis by carrying out a multiple regression analysis. The researcher applied the Statistical Packages for Social Sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Before the regression analysis, the data was subjected to assumptions of regression analysis. First the data set was tested for normality. The four key variable; corporate governance, risk management, control and performance were subjected to a normality test using stem and leaf graphical display and a normal distribution curve as shown in **Appendix II** . The resulting stem and leaf display confirmed that the data set was normally distributed. Second, the data was tested for existence of multicollinearity. The independent variables were correlated resulting in a significant relationship. According to Sosa-Eacudero (2009) if $VIF = 1$, there is no correlation, if VIF is more than 5 but less than 10 , there is moderate correlation and if VIF is greater than 10, there is high correlation. The common rule of thumb is that VIF should be less than 3 (Kutner, Nachtsheim&Neter, 2004). In Table 26 below the VIF for all the variables was below 3 hence no multicollinearity.

Table 26: Multicollinearity

Model		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.728	.326		2.234	.029		
	governance	-.076	.122	-.072	-.628	.532	.514	1.946
	Risk management	.368	.117	.419	3.149	.002	.382	2.614
	control	.452	.135	.428	3.340	.001	.413	2.419

a. Dependent Variable: performance

Third the data was tested for linearity. The test for linearity using scatter plot revealed that the independent variables had linear relationship with the dependent variable as show in **Appendix III**. The fourth assumption tested was that of equal variance or constant variance (homoscedasticity). The residual plots showed that the error term (ϵ_i) was normally and identically independently distributed with mean zero and constant variance as shown in Appendix IV. This meant the error variance in performance was constant. Hence the data did not suffer from heteroscedasticity and instead was homoscedastic.

4.10 Test for Significance

Table 27: Anova Table

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.774	3	5.258	27.106	.000 ^b
	Residual	12.803	66	.194		
	Total	28.577	69			

a. Dependent Variable: performance

b. Predictors: (Constant), control, governance, risk management

The above table shows that the variables used in the study are significant as indicated by $p=0.000$. This shows that it is less than 0.05 suggesting that the independent variables combined will explain the variations in the dependent variable. Thus the significant value affirms a statistical significance relationship.

4.11 Model Summary

To assess the influence of internal audit practices (governance, risk management and control) on performance of commercial state corporations in Kenya, the study run a multiple regression test.

Table 28: Model Summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743 ^a	.552	.532	.44043

a. Predictors: (Constant), control, governance, risk management

b. Dependent Variable: performance

The findings shown in table 28 above indicate the extent of influence on the performance of commercial state corporations which is explained by the independent variables. The R^2 value is 0.552. This means that the independent variables explain 55.2 percent of the influence in the dependent variable. The rest 44.8 percent are explained by other factors.

Table 29: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.728	.326		2.234	.029
	governance	-.076	.122	-.072	-.628	.532
	Risk management	.368	.117	.419	3.149	.002
	control	.452	.135	.428	3.340	.001

a. Dependent Variable: performance

The findings in table 29 above show the coefficients of the regression. According to the findings, governance (p=0.532), risk management (P=0.002), and control (p=0.001). Therefore, only two variables were significant in predicting the performance of the commercial state corporations since the p values were less than 0.05. However, as it can be seen governance had a p= value of 0.532 which shows that it was not as significant as the rest of the factors which had lower values of p. Since a low value indicates high significance of the variable on the dependent variable and vice versa.

The resulting regression equation was:

$$PC = 0.728 + 0.368RM + 0.452C \dots \dots \dots \text{Equation (ii)}$$

Where

PC = Performance of Commercial state corporations

RM = Risk Management

C = Control

The findings indicate that when all the factors are held constant the performance of commercial state corporations will increase by 0.728 Units. When all the factors are held constant one unit use of risk management increases the performance by 0.368 units. Similarly, when all the

factors are held constant one unit use of controls increases the performance by 0.452 units. This shows that the use of risk management and controls have had a significant influence on the performance of commercial state corporations in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a discussion of the research findings resulting from the data analysis, summarizes the key findings and the recommendations.

5.2 Summary

The research study was to establish the influence of internal audit practices on performance of commercial state corporations in Kenya. The results showed that performance of commercial state corporations is influenced by the risk management and internal controls positively. That is increase in risk management and controls increases performance. However the relationship between performance and governance is statistically insignificant according to the results of the study.

5.2.1 Governance

The study found that governance determine performance of commercial state corporations according to the majority of the respondents at 52.9%. The respondents who strongly agreed or agreed cumulatively to the statements on corporate governance were very high. For instance, Transparency in the company operations and decision making ensures high performance (74.2%), Accountability in the company guarantees high performance (77.1%), Deterrence of abuse of office by management improves performance (72.9%), Corporate governance enhances performance (75.7%), Existence of effective performance appraisals increases performance (77.1%), Clear channels of communication in the company promotes corporate performance (57.2%) and Upholding ethics and values within the organization improves performance (57.1%) and Optimal application of resources and assets ensures high performance (51.4%).

5.2.2 Risk Management

The second objective of the study was to establish the influence of risk management on performance of commercial state corporations in Kenya. The findings revealed that risk management has a positive and significant effect on the performance of state corporations in Kenya. This is supported by the statements which majority of the respondents agreed with. For instance, respondents responded; Effective risk management improves performance (74.3%), Compliance to laws, regulations, policies, procedures and contracts avoid penalties and fines that would lower performance (65.7%) and Reliability and integrity of financial and operational information improves performance (62.8%).

5.2.3 Control

The third objective of the study was to establish the influence of controls on performance of commercial state corporations in Kenya. The findings asserted that control has a positive and significant effect on the performance of state corporations in Kenya. The respondents when asked, what is the impact of internal audit in managing cost control in state corporations 70% responded that it had great impact. Thus once costs are contained high performance will be achieved.

Further, when respondents were asked, do evaluation and assessment of internal controls lead to cost reduction or cost containing measures that influence performance 68.6% said yes?

5.3 Conclusions

This part discusses the interpretation of data analysis and gives the discussion on the outcome of research based on the findings obtained and interpreted from the data collected. The objective of the study was to determine the influence of internal audit practices (governance, risk management and control) on the performance of Commercial State Corporation in Kenya.

5.3.1 Governance

Corporate governance has received significant attention from regulators and public (Soh and Martinov-Bennie 2011). They remarked this way sighting corporate failures. Governance is thus central as it encompasses authority, accountability, stewardship, leadership and direction in the corporations. Thus from the summary it evident that the respondents also in their responses portrayed it importance.

From above percentages of concurrence in the summary above it is evident that the research objective of intending to determine the influence of corporate governance on performance was realised. Additionally the extent of large percentages ranging above 50% of the majority of the statements points to the fact that respondents feel strongly on the influence of the practice of internal audit on performance.

5.3.2 Risk Management

According to IPPF (2012) the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Therefore, the role of internal auditors on risk management is very crucial to ensure the positive influence of risk management on performance of state corporations is realised. From the summary above it is evident that the respondents can identify with the centrality of risk management in the success of their organisations. Risk management importance has gained momentum recently and all organisations ought to ensure that their risk management processes are reviewed periodically to input new and more effective strategies in order to ensure high performance of their respective corporations.

5.3.3 Control

Gupta (2001) has defined Internal control as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and competent performance of its production, including observance to organization policy, the protection of assets, prevention and detection of fraud and error, the accuracy incompleteness of accounting records and the timely preparation of reliable financial information”. Therefore, it can be deduced from the data analysis and the above summary that controls touches all aspects of a corporation and it no coincidence that its influences performance significantly. The role of internal auditors on assessments of existence and effectiveness of controls should thus at all times be on point to ensure that controls are in place to ensure high performance in state corporations.

5.4 Recommendations

From the data analysis, summary and conclusions, the study draws the following recommendations.

5.4.1 Governance

From the data analysis, summary and conclusions, the study recommends that corporate governance ought to be centralised in the sync of the commercial state corporations to realise a sterling performance. Further, as argued by Ungureanu (2010) corporate governance is the system of principles, policies, procedures, and clearly defined responsibilities and accountabilities used by stakeholders to overcome the conflicts of interest inherent in the corporate form. The centrality of governance is key for the smooth co-existence of the various stakeholders in the entity and above all to guarantee success in its operations.

5.4.2 Risk Management

The Public Finance Management Regulations (2015) and Audit Committee Guidelines (2016) have tasked the risk management processes stages to various stakeholders in the state corporations. To realise the positive influence on performance the various stakeholders should pull together to realise successful risk management processes.

The internal auditors should be accorded the requisite support to be able to make risk assessments and prepare comprehensive risk matrices for action by other stakeholders in the corporation.

5.4.3 Control

The summary above attest to the significance of the control function of internal auditors. In the conclusion the definition by Gupta (2012) elaborates the extent to which controls are instrumental in the company operations and hence the resultant influence on performance of corporations. Therefore, the researcher recommends that internal auditors' role in ensuring efficiency, effectiveness and economy of the controls in place in an organisation should be given prominence and internal auditors accorded necessary support to perform their role that will in turn ensure excellent performance of state corporations.

5.5 Recommendations for Future Research

The researcher recommends further research on other factors that influence and determine the performance of all state corporations in general apart from internal audit practices. This is because state corporations hold and manage huge resources whose return on assets and return on investment have the potential to transform this country.

Further, internal audit practices have gained prominence through recent publications that have bordered on being prescriptive. These are the Public Finance Management Act (2012), the Public Finance Management Regulations (2015) and Audit Committee Guidelines (2016). It is recommended that the provisions of these documents on internal audit practice be adhered to.

5.6 Limitations of the study

The respondents at times were reluctant to volunteer information fearing that the information given might paint their institution negatively. The researcher surmounted this obstacle by carrying the introduction letter from the University and assuring the respondents that the information sought was to be handled in confidence and it was to be used purely for academic purpose only. Other limitation is that the respondents may have supplied incorrect or untrue answers in their responses to the questions in the questionnaire. This was however lowered by taking a mean of the respondents and considering the standard deviation of the responses per question.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

CONFIDENTIALITY CLAUSE:

The responses you provide will be used for academic purposes only and will be strictly confidential.

SECTION A: BACKGROUND INFORMATION

Please tick where appropriate and provide your opinion on the blank spaces provided.

i. Gender

Male { } Female { }

ii. Level of Education

Secondary education { } College education { }

University education { } tertiary education { }

iii. How long have you been in the organization?

Below 2 years { } 2-7 years { }

8-13 years { } 14-17 years { }

Over 17 years { }

SECTION B: GOVERNANCE

iv. Does governance determine performance of state corporations?

Yes { } No { }

v. To what extent do you agree with the following statements that relates to influence of governance on corporate performance on a scale of 1 to 5?

1=Strongly disagree, 2=Disagree, 3=Moderately agree, 4=Agree, 5= Strongly agree

	Statement	1	2	3	4	5
1	Corporate governance enhances performance					

2	Deterrence of abuse of office by management improves performance					
3	Optimal application of resources and assets ensures high performance					
4	Balance of power amongst various stakeholders in the organization fosters performance					
5	When interests of all stakeholders are safeguarded performance improves					
6	Upholding ethics and values within the organization improves performance					
7	Existence of effective performance appraisals increases performance					
8	Accountability in the company guarantees high performance					
9	Transparency in the company operations and decision making ensures high performance					
10	Clear channels of communication in the company promotes corporate performance					

SECTION C: RISK MANAGEMENT

vi. Does risk management processes determine corporate performance?

Yes { } No { }

vii. To what extent do you agree with the following statements that relates influence of risk management on corporate performance on a scale of 1 to 5?

1=Strongly disagree, 2=Disagree, 3=Moderately agree, 4=Agree, 5= Strongly agree

	Statement	1	2	3	4	5
1	Effective risk management improves performance					
2	Deterrence of unreasonable exposures of the company by the management ensures high performance					
3	Realization of organizational objectives fosters performance					
4	Risks identification improves performance					
5	Proper and adequate risk assessment ensures high performance					
6	Monitoring identified and assessed risks improves performance					
7	Communication of risk information improves performance					
8	Deterrence of fraud improves performance					
9	Compliance to laws, regulations, policies, procedures and contracts avoid penalties and fines that would lower performance					
10	Reliability and integrity of financial and operational information improves performance					

SECTION D: CONTROL

viii. Do evaluation and assessment of internal controls lead to cost reduction or cost-containing measures that influences performance?

Yes { } no { }

ix. To what extent do you agree with the following statements that relates to influence of internal controls on performance of state corporations on a scale of 1 to 5?

1=Strongly disagree, 2=Disagree, 3=Moderately agree, 4=Agree, 5= Strongly agree

	Statement	1	2	3	4	5
1	Internal control system improves performance					
2	Cost control measures improves performance					
3	Proper recording of transactions improves performance					
4	Proper accounting of assets increases performance					
5	Verification of whether business liabilities are properly stated in books of the business improves performance					
6	Establishing whether the accounting system is reliable enhances performance					
7	Enhanced checks and balances in the organization fosters performance					
8	Enhanced segregation of duties improves performance					
9	Minimized costs and pilferage through value for money audit improves performance					
10	Establishment of whether the cost-benefit analysis justifies the controls instituted improves performance					

x. What is the impact of internal audit in managing cost control in state corporations?

Great impact { }

Average impact { }

Low impact { }

Very low impact { }

SECTION E: PERFORMANCE

xi. Has the organisation made profits consistently?

Yes { } no { }

xii. To what extent do you agree with the following statements that relates to performance of state corporations on a scale of 1 to 5?

1=Strongly disagree, 2=Disagree, 3=Moderately agree, 4=Agree, 5= Strongly agree

	Statement	1	2	3	4	5
1	Performance reports are submitted on time					
2	Performance score is above average as assessed during the annual evaluation in the performance contracting					
3	The management is positively receptive of the performance feedback from regulatory authorities					
4	There is a positive return on investments as set by the Board of directors					
5	No major variances from the budgeted estimates without justification					
6	The parastatal has met its objectives as set by the Board					
7	Customers of the company are satisfied by the service delivery or company products					
8	Value for money audits are conducted periodically and there recommendations adhered to					

9	The organisation breaks-even in its operations					
10	The organisation has met its objectives as per its mandate					

APPENDIX II: Normality Test

Descriptives

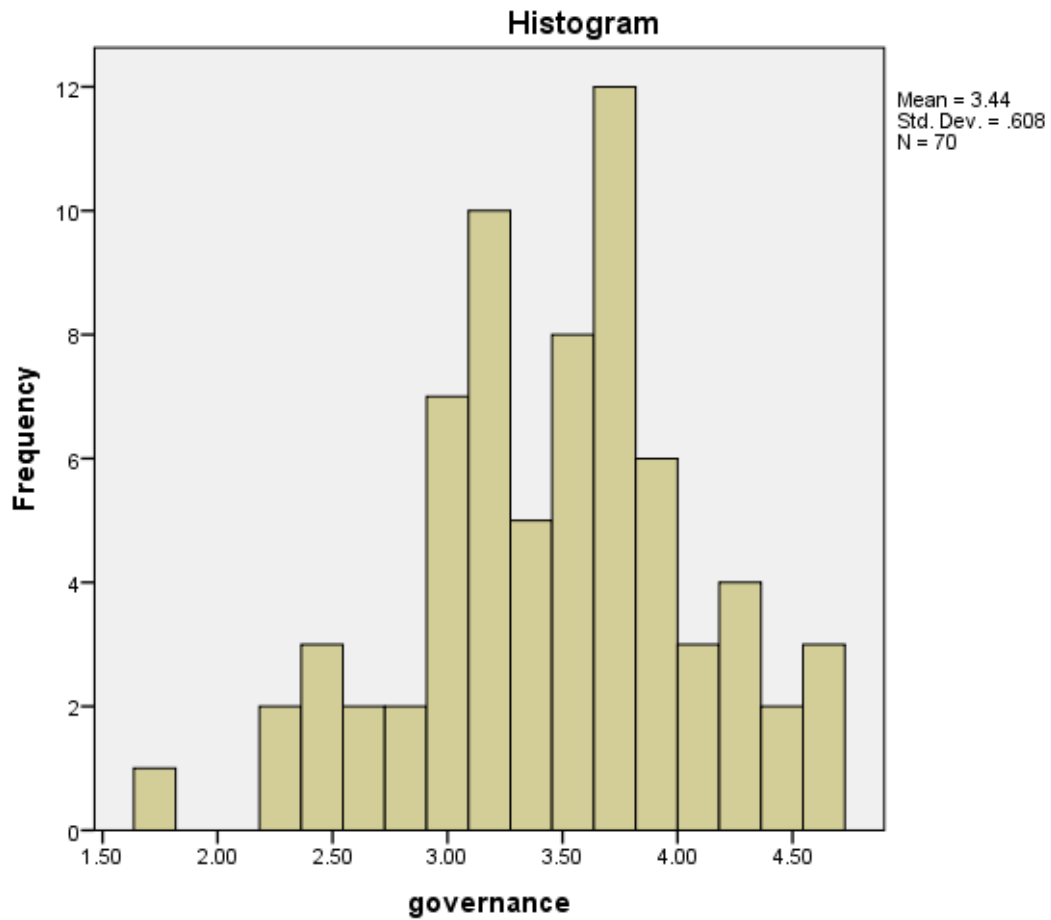
		Statistic	Std. Error
	Mean	3.4442	.07273
	95% Confidence Interval for Lower Bound	3.2991	
	Mean Upper Bound	3.5892	
	5% Trimmed Mean	3.4567	
	Median	3.4545	
	Variance	.370	
governance	Std. Deviation	.60847	
	Minimum	1.73	
	Maximum	4.64	
	Range	2.91	
	Interquartile Range	.75	
	Skewness	-.313	.287
	Kurtosis	.102	.566

Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
governance	.075	70	.200 [*]	.983	70	.472

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction



Descriptives

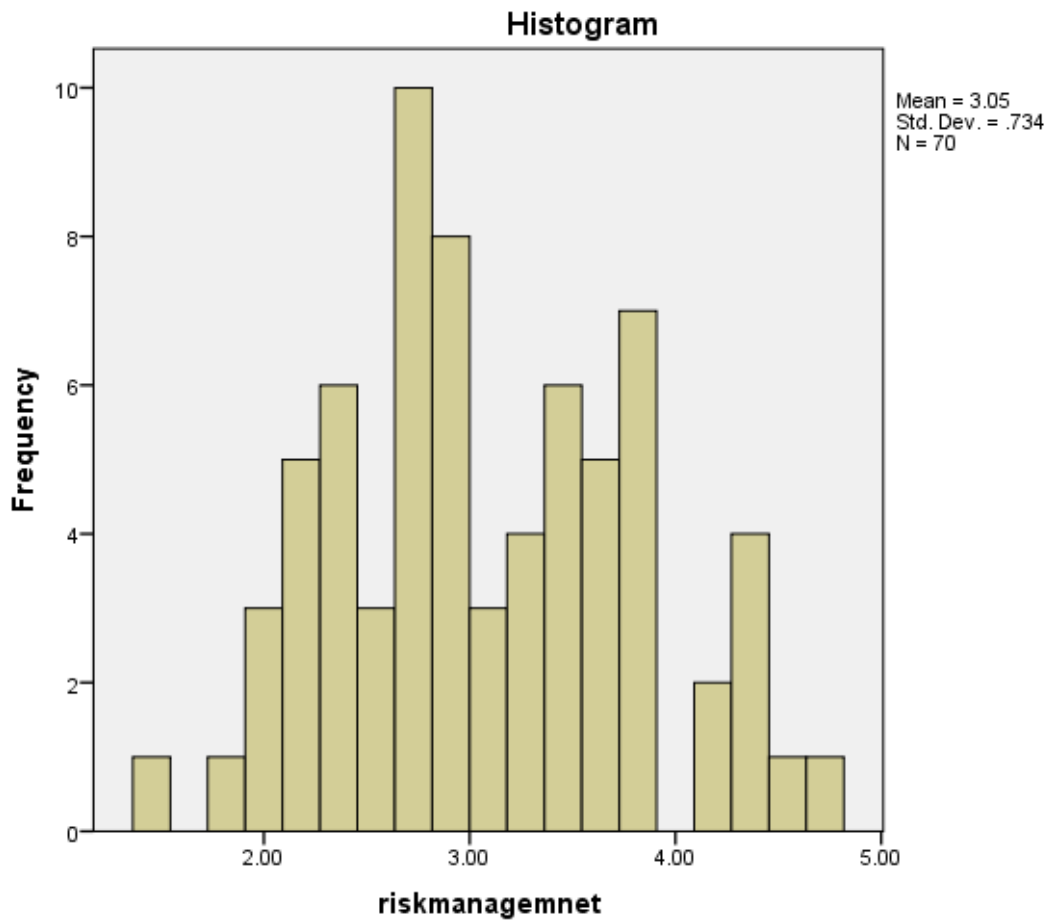
		Statistic	Std. Error
	Mean	3.0532	.08772
	95% Confidence Interval for Lower Bound	2.8783	
	Mean Upper Bound	3.2282	
	5% Trimmed Mean	3.0469	
	Median	2.9545	
	Variance	.539	
riskmanagemnet	Std. Deviation	.73391	
	Minimum	1.45	
	Maximum	4.64	
	Range	3.18	
	Interquartile Range	1.09	
	Skewness	.186	.287
	Kurtosis	-.656	.566

Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
riskmanagemnet	.086	70	.200 [*]	.981	70	.384

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction



Descriptives

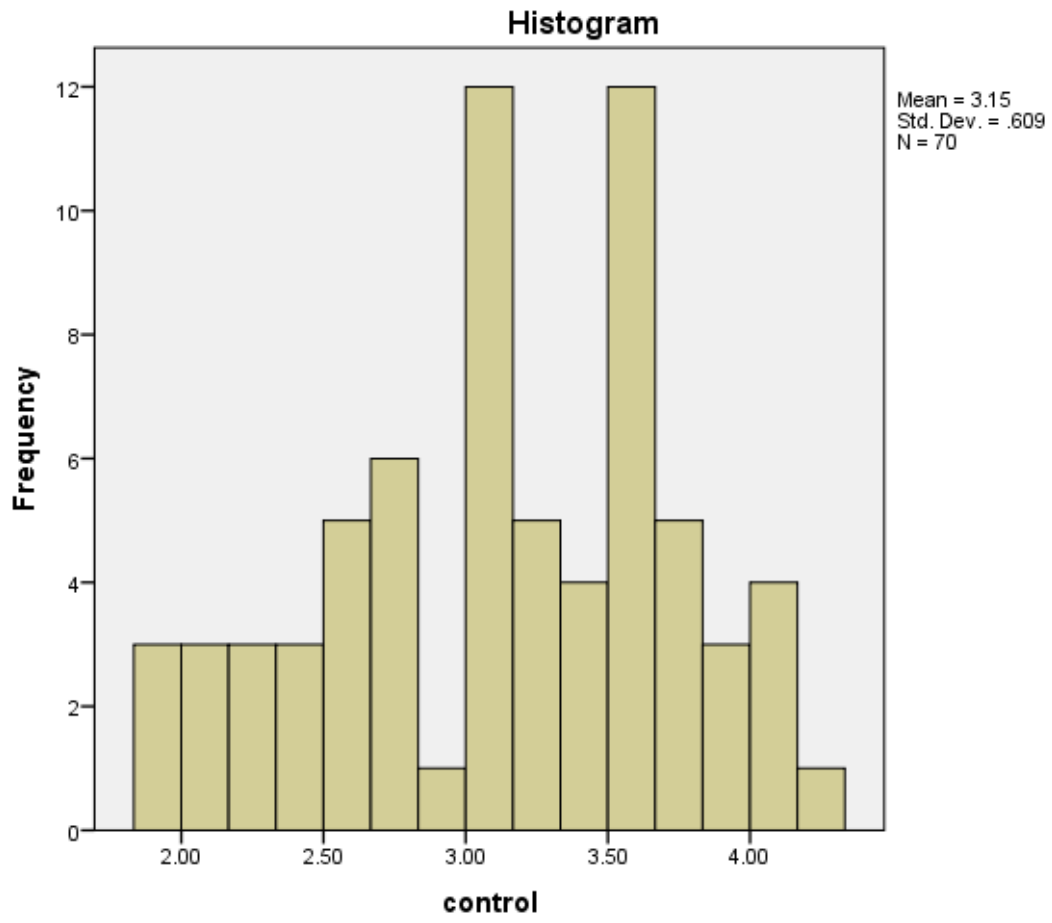
		Statistic	Std. Error
	Mean	3.1476	.07280
95% Confidence Interval for Mean	Lower Bound	3.0024	
	Upper Bound	3.2929	
	5% Trimmed Mean	3.1587	
	Median	3.1667	
	Variance	.371	
control	Std. Deviation	.60910	
	Minimum	1.92	
	Maximum	4.25	
	Range	2.33	
	Interquartile Range	.88	
	Skewness	-.316	.287
	Kurtosis	-.700	.566

Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
control	.091	70	.200*	.969	70	.085

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction



APPENDIX III: Linearity Test

Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	governance	riskmanagemnet	control
1	1	3.950	1.000	.00	.00	.00	.00
	2	.028	11.860	.52	.00	.30	.02
	3	.012	18.399	.12	.85	.00	.37
	4	.010	19.722	.36	.14	.70	.61

a. Dependent Variable: performance

APPENDIX IV: Homoscedasticity Test

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: performance

