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## Institutional Constraints and Effectiveness of Internal Auditors in County Governments: A Case of Isiolo County, Kenya

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### **Abstract:**

*Despite the existence of legal and institutional framework of internal auditing in Isiolo county government, there has been increasing trend of misappropriation of taxpayer money as pointed out in the Auditor General Audit reports. Although it is not documented to have a county with zero cases of misappropriation of public fund, the increasing trend of financial impropriety in Isiolo County over the past three years poses a great risk of the county government not achieving its objectives unless mitigating measures are put in place. The objectives guiding this study are to determine the effect of internal auditor's independence, existing internal control systems, internal auditor's competence and top management support on the effectiveness of internal auditors. The theoretical reviews supporting the variables of this study are agency theory and stewardship theory. The study adopted descriptive research design. The entire target population consists of 90 staff. Stratified sampling techniques was adopted where the population was classified into five stratum comprising of internal auditors, accountants, AIE holders, Finance officers and revenue officers. The target population included other stakeholders who comprises the primary consumer of the audit report. From each stratum simple random sampling techniques was adopted to select respondents from each stratum making the entire sample to be 40 staff. Questionnaires were administered to collect primary data from the respondents. The collected data was edited, classified, coded and analyzed. The data was analyzed using statistical package for social science (SPSS) version 23. The results were presented in the form of tables. The study found internal auditors in the county to be ineffective in discharging their mandate. The study revealed that the independence of internal auditors in the county is weak due to poor reporting structure, restricted access to records, lack of freedom to determine assignment and lack of operational audit committee. Internal controls such as accurate and complete documentation, automated systems and staff rotations were also very weak. The competency of internal auditors in the county was also wanting; as the staff mix did not have necessary skills, neither do they have proper programmes for continuous professional development in place. The study also revealed that top management in the county did not fully support internal audit function by allocating adequate resource to the function, acting upon audit recommendation and ensuring adequate internal audit staff. The study established a statistically significant positive relationship between internal auditor's independence, existing internal control systems, internal auditor's competence, top management support and effectiveness of internal auditors. The study recommends Isiolo county government to enhance independence of internal auditors, improve existing internal control systems, enhance competence of internal auditors through continuous professional development, capacity building and information technology training and management to fully support audit function. The study suggested further research to be conducted on Institutional Constraints and Effectiveness of internal auditors in the National government ministries and private sector, Kenya.*

## **1. Introduction**

### *1.1. Background of the Study*

Internal audit function has gained importance as a value-adding tool within organizations. It provides assurance and consulting services to the management through training, advices and counsels as stated by the institutes of internal auditors (IIA, 2013). The global financial crisis of 2007-2008 and enactments of Sarbanes Oxley Act (2002) in USA contributed to the worldwide recognition of audit function as a tool to help management achieve organizations goal. Internal auditing is an independent, objective assurance and consulting activities designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process (Institute of Internal Auditors,2016).

Internal Auditors perform consulting and assurance services to the organization. The effectiveness of the internal auditors can be obtained by providing assurance to the management that processes and controls put in place are adequate. The internal auditors need to ensure that the organization policies and procedures are complied with. Internal auditor's effectiveness relates also to the accomplishment of planned audit, timely audit reports and carrying out audit follow up to ensure all audit recommendations are acted upon (Affum,2011).Internal auditor's effectiveness is obtained when the audit reports satisfy the need of the auditee by pointing out the weakness and recommending on possible solutions. The effectiveness of internal auditors is obtained when their audit activity add value to the organization (Bediako-ahoto,2011).

Internal auditors are required to have a deeper understanding of the organization they audit for them to discharge their duties effectively. They need to have critical thinking skills and ability to understand the economic trends prevailing in the industry. They should also be able to analyze data and come up with credible audit finding and recommendations. The required skills of internal auditors should also be accompanied with technological tools to improve audit function. Internal auditors should try to change the perception of management of perceiving internal auditing as policing role which is as a result of poor audit approach which lead to intimidation and instilling fear to auditees. They should also try to create a rapport with auditee so as create a partnership relationship while at the same time safeguarding their independence. The relationship will create an atmosphere, which will make internal audit work to be of value to the organization (Mbugua, 2016).

Internal auditors should conform to the IIA's International Standards for the Professional Practice of Internal Auditing (ISPPIA) standards and international standards of auditing (ISA) in order to ensure uniformity of audit functions despite the existence of different legal and cultural environment in different countries. ISPPIA provide a framework for performing and promoting a broad range of value added internal auditing functions. It also provides a basis for the evaluation of internal audit performance and it foster improved organizational processes and operations. ISPPIA standards is divided into attribute and performance standards. Attribute standards address the attributes of organizations and individual performing internal audit function. The performance standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Implementation standards are also provided to explain the attribute and performance standards, by providing the requirements applicable to perform assurance and consulting services (Institute of internal auditors, 2016).

International auditing and assurance standard board (IAASB,2016) have recently issued International Standard on Auditing (ISA, 701) which require auditors to be disclosing key audit matters in their audit report with effect from 31<sup>st</sup> December, 2016.The new guideline require auditors to be fully disclosing to the user of audit reports all information which was previously communicated in form of management letters. The management letters are used to raise audit queries, which are meant to shed light to the auditors in matters such as fraud, corruptions and bribery, money laundering, tax payments, consumer protections, public health safety and any other issues that auditors deemed necessary. Communicating key audit matters increases value of audit report by enhancing transparency for the sake of investors and interested parties. It also provides intended users of financial statements with additional information which enable them to understand the entity and also provide a basis for further engagement with management. ISA701is mandatory while auditing all listed public entities globally(IAASB, 2016).

### 1.1.1. Institutional Constraints

#### 1.1.1.1. Internal Auditor's Independence

IIA Attribute standard 1110 requires internal auditors to freely determine audit scope, perform work without interference and communicate unbiased results. Further standard 1120 require internal auditor to have impartial, unbiased attitude and avoid any conflict of interest. Conflict of interest impairs internal auditor's ability to perform audit activities objectively. Internal auditor's independence is impaired when there is personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties.IIA attribute standard1130 require independence of internal auditor to be managed at individual auditor level, engagement, functional and organization level. Internal auditor's independence determines the degree to which internal audit function can be relied upon (Institute of internal auditors, 2016).

#### 1.1.1.2. Internal Controls Systems

COSO Framework (2013) define internal control as "a process effected by an entity's board of directors, management and other staff and designed to provide reasonable assurance regarding the achievement of objectives relating reliability of financial reporting. Compliance with applicable laws and regulations and effectiveness and efficiency of operations". COSO framework is the basis in which organization's uses to assess the effectiveness of internal control systems in place. The framework requires effective internal control system to achieve operations, reporting and compliance objectives. Operation objectives aims at achieving operational and financial performance goals, which ensure proper financial statements, are in place. It also aims at ensuring that organization assets are properly safeguarded. The reporting objectives looks at the way the organization communicates with the stakeholders. It aims at ensuring that financial reporting is done in a reliable, timey and transparent manner. Compliance objectives aims at ensuring that the organization is adhering to laid down laws, regulations and procedures (Musa,2012).

In Kenya the government has put in place automated finance management (PFM) which has sound systems, strong legal and regulatory frameworks. Integrated financial management and information system was introduced in Kenya in 1998 and it was fully rolled out in all ministries in 2003. Ministry of Finance strategic plan 2011-2013 refers IFMI to the automation of public financial management process which aimed at integrating all data and processes into a single system, housed in a centralized database which is accessed through a secure network. The major objective of this system is to enhance transparency and accountability in all public entities (GOK,2011).

#### 1.1.1.3. Internal Auditor's Competence

IIA Attribute Standards 1210 require an internal auditor to have knowledge, skills, and other competencies needed to perform their tasks effectively. They should enhance their knowledge skills and other competencies by attending continuous professional development courses and seminars. The head of internal audit should ensure that the team under him possesses the required skills and experience relevant to the nature of task undertaken (IIA,2016). Internal auditors are also required to demonstrate proficiency by obtaining appropriate professional certifications and qualification like Certified Internal Auditors and other designations offered by relevant professional organizations. Internal auditors should also perform audit work in accordance with the International Standards for the Professional Practice of Internal auditing. They should refrain from undertaking an audit activity without relevant skills and experience. It is also required that they should be well updated with current development in auditing standards, procedures and techniques (Salehi, 2016).

#### 1.1.1.4. Management Support

Management support is critical for the achievement of effective internal audit. Management need to provide adequate resources to the audit department, act upon audit recommendation and create a culture which value audit work. With proper management support, internal audit department will be having adequate resources to enable them plan and execute their audit functions professionally. There is also a need for the top management to support internal audit function and ensure that an auditor has unlimited access to all people and records within the organization (IIA, 2013).

#### 1.1.2. Effectiveness of Internal Audit in Kenya

Article 201 of the Constitution of Kenya (2010) requires public money to be used in a prudence and responsible way. It also requires public resources to be utilized in a transparency and accountability manner. Internal audit function draws its legal mandate from Public Finance Management Act, 2012 and Public Finance Management Regulation; 2015. Section 73 of the said Act requires all National Government entity to establish an internal audit, which is answerable to the office of the Internal Auditor General based at the National Treasury (Public Finance Management Act,2012).

The Internal Auditor General functions including:- advising the Cabinet Secretary and the Principal Secretary on emerging issues in internal auditing; developing and implementing the use of innovative approaches in performing independent assessment of financial and systems controls, value for money audit and evaluating efficiencies as guided by professional standards; supporting the entities efforts to achieve their objectives; promoting national government-wide risk management and provide the management with consulting services to improve the overall national government operations; providing capacity building for both levels of governments including developing curriculum, training materials and undertaking training for audit committees; and reporting annually to the National Treasury on the performance of internal audit function (PFMR,2015).

The Auditor General audit reports for financial year 2012/2013 on actual expenditure for both development and recurrent voted provisions for National Government shows the total expenditure for the year was Ksh 802,279,107,240. The auditor issued an adverse opinion on Ksh 38,702,802,212 which comprises five percent (5%) of the total actual expenditure (Auditor General,2014). During the financial year ended 30<sup>th</sup> June 2014 the Auditor General noted that actual expenditure for the National Government was Ksh 1,008,699,240,052. The auditor issued an adverse opinion on Ksh 390,266,678,539 which comprises 38.5% of the total expenditure (Auditor General,2015). In the financial year ended 30<sup>th</sup> June, 2015 total actual expenditure of Ksh 1,220,644,732,649 was spent. The auditor issued an adverse opinion on Ksh 372,619,272,561, which comprises 30.53% of the total expenditure. The decline in percentage of expenditure with adverse opinion in the year ended 30<sup>th</sup> June, 2015 compared to previous year is an indication of an improvement on financial management in National Government (Auditor General, 2016).

#### 1.1.3. Effectiveness of Internal Audit in Isiolo County

Internal Audit function at county level draws its mandate from Public Finance Management Act,2012 and Public Finance Management Regulation, 2015. Section 155 of the Act require county internal auditors to be reviewing the governance Mechanisms for transparency and accountability. It also requires them to be Conducting value for money audit, system audit, giving assurance to management on adherence to laid down policies and procedures. They are also charged with the responsibility of advising Chief Officer Finance and Planning on all financial matters (Public Finance Management Regulation,2015).

There have been several noted cases of misuse of public funds in Isiolo county government and lack of adherence to laid down procedures in the utilization of public funds. The financial integrity issues noted include unaccounted revenue for the period 1<sup>st</sup> January, 2013 to 30<sup>th</sup> June, 2013 amounting to Ksh 6,129,049. It was also noted that during the said period goods and services amounting to Ksh 10,345,528 were procured without adhering to the provision of the Public Procurement and Disposal Act, 2005. Imprest amounting to Ksh1, 593,800 was not accounted for. A case of double payment of allowances to employees amounting to Ksh 595,500 was also revealed. Motor bikes purchased amounting to Ksh 361,530 was not physically available during audit verification. The total unaccounted expenditure for the period between 1<sup>st</sup> January, 2013 to 30<sup>th</sup> June, 2013 was Ksh 20,099,905. (Auditor General, 2014).

The Auditor General Audit report for financial year 2013/2014 pointed that Ksh 34,227,271 was not accounted for. The unaccounted expenditure comprises of Ksh 14,445,770 spent on travel and accommodation. Payment of Ksh 2,805,500 for consultancy services was incurred without following the laid down procurement regulations. Expenditure amounting to Ksh1, 208,800 for training and Ksh 8,800,000 forward operation was paid without proper documentation. Revenue amounting to Ksh 7,012,201 was also not accounted for. (Auditor General, 2015)

The Auditor General in his 2014/2015 audit report reported an increase in misappropriations of fund in Isiolo County where Ksh 725,321,304 was not accounted for. The unaccounted fund comprises of Ksh 29,531,071 for cash and cash equivalent, Unsurrendered imprest amounting to Ksh 30,755,419. Mileage allowances of Ksh 40,757,216.20 were paid without proper supporting document documents contrary to Section 68 of Public Finance Management Act, 2012. Revenue amounting to Ksh 83,245,526 was not accounted for. Creditor's deficit amounting to Ksh 477,568,126 was not properly supported and thus unaccounted for. Travel, subsistence and accommodation allowance amounting to Ksh 63,463,946.20 paid was not accounted for as documents supporting the trips gone were not availed to Auditor General (Auditor General, 2016).

### 1.2. Statement of the Problem

Internal auditors are charged with a responsibility of ensuring that management spends organizations funds in a transparency and accountable manner. Effective internal auditors lead to reduction in errors and fraud, minimizes chances of misappropriations of organization assets and also results to credible financial reporting (Groset *al*, 2016). Affum (2011) conducted a study on effectiveness of internal audit function and found internal audit function in Africa being faced by challenges such as poor image, poor communication techniques, incompetence staff and lack of independence from management. Masika (2013) found that in regulatory state corporations in Kenya the internal auditors have attained a higher level of effectiveness although he noted that they were not capturing the need of management in their audit activity. Despite the existence of legal and institutional Framework of internal auditing in Isiolo county government, there has been reported increase in cases of financial impropriety over the years according to Auditor General Audit reports. The Auditor General audit reports for the financial year 2012/2013, 2013/2014 and 2014/2015 revealed serious financial issues relating to Isiolo County Government. Although it is not documented that there is any county with zero cases of misappropriation of public fund the increasing trend of misappropriations of fund in the county over the past three financial years according to Auditor General Audit reports is an issue of concern about effectiveness of internal auditors in the county. It is in light of this view that this study seeks to investigate the institutional constraints and effectiveness of internal auditors in County Governments a case of Isiolo County, Kenya.

### 1.3. Objective of the Study

#### 1.3.1. General Objective

The general objective of the study was to investigate the institutional constraints and effectiveness of internal auditors in county governments a case of Isiolo County, Kenya.

#### 1.3.2. Specific Objectives of the Study

This study was guided by the following specific objectives

1. To determine the effect of auditors' independence on effectiveness of internal auditors in county governments a case of Isiolo County, Kenya.
2. To analyze the effect of existing internal controls systems on the effectiveness of internal auditors in county governments a case of Isiolo County, Kenya.
3. To evaluate the relationship between internal auditor's competence and effectiveness of internal auditors in county governments a case of Isiolo County, Kenya.
4. To assess the effect of top management support on the effectiveness of internal auditors in county governments a case of Isiolo County, Kenya.

### 1.4. Research Questions

The study sought to answer the following questions

1. What is the effect of auditors' independence on effectiveness of internal auditors in the county government of Isiolo?

2. what is the effect of existing internal controls systems on the effectiveness of internal auditors in the county government of Isiolo?
3. What is the relationship between internal auditor's competence and effectiveness of internal auditors in the county government of Isiolo?
4. What is the effect of top management support on the effectiveness of internal auditors in the county government of Isiolo?

### *1.5. Significance of the Study*

The study will help Isiolo County Government to have effective internal audit, which will be assisting in identifying and evaluating significant exposures to financial risk and improvement of governance process, which will lead to achievement of intended goals. The public will benefit from the study as it will lead to transparency and accountability of resources entrusted to public servants thus resulting to quality services to the taxpayers. The study will offer credible assurance services to the developing partners that their funds are being utilized as per financing agreement. The study will enable internal audit to have better working relationship with senior management thus enhancing their productivity. Other researchers shall have access into very valuable data, which will assist them in forming a base of further research.

### *1.6. Scope of the Study*

The study evaluated the institutional constraints and effectiveness of internal auditors in county governments a case of Isiolo County, Kenya. The target population was the internal auditors, accountants, AIE holders, Finance officers and budget officers in Isiolo County. The target population of the study included other auditee so as to assess whether the audit function add value to the organization. The study was carried out in all the three sub counties of Isiolo County. Descriptive research design was adopted and questionnaires were administered as data collecting instruments.

### *1.7. Limitation of the Study*

The respondents delayed answering the administered questionnaires within the stipulated timeliness. However, the researcher made regular phone calls and visits to the respondents so as to urge them to complete the questionnaires without further delay. The road terrain in Isiolo County affected the researcher when travelling to collect the data within the stipulated time. However, the researcher had allocated adequate time for travelling to the entire county and had also liaised with county meteorological department to confirm the ideal time to travel when there was no rain.

### *1.8. Study Organization*

Chapter one describes the background of the study, problem statement, objectives of the study, research questions, significance of the study, scope of the study and limitation of the study. Chapter two gives insight into theoretical review, empirical literature, conceptual framework, and summary of research gaps. Chapter three describes the research design, target populations, sampling design, data collection procedure, operationalization and measurement of variables, validity and reliability, data analysis and presentation and ethical consideration. Chapter four presents the results and findings of the study. Chapter five presents the summary of the findings, conclusions, recommendations emanating from the results the study and suggestions of further research

## **2. Literature Review**

### *2.1. Introduction*

This chapter gives insight to theoretical literature review, empirical literature review which is consistent with the objectives of this study and the conceptual framework. It highlights major issues relating to institutional constraints and effectiveness of internal auditors in county government a case of Isiolo County, Kenya. The past studies were derived from secondary data from various scholarly materials.

### *2.2. Theoretical Review*

#### 2.2.1. Agency Theory

Jensen and Mecklings (1976) developed agency theory and it shows the relationship between principal and the agent. The principal delegate's decision-making authority to another person called agent to perform certain tasks on his behalf and this create conflict of interest between both parties (Mawia, 2013). The agency relationship may exist between shareholders and managers, lenders and shareholders, shareholders and auditors, management and employees. The agent may sometimes misuse the power given for their personal gain. This call for shareholders to ensure the existence of good governance structures which incorporate audit committees, external and internal auditors so as to assist management to adhere to laid down policies and in order achieve intended goal (Sakalunda, 2014).

This theory also examines the separation of the ownership of a firm, control and management motivation (Nteziriyayo, 2014). The agency theory argues that the principal who is the business owner passes the authority to an agent to conduct transactions and make decisions on the behalf of the principal with an effort to maximize the principal's wealth (Tapiwa, 2013). Internal auditors though employed by senior managers they act as agents of the board and audit committee who rely with internal auditors work to give assurance on management performance. The agents need to be well motivated and controlled to act in a manner that maximizes the utility preferences of the principal's (Nyabenge, 2009). This theory is applicable in this context because the taxpayer delegates their authority to the government officials with the view that the officials will use the given authority in accordance to the mandate given to them by the taxpayers. The internal auditors thus play a critical role in assuring the taxpayers that their funds were being prudently utilized and for the intended purpose. The internal auditors need to be independent from management and have necessary skills in order to perform their work in a professional manner for the benefit of taxpayers. This theory therefore relates to internal auditors independence and competence of internal auditors.

### 2.2.2. Stewardship Theory

Stewardship theory was developed by Donaldson and Doris(1991&1993).This theory unlike agency theory argues that managers have interests that are consistent with those of the shareholders, managers will always be responsible and act as per the wish of shareholders and be good steward for the organization resources (Noah, 2013).This theory argues that there is no conflict of interest between managers and owners as the goal of good governance is to assist in having a mechanism which promote effective coordination between them. Managers are seen to be motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses (Ngotho, 2014).

The stewardship theory suggests that the attainment of organizational success also satisfies the personal needs of the steward as the manager's goal are aligned to those of the principal (Gad, Shane, & Strong, 2010). Steward attain greater satisfaction when organizational goals are attained than when personal interest are achieved (Oketch, 2013). This theory is also applicable in this study in the context that the internal audit reports assists the government officials in making decisions that ultimately leads to attainment of intended goals that result to better service delivery to the public. The need of management to achieve organization goal motivate them to have effective internal control systems and internal audit staff. This theory therefore relates to top management support and existing internal control systems as they assist the management achieve organizational goal.

## *2.3. Empirical Literature Review*

### 2.3.1. Internal Auditors' Independence

ISPPIA standard no 1100 requires an internal auditor to be independent and objective. Independence is the freedom from conditions that threaten the ability of the internal audit activity to perform audit function in an unbiased manner. The chief audit executive should have unrestricted access to records, senior management and organization board so as to achieve the degree of independence required to effectively conduct audit assignment. Internal auditors are independent when they give impartial and unbiased judgment in the conduct of their engagement. To achieve this independence, the CAE should report functionally to the audit committee and administratively to the senior most personnel in the organization (IIA,2016).

Cohen and Sayag (2010) noted that independence of internal auditors is very vital and determine the audit effectiveness. Alzeban and Gwilliam (2014) assessed the effectiveness of internal auditors by evaluating internal audit reporting structure, internal auditor's ability to have unrestricted access to all record, persons and involvement of the auditor in development of company's processes and found that internal audit effectiveness is determined by the level of internal auditors 'independence. IFAC (2012) classify auditor's independence into independence in mind and independence in appearance. The independence of mind is the state that permits the expression of a conclusion without being affected by influence that compromises auditor's judgment and this makes the audit function to be conducted with integrity and professionalism. Auditor also needs to be seen to be independence in his conduct by any informed third party. Auditor's independence increases reliability and credibility of audit report. Auditor's independence is hindered by threats like self-interest threat, familiarity threat and intimidation threat.

Hammadetal (2012) noted that internal auditors should not undertake managerial day to day activities like developing procedures, book keeping or any other activity performed by management which may compromise their independence. The independence of the internal auditor is critical in ensuring that the auditors carry an effective audit work. The management should ensure that appropriate audit reporting structure is in place and allocate enough resources to internal audit department to enhance independence. In this context, the internal auditors should report to the senior most staff within the organization to ensure audit recommendations are acted upon and there should be tenure of office for the head of audit unit. The auditor should also have direct access to all records and personnel he considers necessary during the course of audit work (Lenz, 2013).

The taxpayers employ government officials and they need to be accountable for the use of resources entrusted to them. The taxpayers require the officers to be channeling the resources to areas, which increase their utilities. The public officers may use tax payers' money for their own interest for they know that the citizen do not understand the complexity involved in running government affairs. The complexity of running government affairs calls for an independent auditor to give assurance to the public on utilization of their money (Bediako-ahote, 2011).

Harris (2012) argues that auditors need to be rotated to avoid them overstaying in one organization as they are more likely compromise their independence when they overstay. Overstaying in one organization makes the auditors to be over familiar with the management and is prone to overlook key red flags. Mandatory auditstaff rotation reduces chance of the auditor having close relationship with client thus ability to resist management pressure. Kwon (2010) was in the view that auditors should not be rotated frequently as this may lead to lack of familiarization with client nature of business which may affect audit quality. Internal auditors should be independent from management in all their activities in order to give objective audit opinion, which can add value to the organization (Cohen&Sayag, 2010).

ISPPIA Standard 1100 require internal audit department to be independent and internal auditors to conduct audit work with unbiased mental attitude to add value to the organization. It also suggests that the CAE should report administratively to the senior management and functionally to the board. The auditor should also have unrestricted access to all records, personnel and all departments within the organization. Alvinet *al* (2014) found that internal auditor's independence is the mental attitude of honesty when considering facts, conducting his audit work and being objective when giving audit opinion. Independence of appearances is the public impression concerning auditor's independence. The auditor should avoid those acts, which may make the public to perceive his independence as being compromised. The auditor should decide the audit scope, audit procedures to adopt and should have the right to report all facts, which he considers material.

IIA (2016) requires the internal auditors to maintain the attribute of objectivity while performing audit functions. They should have an impartial, unbiased attitude and avoid conflict of interest situations that may impair judgment. To achieve objectivity, internal auditors should not perform any of management operational responsibilities and they should perform their work with professionalism while adhering fully to professional code of ethics. The independence of the internal auditor comprises of independent organizations and objectivity of the individual auditor. The internal auditor should be free from personal desires and avoid influences from other parties to modify audit finding. He should also avoid use of words that are misleading intentionally or unintentionally in his audit report. Alizadeh (2011) found that there is a positive correlation between internal auditors' independence and their effectiveness. He noted that the greater the independence, the greater the internal auditor's effectiveness.

According to Public Finance Management Act, 2012 section 155(5) all County government entity should establish internal audits committee to enhance the independence of the internal auditor. Regulation162 of PFMR, 2015 require internal auditors to enjoy operational independence through reporting administratively to the accounting officer and functionally to the audit committee. The internal auditors should also have unrestricted access to all records, personnel and all entity's premises. Mangena &Pike (2012) found audit committee to be a key component while enhancing corporate governance. It assists the board of directors to oversee corporate management. The committee also monitors management disclosure practices and internal control systems. It also assists the organization in improving its public confidence of the financial reporting.

The board of directors delegates to the audit committee the role of overseeing corporate reporting structure. The organization minimizes its agency cost when there is effective audit committee (Bedard&Gendron,2010). Members of the audit committee should have broad knowledge on financial matters in order to be able to monitor corporate financial reporting. A good understanding of financial matters enhances efficiency of audit committee (Dhaliwahet *al*,2010). Audit function within the organization is influenced by senior managers within the organization who may curtail internal auditors' independence (Onyango, 2014). The independence of the internal auditor is examined within the context of freedom from conditions that threaten objectivity and appearance of objectivity (Tapiwa, 2013).

The objectivity is achieved when internal auditors ensures that they have not subordinated their judgment on audit matters to that of others, especially management (Kisoka, 2012). Beyanga (2011) argues that internal auditors should not be placed in a position where their independence can be threatened and make them unable to make objective professional opinion. Ideally, internal auditors should not develop procedures, prepare records or perform any other activity which they are required to audit (Hammadet *al*,2012).

The management should also ensure that the reporting structure within the organization is promoting internal auditor's independence. Internal auditors should have a direct access to all records and personnel within the organization (Lenz, 2013). Schneider (2014) found internal auditor objectivity in the organization as being affected by lack of clear reward system and poor motivation. When auditors are poorly remunerated by management it leading to biased audit opinion. Kirima (2016) argued that internal auditor's independence and authority is determined by established policy and audit charter.

### 2.3.2. Internal Control Systems

Internal control system comprises of five components according to COSO Integrated Framework (2013). These components comprise of control environment, risk assessment, control activities, information and communication, and monitoring activities. Control activities are set out by policies and procedures, which ensure that the organization business is

being conducted as per the management guidelines. These activities are performed at all management level within the organization. These activities may be automated or manual as set by management. Control environment assist in reducing fraudulent activities with the organization and determine the quality of internal control systems. Risk assessment is control component, which identify and analyze risks, which may hinder attainment of intended goals. The organization managers should keep on monitoring both internal and external threats, which may have a negative impact in attainment of organization objectives (Onyango,2014).

COSO framework requires an internal control system to be able to detect and prevent errors and fraud in a timely manner. Control activities are actions, which are taken as stipulated in policies, and procedures, which aim at ensuring that management directives are well implemented. These activities are also carried by all levels of the organization and include authorization, asset verifications and comparing the actual output against set standard with the aim of determining deviation for corrective purposes. Information and communication is a component, which try to identify, capturing, and communicating information in a timely manner. It assists the organization in coordinating various activities and enables personnel to understand various control responsibilities (Musa,2012).

The globalization of businesses requires timely communication of information for them to survive despite the stiff competition. Monitoring activities are the assessment of the quality of the internal control system with a view of determining whether the system is effective or not. The activity provides assurance that the policies and procedures set by management are well implemented. The success of an organization is determined by the internal control system in place. It also has an impact on the effectiveness of internal auditors in government entities. Government should aim at improving the internal control systems in place, as they are the key drivers to attainment their objective (Jopikii, 2010). Effective internal control systems assist organization to mitigate risk and results in improved performance. Well-documented policies and procedures provide information to the auditors on the reliability of financial statements and act as a yardstick (Aikins, 2011).

Internal control systems are processes and procedures, which aid management to achieve organization goals. It provides control measures which aims at safeguarding organization asset, it also ensures that reliable records for both financial and non-financial are maintained as well as compliance to relevant laws and regulations. It is the responsibility of management to ensure that proper internal control systems are in place as it leads to organization failure or success (Eko&Hariyanto, 2011). Vijayakumar &Nagaraja (2012) also noted that effective internal control systems assist management in evaluating organization achievement towards set objectives. Internal controls systems ensure that assets are safeguarded; resources are properly utilized, proper records maintained, proper authorization and prompt correction of any anomaly. Effective internal controls lead to effectiveness of internal auditors. (Musa, 2012).

The employee's attitude toward fraud is determined by internal control systems in place where a weak control system tempt the staff to engage in corrupt practices. Establishment of internal control is very vital activities as it ensures that the organization has reliable financial records which minimize chances of errors and fraud (Ewa and Udoayang, 2012). Ahiabor & Mensah (2013) found various challenges affecting effective internal control in Ghanaian churches which include poor segregation of duties, management deliberately override controls for personal gains, lack of qualified staff, insufficient fund to implement controls. Adoption of performance contracting has resulted to strong internal control systems. The performance contracting measures the actual output against the set standards. The organization need to have strong governance in order to achieve their objectives (Moris, 2011).

Performance management requires appropriate internal controls to monitors the extent to which organization has set goal are being achieved. This requires periodical reviews to be conducted by senior managers to evaluate the actual performance against set standards and taking corrective action where necessary. Controls are classified into strategic and operational control. An operational control is concerned with day-to-day operations while a strategic control ensures long-term organizations strategies are achieved. An internal control provides only reasonable but not absolute assurance that organization objectives are going to be achieved. The major goal of setting internal control systems within the organization is to help organization safeguard its assets, ensure compliance with laid down policies (Mugwe, 2010).

Internal controls require management to identify and manage risks. Risk management is the process of assessing risks, their impacts and likelihood of occurrence. Risks is anything that hinder organization to achieve its objectives and it can lead to both financial and non-financial loss (Moris, 2011). Simiyu (2011) found in his study conducted on effectiveness of internal control systems in Kenyan Parastatals that organizations faces various internal controls challenges which includes poor recording keeping, poor financial reporting, fraud and misappropriations and poor assets controls. Mecha (2010) conducted a study on the relationship between internal control and performance of Government Ministries in Kenya and concluded that effective internal controls lead to better service delivery. Affum (2011) found internal ancient functions in Ghana being affected by weak internal control systems leading to poor service delivery.

Nteziryayo(2014) found internal audit function to be of great help to management by providing them with information for decision making, showing weak areas and providing recommendation on how to improve, providing consulting services to senior managers and supplying information that is timely, reliable and useful to all levels of management. The internal auditors should appraise the soundness and adequacy of the accounting, financial, and operating controls, which are put in place by management. They should also ascertain the extent to which compliance with established policies, procedures, laws and regulations, are complied with. The internal auditors also review procedures and programs to ascertain whether results are consistent with organization objectives (Onyango, 2014).



Chuke (2012) in his study, which evaluated the impact of internal controls within organization revenue collection department, found that effective internal control system to be a core component, which aims at ensuring that organizations operations are going on as planned. The study found a strong correlation between the level of internal controls and amount of revenue corrected. IFMIS have become part of financial management reforms in the developing countries. This is necessitated by the need for effective financial control, which results, to transparency and accountability (Govender, 2012).

According to Hove and Wynne (2010), an IFMIS is an information system that assists management to improve financial controls from budget preparation, execution, commitment control, assets and debts management, human resource management and payroll management. This system provides valuable information to decision makers on timely basis. IFMIS is aimed at increasing transparency and accountability within the organization. Brar (2010) argued that implementation of IFMIS is not possible without staff with necessary knowledge and skills, proper organizational arrangements and legal framework. There should also be clear clarity of duties and responsibilities.

### 2.3.3. Internal Auditor's Competence

ISPPIA (2016) standard no 1210 require an internal auditor to have the necessary skills and competencies needed to perform audit task. Internal auditors are encouraged to possess professional certifications and qualifications like Certified Internal Auditor (CIA) among others. They should pose knowledge to evaluate fraud risk and sufficient knowledge on information technology. Staffing of internal audit with competence staff is very importance as it leads to effective audit department. Internal auditors need to have technical competence and also well updated on all emerging internal audit issues for them to be of value to the organization. Continuous professional experience (CPE) makes internal auditors to be well conversant with new audit dynamics. Competence of internal auditor can also be referred as the knowledge and professionalism that can be acquired through education, on the job training and through gaining practical experience (Alzeban&Gwilliam, 2014).

Internal auditors need to have necessary academic qualifications, professional qualification and relevant audit experience for them to conduct their work in a professional manner. They also need to have good interpersonal skills; communication skills and analytical skills (Fanning&Piercey, 2014). Al-Matarney (2011) found internal auditor's competence to be one of the key determinants of internal audit effectiveness. IA (2016) defined competency of internal auditor's as the ability of the individual to perform his job properly, which is attributed by knowledge, skills and experience. Internal auditor's competence enables them to perform tasks in a professional manner, follow international professional practice framework (IPPF) during the conduct of audit work.

Internal audit department needs to have a team of professionals with diverse knowledge and skills for them to be effective in discharging their mandate. They also need to attend regular training in order to keep them well updated with emerging audit issues. IIA's codes of ethics require an internal auditor to engage only in those services for which they have necessary knowledge, skills and experience. Internal auditors are also required to keep on improving their proficiency in order to increase quality of their work and also better their career. They should possess the knowledge, skills and other competencies that are needed to achieve the required proficiency and due professional care. The only way to acquire this professional conduct is by undertaking proper training and development programs (IIA, 2016).

According to IIA attribute Standards 1230 the core competencies for IA comprise of general skills, behavioral skills and technical skills. General competencies are skills that are critical in performing audit tasks, which include communication skills, conceptual skills and analytical skills. Behavioral skills are the ability to conduct oneself while conducting audit assignment and includes ability to be objective, confidence, team player and confidentiality. Technical skills are the ability to apply the subject matter which comprises thorough knowledge of auditing techniques, understanding of client business and ability to apply relevant audit standards. Mihret *et al*, (2010) found both technical competence and continuous training of internal auditor to be a requirement in order to achieve internal audit effectiveness. Alzeban and Gwilliam (2014) also associated competence of IA to their effectiveness.

### 2.3.4. Top Management Support

Top management support play a very critical role as it determines whether Internal audit function is going to be accepted and appreciated within the organization. ISPPIA require internal auditors to be well supported by top management and board of directors in order for them to perform their duties effectively (IIA, 2016). Ahmad *et al*. (2009) stated that management support determines whether internal audit recommendations are to be acted upon or not. The support also assists the department by ensuring it is well resourced in terms of number of staff and the required budget. In Saudi Arabian public sector organizations, top management support was found to be a very important contributor to effectiveness of internal auditors. They argued that effectiveness of internal auditors could be improved by hiring well-trained, experienced staff and by providing sufficient budget allocation (Alzeban&Gwilliam, 2014).

Lack of management support and inadequate funding was found to be hindering effectiveness of IA in Ghana (Onumahand YaoKRah, 2012). Top management need to recognize the need of internal audit function and fully support them in order to ensure legitimacy, credibility and authority of the audit function. ISPPIA, standard 2010.A1 require top management to be involved in internal audit plan and their input should be taken into consideration by the CAE. The head of internal audit unit should also provide top management with sufficient, reliable and relevant audit report, which may assist

them, attain their objectives. The CAE should provide top management with detailed work plan indicating the resources needed. The top management should review the budget set and approve it in order to enhance internal audit function. Top management support enable the internal audit department to hire competent staff, train, develop them and this lead to effective audit team (Alzeban&Sawan, 2013). Lack of management support and poor attitude towards internal audit function leads to poor performance of internal auditors (Mihret andYismaw,2011).

According to IIA (2013), internal auditors are expected to have a good working relationship with the top management. They should both have mutual respect and similarity of goals in terms of improving organization performance. Internal auditors are supposed to use appropriate communication techniques in order to create an atmosphere conducive for the audit function. The relationship created should cultivate trust, reduce auditee resistance with the aim of improving internal audit effectiveness and adding value to the organization (Chambers McDonald, 2013). Marika (2013) found that top management do not fully support internal auditors in state corporations in Kenya.

Good relationship between management and internal audit is very crucial, as the internal auditors have to work hand in hand with the auditee and top management. Audit atmosphere with low management support and suspicion create disharmony and the internal audit functions cannot be effective. Good relationship with management leads the internal auditor to have access to records, persons, resources and his audit recommendations implementation (Kamere, 2013). Salehi (2016) conducted a study on factors affecting effective of internal auditors in Iran and found internal audit effectiveness to be positively correlated with management support and hiring experienced audit staff.

#### 2.4. Summary and Research Gaps

The literature review had given us general understanding of internal auditor's independence, internal control systems, competency of internal auditors and top management support. Majority of the studies reviewed had limited their attention on the perception of individual internal auditors and organization managers on audit effectiveness and had not taken into consideration the perception of other key auditees who are the consumer of audit reports. There is no study, which has been conducted on institutional constraints and effectiveness of internal auditors in county governments a case of Isiolo County, Kenya. This study incorporated the views of internal auditors and other auditee who comprises of AIE holders, Accountants, Finance officers and revenue officers. The study focused on institutional constraints and effectiveness of internal auditors in county governments, a case of Isiolo County, Kenya.

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
Kirima (2016)	Factors affecting the performance of internal audit functions in government ministries in Kenya.	The study found internal audit performance to have been influenced by internal audit independence and authority. The study also found internal audit independence to have been determined by established policies and audit charter.	The target population of the study was audit committee members and audit staff. This limited the study from incorporating the perception of other key stakeholders.	The study target population, which comprise internal auditors, AIE holders, Accountants, revenue officers and finance officers. The perception of the above key stake holders will assist in evaluating the institutional constraints and effectiveness of internal auditors in county governments, a case of Isiolo County, Kenya
Salehi(2016)	Investigation into factors affecting effectiveness of internal auditors in Iran company.	The study found a positive correlation between internal audit effectiveness with management support and hiring of experienced audit staff.	The target population of the study was internal audit managers and other internal audit staff. This limit the scope as the perception of others key stakeholder was not incorporated. The study was also conducted in ran company.	This study focused on institutional constraints and effectiveness of internal auditors in county governments, a case of Isiolo County, Kenya. The studies incorporated the perception of auditee.
Alzeban and Gwilliam (2014)	Factors affecting the internal audit effectiveness: A survey of the Saudi public sector	The study found a positive relationship between internal audit independence and their effectiveness in Saudi	The study only incorporated the perception of managers and internal audit staff only. This limit the	The study incorporated the perception of internal auditors, accountants, revenue officers ,AIE

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
		public sector.	researcher from obtaining perception of other key auditee.	holders and finance officers
Onyango (2014)	Influence of internal controls on performance of county governments in Kenya.	The study found that county governments did not implement internal audit recommendation. It also established that lack of segregation of duties among internal audit staff was affecting the performance.	The study looked at internal audit function as just some control components within the organization instead of some independent departments which goals is to assist management improve on risk management, controls and governance process. The focus of the study was how audit function affects internal control system instead of how internal controls affect internal audit effectiveness.	The study focused on institutional constraints and effectiveness of internal auditors. It evaluated how the internal controls affect internal audit effectiveness.
Tapiwa (2013)	Independence of the internal audit in public sector organizations, a case of Chitungwiza municipality, Zimbabwe	The study found a positive correlation between internal audit independence and regular rotation of internal audit staff, availability of audit committee and competence of chief audit executive	The study focused on factors affecting internal auditor's independence. It did not consider other factors affecting internal audit effectiveness. The study was also conducted in Chitungwiza municipality, Zimbabwe	The study evaluated independence of internal auditors, existing internal control systems, competence of internal auditors and management support as institutional constraints affecting effectiveness of internal auditors. The study focused on county governments a case of Isiolo county, Kenya.
Ahiabor & Mensah (2013)	Effectiveness of internal control on the finances of churches in Ghana	The study found internal controls in Ghana churches to be affected by challenges like poor delegation of duties poor documentation and lack of fund to implement controls.	The study was conducted in Ghana and focused on churches organizations.	This study focused on Isiolo county government in Kenya.
Masiku (2013)	The effect of quantity risk based internal auditing on effectiveness of internal audit in regulatory state corporation in Kenya.	The study found that the management in state corporation in Kenya does not fully support I.A function.	The study was conducted on state corporation in Kenya	The study used internal control system as one of independent variables The study focused on institutional constraints on effectiveness of I.A
Kisoka (2012)	Effectiveness of internal audit in Tanzanian commercial banks	The study found a positive relationship between resource allocated to internal audit and audit effectiveness. It also noted that interaction with audit committee had a positive impact to internal auditor's effectiveness.	The study used resource allocated to internal audit, involvement in risk management and interaction with audit committee as independent variables and effectiveness of internal audit in	The study seeks to evaluate the institutional constraints like independent of internal auditors, internal control system, competence of internal auditor and management support as independent variables and effectiveness of internal

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
		The study also noted that there is no positive relationship between internal audit activities and their effectiveness.	Tanzanian commercial banks.  The context of this study was not in Kenya and the study focuses on commercial banks and not county governments like in Kenya.	auditors in county governments, a case of Isiolo county as dependent variables.
Vijayakumar and Nagaraja (2012)	Internal control systems: Effectiveness of internal audit in risk management at public enterprises in Nigeria	The study found effective internal control systems to be of great help in assisting management in evaluating organization achievement.	The study focused on parastatals and not county governments. This study adopted survey research design.	The study focused on institutional constraints and effectiveness of internal auditors in county governments, a case of Isiolo County. The study adopted descriptive research design.
Musa (2012)	Impact of the effective internal control system on the internal audit effectiveness at local government level in Malaysia.	The study found a positive relationship between internal controls and effectiveness of internal auditor.	The study only examined effective internal control systems, which include control environment, risk assessment control activities, information communication as the independent variables affecting effectiveness of internal auditors.	The study evaluated independence of internal auditors, existing internal control system, competence of internal auditors and management support as independent variables and effectiveness of internal auditors as dependent variables.
Eko and Hariyanto (2011)	Relationship between internal control, internal audit and organization commitment with good governance, case Indonesian.	The study found a positive relationship between good governance with internal control and performance of internal audit.	The study focused on good governance and used internal control, internal audit and organization commitment as independent variable in Indonesia organizations.	This study focused on institutional constraints and effectiveness of internal auditors in County governments, a case of Isiolo County. The independent variables of the study were independence of internal auditors, existing internal control systems, competence of internal auditors and management support.
Mihret and Yismaw (2011)	Antecedents and organization performance implication of internal of internal audit effectiveness in Nigeria.	The study found lack of management support and poor attitude toward internal audit function resulting to poor audit performance.	The study focus on Nigeria organizations. The study focused on effective internal control system, risk management, audit experience, and co-operation between internal auditors and external auditors as independent variables.	This study focused on institutional constraints and effectiveness of internal auditors in County governments, a case of Isiolo County, Kenya. Independence of internal auditors, competence of internal auditors, existing internal control and management support were the independent variables.
Morris(2011)	The impact of enterprise resource planning systems on effectiveness of internal controls	The study found that organization needs to have strong governance structures in order to achieve their objectives and advocated for	The study was conducted manufacturing companies and its major focus was on the impact of resource planning systems.	This study focused on County governments and the study also focused on institutional constraints and effectiveness of internal auditors, in Isiolo County,

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
	over financial reporting in America.	adoption of information technology.		Kenya.
Alizadeh (2011)	The criteria of implementing and employing the effectiveness of internal auditing in Australia.	The study ranked the factors affecting internal audit effectiveness in order of priority as organization criterion , management criterion, environmental criterion and internal auditors characteristics criterion	The study focused on different variables like management criterion, organizational criterion, environmental criterion and internal auditor's characteristics criterion and the study used applied research method.	The study sought to evaluate institutional constraints and effectiveness of internal auditors in county governments, a case of Isiolo county Kenya. Descriptive research design was used.
Cohen and Sayag (2010)	The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations	The study found independence of internal auditors to have a positive impact on auditors effectiveness	The study was conducted in Israeli organization and used exploratory study.	This study focused on institutional constraints and effectiveness of internal auditors in county governments. Descriptive research design method was adopted.
Aftum (2011)	Evaluation of internal control in Papsu Ghana Limited	The study found internal control systems to be a contributing feature on effectiveness of internal auditory.	The study was conducted in Papsu Ghana Ltd and explored on challenges facing internal controls.	The study focused on institutional constraints and effectiveness of internal auditory in Isiolo county.

Table 1: Summary of Knowledge Gaps  
Source: Author, 2017

2.5. Conceptual Framework

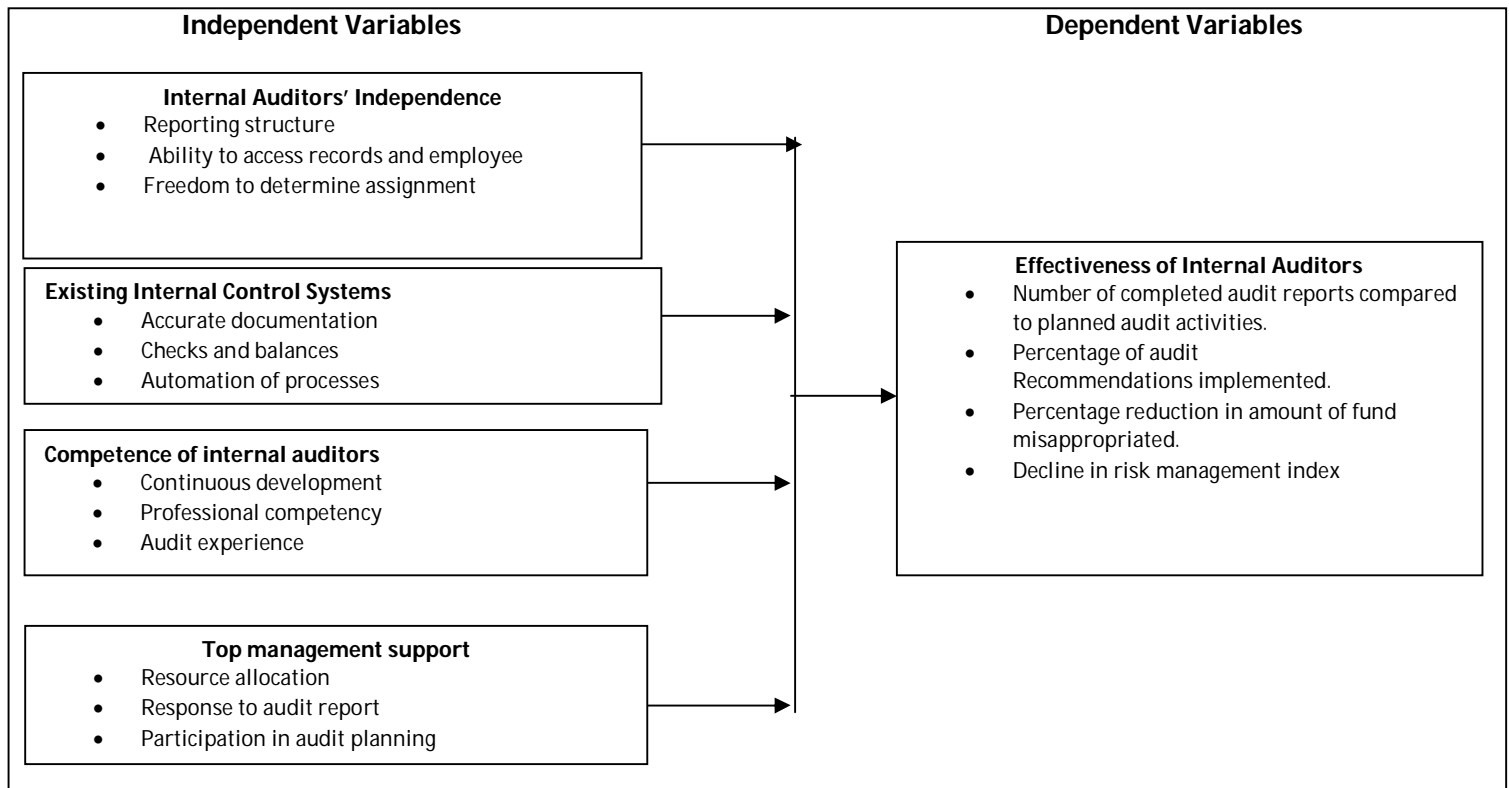


Figure 1: Relationship between Variables  
Source: Author 2017

The independent variables for this study are independence of internal auditors, existing internal control system, competence of internal auditor and management support. These variables are the institutional constraints, which may have an impact on effectiveness of internal auditors. The effectiveness of internal auditors was presumed to be dependent on independence of internal auditors, existing internal control systems, competence of internal auditors and management support.

### 3. Research Design and Methodology

#### 3.1. Introduction

Chapter three describes the research design, target populations, sampling design, data collection procedure, operationalization and measurement of variables, validity and reliability, data analysis and presentation and ethical consideration.

#### 3.2. Research Design

The study adopted descriptive survey research design to collect data from the respondents. This research design was preferred as it was relatively cheap and had the ability to obtain large amount of data within a short period (Cooper & Schindler, 2003). Descriptive survey attempts to collect data from members of a population to determine the status of that population with respect to one or more variables (Mugenda and Mugenda, 2003). The study obtained data that describes the existing phenomenon by asking individuals about their perception, attitudes, behavior and values.

#### 3.3. Target Population

The target population for the study was the staff working in Isiolo county government comprising of internal auditors, accountants, AIE holders, finance officers and Revenue officers. The entire population consists of 90 staff as shown in table 2

Sub counties	Internal auditors	Accountants	AIE holder	Finance officer	Revenue Officers	Total Staff
Isiolo North	6	14	10	5	13	48
Merti	3	8	2	3	8	24
Garbatula	3	6	2	2	5	18
Total	12	28	14	10	26	90

Table 2: Distribution of Target Population  
Source: County HRM Department

#### 3.4. Sampling Design

Stratified sampling design was used to select the sample. The population was grouped into five strata, which comprised of internal auditors, accountants, AIE holders, finance officers and revenue officers. The target sample size for this study was 40 respondents who were drawn from all the five strata shown in table 3 below. Simple random sampling techniques were adopted to select the number of respondents targeted from each stratum. The sample size selected was 45% of the entire population and was considered ideal. According to Mugenda and Mugenda (2003), a sample size of 10% of the entire population is considered adequate for descriptive study.

Respondents Category	Stratum size ( $N_i = \dots$ )	Sample size ( $n_i = 45\%$ )
Internal auditors	12	5
Accountants	28	13
AIE holder	14	6
Finance officers	10	4
Revenue officers	26	12
Total	90	40

Table 3 : Sample Design  
Source: Author, 2017

The sample size in table 3. above is determined by the use of the following formula: -

$$n_i = (n \times N_i) / N$$

Where;  $i = 1, 2, \dots, 5$

$n_i$  is the computed proportion sample size from strata  $i$ .

$n$  is the desired sample size from the entire population

$N_i$  is the estimated population from each stratum

$N$  is the total population.

### 3.5. Data Collection Procedures

The researcher obtained primary data from the respondents by use of questionnaires; each respondent was issued with one questionnaire. The primary data was useful to the research as it provided reliable and accurate data. This method was also used since it was very cheap and more convenient way of obtain data from the respondents. The questionnaires were administered through drop and pick method. To achieve a high response rate the researcher kept on making phone calls to the respondent to remind them to fill the administered questionnaires and they were collected after one week.

### 3.6. Operationalization and Measurement of Variables

Variable	Category	Operationalization	Measurement
Internal auditors independence	Independent	The freedom from conditions that threaten the ability of internal auditors to perform audit functions in an unbiased manner.	<ul style="list-style-type: none"> <li>Reporting structure</li> <li>Unlimited access to all records, departments and employees.</li> <li>Lack of political influence</li> <li>Direct link with audit committee.</li> <li>Freedom to determine assignment.</li> <li>Nature of non-audit activities performed by IA.</li> </ul>
Existing internal control systems	Independent	This is any action taken by management, the board, and any other parties in the organization to manage risk and increase the likelihood of achieving organization goal	<ul style="list-style-type: none"> <li>Availability of Accurate documentation.</li> <li>Checks and balances</li> <li>Automation of processes</li> <li>Staff rotation</li> </ul>
Competence of internal auditors	Independent	This refers to knowledge, skills and other competencies required internal auditors to effectively carry out audit activities.	<ul style="list-style-type: none"> <li>Continuous development</li> <li>Professional competency</li> <li>Audit experience</li> <li>Education competence</li> <li>Number of quality assurance review</li> </ul>
Top management support	Independent	The commitment shown by senior management toward internal audit function in the organization.	<ul style="list-style-type: none"> <li>Resource allocated</li> <li>Response to audit report.</li> <li>Participation in audit planning</li> </ul>
Effectiveness of internal auditors	dependent	The ability of internal auditors to add value to the organization by helping management to evaluate and improve the effectiveness of risk management, controls and governance process.	<ul style="list-style-type: none"> <li>Number of completed audit reports compared to planned audit activities.</li> <li>Percentage of audit recommendations implemented.</li> <li>Percentage reduction in misappropriations of funds</li> <li>Decline in risk management index</li> </ul>

Table 4: Operationalization and Measurement of Variables

Source: Author, 2017

### 3.7. Diagnostic Tests

The tests that were used include Validity, reliability and Multicollinearity tests. Prior to undertaking the research, pilot study was conducted by administering sample questionnaire to 10 National Government staff working in Isiolo Sub County treasury who was deployed in accounts and audit department; this is a 25% of the population that was targeted in this study. A pre-test of between 10% and 30% of the study population is recommended (Mugenda & Mugenda, 2003) The staff that was given the questionnaires during the pilot study was not part of the sampled population; this assisted the researcher to assess whether the respondents clearly understood the questionnaires and whether the questions asked gave the

researcher the data he was intending to obtain. In case of any flaws and bias, the instrument was modified for clarity and accuracy. The final questionnaires were then printed and used to collect the data from the respondents.

### 3.7.1. Validity

Validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. In other words, validity helps to infer how accurately the data obtained in the study represents the variables of the study. (Kombo and Tromp, 2006). The researcher made use of experts in audit, His research supervisor and assistance of other lecturers who scrutinized the research instrument for its validity.

### 3.7.2. Reliability

Reliability is a measure of the degree to which the research instrument yields consistent results or data after repeated trials (Mugenda and Mugenda, 2003). The tendency towards consistency found in repeated measurements is referred to as reliability. The study used Split-half technique to assess the reliability of the instrument. The data obtained from the pilot survey was used to determine the reliability of the instrument, where the instrument designed had two parts and subject scores from one part were correlated with scores from the second part. A correlation coefficient of 0.769 was obtained; therefore, the researcher adopted the research instrument with minor revision of questions. An alpha of reliability of above 0.65 is acceptable. Reliability coefficient below 0.65 are poor, those in the 0.7 range are good while those above 0.8 are considered best (Sekaran, 2006)

### 3.7.3. Multicollinearity

Multicollinearity was used to test correlation between the independent variables. The presence of multicollinearity makes it difficult to isolate the impact of each independent variable on dependent.

### *3.8. Data Analysis and Presentation*

Collected data was edited, classified, coded and analyzed. The collected data was analyzed using descriptive statistics, which include the mean, frequency, percentages and standard deviation. Data was analyzed using statistical package for social science (SPSS). The findings were presented in form of tables for easier interpretation. The study adopted regression and correlation analysis. Multiple regression analysis was used to express the relationship between independent variables (independent of internal auditors, existing internal controls systems, competence of internal auditors and top management support) and the dependent variable (effectiveness of internal auditors in county Governments, a case of Isiolo county, Kenya). The multiple regression model used was in the following form: -

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i$$

$\beta_0$  is constant

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  are the regressions co-efficient.

Y is the effectiveness of internal auditors.

X<sub>1</sub>-Independence of internal auditors

X<sub>2</sub>-Existing internal control system

X<sub>3</sub>-competence of internal auditors

X<sub>4</sub>-Top management support.

e<sub>i</sub>-error term

Regression analysis was carried out to find the effect of independent variables (X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>) on dependent variable Y (effectiveness of internal auditors in Isiolo County Government in Kenya).

### *3.9. Ethical Consideration*

The researcher had obtained consent from the respondents before administering the questionnaire to enable them set aside time to complete the questionnaires. The administered questionnaires were not bearing the respondents names to uphold their anonymity. The respondents were requested to complete the questionnaire voluntarily. The data which was obtained was treated confidentially and only for the purpose of this research. Corrected data was analyzed without bias to give accurate results.

## **4. Research Findings and Conclusions**

### *4.1. Introduction*

This chapter presents the results and findings of the study. The purpose of this study was to investigate the institutional constraints and effectiveness of internal auditors in county governments a case of Isiolo County, Kenya. After administering the instruments, data was collected, coded, edited and organized for analysis. This chapter discusses the organization, analysis and data presentation. It specifically discusses the preliminary analysis, effectiveness of internal auditors, internal auditor's independence, Existing internal control systems, competence of internal auditors and top management support.



#### 4.2. Preliminary Analysis

The preliminary analysis captured the Pilot study findings, response rate, Gender of the respondents and years the respondents have been in the County Government. This is important as it would determine the background and experience gained from being around the institution as thus information given by those who have stayed longer in the institution is considered more reliable.

##### 4.2.1. Pilot Study Results

Before the actual data collection, a pilot survey was carried out to the National Government staff because it has similar characteristics with the target population. This was done to assess the clarity of the instrument so that any item found to be inadequate is to be discarded or modified to improve on validity (Mulusa,1988). The researcher tried the questionnaire out on a small sample of 10respondents which is a 25% of the population that was targeted in this study. The data obtained from the pilot survey was used to determine the reliability of the instrument, where the instrument designed had two parts and subject scores from one part were correlated with scores from the second part. A correlation coefficient of 0.769 was obtained; therefore, the researcher adopted the research instrument with minor revision of questions. An alpha of reliability of above 0.65 is acceptable. Reliability coefficient below 0.65 are poor, those in the 0.7 range are good while those above 0.8 are considered best (Sekaran, 2006)

##### 4.2.2. Response Rate

The target population for this study was the internal auditors, accountants, AIE holder, finance officer and revenue officers in IsioloCounty, Kenya. Generally, 39 respondents (97.5%) of the respondents returned the questionnaires, only 1 respondent (2.5%) who did not respond to the questionnaire. Data was collected through drop and pick of the instruments thus making it easy for the researcher to follow up on the questionnaires from the respondents. The results of the response rate are presented in Table 5

<b>Job description Category</b>	<b>Frequency</b>	<b>Percent</b>
AIE Holders	6	15
Internal Auditors	5	12.5
Accountants	12	30
Finance Officers	4	10
Revenue Officers	12	30
Total	39	97.5

Table 5: Response Rate

Results on table 5 indicated that for this study, accountants consisted of 30 % of the population, Revenue officers also consisted of 30 % of the population, AIE holders were 15%, Internal auditors were 12.5% and finance officers consisted only 10% of the population. Generally, the overall response rate was 97.5%.

##### 4.2.3. Gender of the Respondents

The study sought to establish how the sample was spread out across gender. This was meant to determine how county governments have employed across gender. The results are presented in Table 6

<b>Gender of the Respondents</b>	<b>Frequency</b>	<b>Percent</b>
Male	25	64.1
Female	14	35.9
Total	39	100.0

Table 6: Gender of the Respondents

Table 6 indicates that the total number of respondents interviewed were 39, out of which 64.1 % were males while 35.9% were females. This implies that more men were engaged in the county government studied compared to women. The population studied also shows that although men are more than women in the sample taken the county government have complied with two third gender rule according to population studied.

##### 4.2.4. Years Worked at Isiolo County

The respondents were asked to indicate the length of time they had worked at Isiolo County government. This was important since people who had worked for a longer period would have relevant information especially with regard to their experience of working at the county and they have better understanding of the county operations. Their responses are represented in Table 7

Years Worked At Isiolo county	Frequency	Percent
2 Yrs and below	9	23.1
3-5 years	30	76.9
5 years and above	0	0
Total	39	100.0

Table 7: Years Worked for Isiolo County Government

From table 7 it's seen that majority of the respondents (76.9 %) indicated that they had worked for 3-5 years in the county government. 23.1 % had worked for two or less years. No respondent had worked at Isiolo County Government for More than 5 years. This can be attributed to the fact that county Governments are relatively new in Kenya. They have been in operational for less than 5 years since the inauguration of the new constitutional dispensation.

#### 4.2.5. Interaction with Internal Auditors

This research aimed at establishing whether the respondents had interacted with Internal Auditors in the county government.

Interaction with Internal Auditors	Frequency	Percent
Yes	39	100
No	0	0
Total	39	100.0

Table 8: Interaction with Internal Auditors

The results indicate all the respondents (100%) had interacted with internal auditors. This can be explained by the fact that county governments have employed internal auditors whose work is to monitor and evaluate how well risks are being managed and whether internal processes are working. This indicates that county employees interact with the internal auditors in their day-to-day activities.

#### 4.2.6. Level of Interaction with Internal Auditors

Further, this research aims to determine at what levels the employees of county governments interact with internal auditors. The findings are presented in Table 9.

Interaction with Internal Auditors	Frequency	Percent
Supply of audit Information	3	7.69
Answering Audit queries	3	7.69
Implementation of Audit recommendations	4	10.26
All of the above	29	74.36
None of the above	0	0
Total	39	100.0

Table 9: Level of Interaction with Internal Auditors

The results indicated that respondents had interacted frequently with internal auditors at different levels. The results further show that 74.36% of the respondents had interacted with internal auditors at all levels. This is an indication that the respondents had an understanding of internal audit function.

#### 4.3. Effectiveness of Internal Auditors

Effectiveness of the internal auditors is obtained through executing audit tasks as planned, implementation of audit recommendation by management, reduction of amount of fund misappropriated and decline in risk management index. This research was aimed to evaluate the effectiveness of internal auditors by asking the respondents various questions related to the duties of internal auditors. The responses were presented in Tables 4.6.

Effectiveness of Internal Auditors	S.A	A	U	D	S.D	Mean	Std. Dev
	%	%	%	%	%	%	%
Internal auditors cover all audit assignment as indicated in their annual audit work plan.	4.1	10.2	22.4	32.7	30.6	4.163	1.087
Internal audit work plans are prepared on risk based and clearly shows the risk profiling of each audit activity planned.	6.1	8.2	4.1	22.4	59.2	4.204	1.224
Management acts upon internal audit recommendations within the timeframe stipulated in the audit report.	2.0	6.1	4.1	40.8	46.9	4.244	0.947
Internal auditors perform monitoring review to ensure that audit recommendations are acted upon.	2.0	2.0	0	42.9	53.1	4.428	0.790
The presence of internal has resulted to proper financial management in the County government which have resulted to reduction in fund misappropriation and better safeguard of the entity assets	6.1	6.1	6.1	57.1	24.5	3.877	1.053

Table 10: Effectiveness of Internal Auditors

Results in Table 10 showed that in Isiolo county Majority of the respondents (63.3 %) disagreed that internal auditors cover all audit assignment as indicated in their annual audit work plan. Majority of respondents (81.6%) also disagreed that internal audit work plans are prepared on risk based and clearly shows the risk profiling of each audit activity planned. Majority of the respondents (87.7%) also disagreed that internal audit recommendations are acted upon by Management within the timeframe stipulated in audit reports. Majority of the respondents (96%) disagreed that internal auditors perform monitoring review to ensure that audit recommendations are acted upon. Majority of the respondents in Isiolo County disagreed that the presence of internal auditor had resulted to proper financial management in the County government, which have resulted to reduction in fund misappropriation and better safeguard of the entity assets.

Further the results in Isiolo County establish that majority of the respondents disagreed in all aspects of auditor's effectiveness with mean of 4.1832 in all aspects. This indicates that respondents felt that auditors are not effective in their activities. These results agree with the findings of Affum (2011) who found that auditors in public offices lax in their duties therefore undermining their activities and causing losses to their organizations.

#### 4.4. Internal Auditors Independence

This study sought to establish the internal auditor's independence in Isiolo County. To establish the independence respondent were asked various questions and were asked the level to which they agree or disagree with the statements. Descriptive statistics of percentages, mean and standard deviation were used to analyze the data. The results are presented in Table 11

Internal Auditor's Independence	A	S.A	N	D	S.D	Mean	Std. Dev
	%	%	%	%	%	%	%
Internal auditors do not perform management functions like development of procedures, preparation of records or any other activity which they would also review	46.9	34.7	8.2	4.1	6.1	4.020	1.031
In your view, internal audit reports are addressed to senior management for action.	4.1	6.1	8.2	36.7	44.9	4.122	1.073
The way in which auditors assigned is determined is appropriate.	6.1	8.2	6.1	59.2	20.4	3.795	1.060
Internal auditor has right to access all information to enable him/her make his/her opinion.	4.1	6.1	6.1	51.0	32.7	4.020	1.010
Audit committee is in place and operational so as to enable internal auditors perform their work without undue influence from management.	6.1	6.1	8.2	55.1	24.5	3.857	1.053

Table 11: Internal Auditors Independence

Results in Table 11 showed that majority (81.6%) of the respondents agreed that internal auditors do not perform management functions like development of procedures, preparation of records or any other activity, which they would also review. Majority of the respondents (81.6%) also disagree that internal audit reports are addressed to senior management for action. Majority of the Respondents (79.6%) disagreed that the way in which auditors assigned was being determined is appropriate. Majority of the respondents (83.7 %) disagreed with the statement that Internal auditor has right to access all information to enable him/her make his/her opinion. Majority of the respondents (79.6 %) disagreed that Audit committee

was in place and operational to enable internal auditors perform their work without undue influence from management. The findings support Cohen and Sayag (2010) who found independence of internal audits to be lacking in Israeli organizations although it was Key factors to internal auditor's effectiveness.

#### 4.5. Existing Internal Control System

This study sought to establish the Existing Internal Control Systems in Isiolo County. It was important to determine the county compliance with applicable laws and regulations and effectiveness and efficiency of operations. It was also important to find out how these systems affect the effectiveness of internal auditors. Descriptive statistics of percentages, mean and standard deviation were used to analyze the data. The results are presented in Table 12

Existing internal Control Systems	SA	A	U	D	SD	Mean	Std. Dev
	%	%	%	%	%		
There are accurate, complete and reliable documentation in your department.	4.1	6.1	8.2	46.9	34.7	3.959	1.040
There are checks and balances in Isiolo County Government.	44.9	36.7	8.2	6.1	4.1	4.142	1.040
Financial systems in the e organizations are fully automated.	20.4	8.2	6.1	59.2	6.1	4.122	1.092
Staffs are rotated frequently to enhance control system.	4.1	6.1	6.1	51.0	32.7	4.224	1.085

Table 12: Existing Internal Control System

Results in Table 12 showed that the county had implemented various internal control systems. However, the results revealed that majority of the respondents (81.6%) disagreed that there was accurate, complete and reliable documentation in their department. Only 10.2% agreed there was accurate, complete and reliable documentation in the department. Majority respondents (81.6%) agreed that there are checks and balances in Isiolo County Government. Majority respondents (65.3%) disagreed and (28.6%) agreed that financial systems in the organizations are fully automated. Majority of the respondents (83.7%) disagreed that staffs are rotated frequently to enhance control system in the county government.

The results agree with Ahiabar and Mensah (2013) who found internal controls in Ghanaian churches to be affected by poor segregation of duties, lack of accurate documentation and insufficient fund to implement internal controls.

#### 4.6. Competence of Internal Auditors

This study sought to establish the competence of internal auditors. To measure these respondents were asked various questions to check on competence of the internal auditors. The variables were scored on a Likert scale of 1-5 with 5 representing the highest scores implying strongly disagree that internal auditors are competent. Descriptive statistics of percentages mean and standard deviation were used to analyses the data. The results are presented in Table 13

Competence of Internal Auditors.	SA	A	U	D	SD	Mean	Std. Dev
	%	%	%	%	%		
There are suitable program me in place for continuous professional education for all internal auditors	4.1	4.1	4.1	32.7	55.1	4.306	1.024
The Chief Audit Executive maintains a quality assurance and improvement program me covering all aspects of the internal audit function.	4.1	6.1	8.2	36.7	44.9	4.285	1.040
Internal Auditors in Isiolo county government attend seminars on auditing frequently	4.1	6.1	6.1	24.5	59.2	4.326	1.092
All internal audit staffs are taken through induction when employed before undertaking actual audit work.	59.2	22.4	6.1	6.1	6.1	4.530	1.197
Based on the work being performed by internal auditors in Isiolo county government, it appears they have the right staff mix and competencies in specialized areas e.g. IT, risk assessment, cash management, human resource audit and procurement audit.	6.1	6.1	4.1	16.3	67.3	4.224	1.062

Table 13: Competence of Internal Auditors

Results in Table 13 showed that majority of the respondents 87.8% disagreed that, there was suitable program me in place for continuous professional education for all internal auditors and only 8.2% agreed. Majority of 81.6% disagreed that, the Chief Audit Executive maintains a quality assurance and improvement program me covering all aspects of the internal audit function. 83.7% disagreed that, internal auditors in Isiolo county government attend seminars on auditing frequently

and only 8.2% agreed. Only 12.2% disagreed that, all internal audit staffs are taken through induction when employed before undertaking actual audit work and a majority of the respondents 81.6% agreed on the same. A majority of 83.6% disagreed that, based on the work being performed by internal auditors in Isiolo county government, it appears that they have the right staff mix and competencies in specialized areas e.g. IT, risk assessment, cash management, human resource audit and procurement audit and only 12.2% agreed. The finding of the study support Alzebah and Gwilliam (2014) who found competence of internal auditors to be wanting and affecting their effectiveness.

#### 4.7. Top Management Support

This study sought to establish the top management support towards internal auditors. To measure this, respondents were asked various questions to check the top management support towards internal auditors. The variables were scored on a Likert scale of 1-5 with 5 representing the highest scores implying strongly disagree that top management support the internal auditors in Isiolo county government. Descriptive statistics of percentages mean and standard deviation were used to analyse the data. The results are presented in Table 14

Top Management Support	SA	A	U	D	SD	Mean	Std. Dev
	%	%	%	%	%		
Management responds to audit reports immediately and acts as per recommendations.	4.1	6.1	4.1	53.1	32.7	4.306	1.024
The internal audit department in Isiolo county government has adequate staff size.	4.1	4.1	14.3	46.9	30.6	4.285	1.040
Resources meant for auditing work is sufficient to enable auditors execute their audit work plan.	4.1	6.1	6.1	53.1	30.6	4.326	1.092
Top management frequently make follow-up on audit recommendations to ensure they are acted upon.	4.1	6.1	6.1	55.1	28.6	4.530	1.197
Audit functions are clearly known to all members of Isiolo County Government.	4.1	4.1	6.1	42.9	42.9	4.224	1.062
Audit activity is perceived to be a value adding function in the organization.	4.1	6.1	6.1	53.1	30.6	4.530	1.062

Table 14: Top Management Support

Results in Table 14 showed that a majority of 85.8% disagreed that, management responds to audit reports without delay and acts as per recommendations and only 8.2% agreed. Majority of 77.5% also disagreed that, the internal audit department in Isiolo county government has adequate staff size. Majority of respondents 83.7% disagreed that, resources meant for auditing work is sufficient to enable auditors execute their audit work plan and only 8.2% agreed that resources are adequate. Majority of respondents 83.7% disagreed that, top management frequently makes follow-up on audit recommendations to ensure they are acted upon. Majority of respondents 85.8% also disagreed that, audit functions are clearly known to all members of Isiolo County Government and only 8.2% agreed. Majority of the respondents 83.7% disagreed that audit activity is perceived to be a value adding function in the organization. These results agree with the findings of Masika (2013) who found that top management in state internal audit function support.

#### 4.8. Multicollinearity Test

To test for correlation between the independent variable Multicollinearity was used. Existence of Multicollinearity is evidenced by the standard errors for the regression coefficient estimators becoming inflated which results in t-statistics becoming too small and less powerful in terms of their ability to reject the null hypothesis or answer the research questions. Variance inflation factor and tolerance levels are used to test for Multicollinearity. VIF of less than 10 and tolerance level of more than 0.1 are preferred (Mugenda&Mugenda, 2003).

Multicollinearity was eliminated through a stepwise regression technique systematically. Stepwise regression is a mixture of backward elimination and forward selection methods, which involves eliminating a variable and entering a variable permanently to the regression equation respective (Mugenda&Mugenda, 2003).

Model	Collinearity Statistics	
	Tolerance	VIF
Internal Auditors Independence	.051	3.68
Existing Internal Control Systems	.033	2.71
Competence of Internal Auditors	.052	1.74
Top Management Support	0.50	3.60

Table 15: Collinearity Statistics  
Dependent Variable: Effectiveness of Internal Auditors

In the above table existing internal control systems had the lowest tolerance level at 0.33 and of Competence of Internal Auditors had the highest tolerance level at 0.52. Tolerance levels for all the independent variables were greater than 0.1 this suggested that there was no Multicollinearity problem. Internal Auditors Independence had the highest VIF of 3.68 while Competence of internal auditors had the lowest VIF, all the variables had a VIF of less than 10 hence there was an indication that there was no Multicollinearity among the independent variables

Multicollinearity was also tested using Eigen values and the condition index. The condition index is computed as square root of the ratio of the largest Eigen value to each successive Eigen values. a condition index of less than 10 implies there is no Multicollinearity

#### 4.9. Regression Coefficients

In determining the cause effect relationship between the dependent variable and the independent variables the regression coefficients were tested at the 5% level of significance using t-test. This is presented in Table 16 below

Coefficients of Variables						
Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.635	.273		9.669	.0035
	Independence of internal auditors	7.80	.000	.325	-.245	.024
	Existing internal control system	.499	.000	1.005	.610	.031
	Competence of internal auditors	.355	.000	.221	.168	.016
	Top management support	.355	.174	.419	2.041	.007

a. Dependent Variable: Effectiveness of internal Auditors

Table 16: Test of Significance of Regression Coefficients

#### 4.9.1. Regression Equation

The coefficient of regression Table above was used in coming up with the model below:

$$EIA = 2.635 + 7.80IIA + 0.499EICS + 0.355CIA + 0.355TMS + \epsilon$$

Where EIA is Effectiveness of internal Auditors, IIA Independence of internal auditors, EICS is Existing internal control systems, CIA is competence of internal auditors and TMS is Top management support. From the model, taking all factors (Independence of internal auditors, Existing internal control systems, competence of internal auditors, Top management support.) constant at zero, Effectiveness of internal Auditors in Kenya was 2.365.

According to the model, all the variables were significant as their significance value was less than 0.05, Independence of internal auditors, Existing internal control systems, competence of internal auditors and Top management support all were positively correlated with effectiveness of internal auditors in Kenya.

#### 4.9.2. The effect of Internal Auditors' Independence on their Effectiveness in Isiolo County Government

The study aimed at determining the effect of internal auditors' independence on their effectiveness in Isiolo county government. Results in the above table the coefficient obtained from regression was 7.80 with (p-value 0.024 < 0.05) thus this shows that there is a statistically significant positive relationship between internal auditor's independence and effectiveness of internal auditors in Isiolo county government.

#### 4.9.3. Existing Internal Controls Systems and Effectiveness of Internal Auditors in Isiolo County government

The study sought to find the effect of existing internal controls systems on effectiveness of internal auditors in Isiolo county government. The coefficient obtained from the regression was 0.499 with (p-value 0.031 < 0.05) thus this leads to the conclusion that there exists a statistically significant relationship between existing internal controls systems and effectiveness of internal auditors in the county.

#### 4.9.4. Relationship between Internal Auditor's Competence and Effectiveness of Internal Auditors in Isiolo County Government

The study aimed at finding the relationship between internal auditor's competence and effectiveness of internal auditors in Isiolo county governments. The coefficient obtained from the regression was 0.355 with (p-value 0.016 < 0.05) thus this led to the conclusion that there exists a statistically significant relationship between internal auditor's competence and effectiveness of internal auditors in the county.

#### 4.9.5. Relationship between Top Management Support and Effectiveness of Internal Auditors in Isiolo County Government

The study aimed at finding the relationship between top management support and the effectiveness of internal auditors in Isiolo county government. The coefficient obtained from the regression was 0.355 with (p-value 0.007 < 0.05) thus this led to the conclusion that there exists a statistically significant relationship between top management support and the effectiveness of internal auditors in the county.

The implication of these results is that institutional constraints affect the effectiveness of internal auditors in Isiolo county government. This is in line with Kisoka (2012) who found out those institutional factors in either private or public sector affect the performance of internal auditors.

## 5. Summary, Conclusion and Recommendations

### 5.1. Introduction

This chapter presents the summary of the findings, conclusions and recommendations emanating from the results of this study.

### 5.2. Summary of the Research Findings

This study sought to investigate the institutional constraints and effectiveness of internal auditors in county governments, a case of Isiolo County, Kenya. The specific objectives of the study were to determine the influence of, internal auditors' independence, Existing internal control systems, competence of internal auditors, top management support on effectiveness of internal auditors. The study found that internal auditor's independence, Existing internal control systems, competence of internal auditors, top management support all had a significant influence on the effectiveness of internal auditors in Isiolo County.

### 5.3. Conclusions

The study established that there is a statistically significant positive relationship between internal auditor's independence and effectiveness of internal auditors in Isiolo county government. Therefore, this study concluded that county policies should be geared towards the improvement and achievement of internal auditor's independence in order to maximize on their effectiveness to achieve transparency and accountability in the county.

The study also established that there exists a statistically significant relationship between existing internal controls systems and effectiveness of internal auditors in Isiolo county government. However, this study also found out that internal control controls such as accurate and complete documentations, automated systems and staff rotation were not in place. Checks and balances were moderately implemented in Isiolo County. Therefore, this study concluded that the county management team should focus towards improvement of their internal controls such as relevant documentations, checks and balances, automating financial systems and staff rotation to improve the overall effectiveness of internal auditors in the county.

The study revealed that there are minimal programs in place for continuous professional development for internal auditors; internal auditors do not frequently attend seminars. The chief audit executive does not maintain quality assurance and improvement programmes. The study also revealed that the county does not have adequate internal audit staff mix with all competency in areas like information technology, risk assessment, cash management, human resource management and procurement audit. Therefore, the county should focus on development of competence of internal auditors through increasing continuous professional development, increasing frequency of attending seminars, putting in place audit assessment mechanisms and employing internal audit staff with diverse skills to boost their effectiveness. The study also revealed that there exists a statistically significant relationship between internal auditor's competence and effectiveness of internal auditors in Isiolo county government.

The study further revealed that there exists a statistically significant relationship between top management support and the effectiveness of internal auditors in Isiolo county government. The study further found that management in Isiolo County does not respond to audit reports within stipulated time; it also revealed that the audit department has inadequate staff; resources meant for audit work is insufficient to enable them execute their work. All these factors need to be improved by the management to ensure effectiveness of internal auditors. It can therefore be concluded that county's top management support help in making sure that county's internal audit department is operating at its full capacity.

### 5.4. Recommendations

The county government of Isiolo should enhance the independence of internal auditors by ensuring that they do not perform any managerial function, audit reports should be channeled to senior management for action, audit committee should be in place and operational, internal auditors should have unrestricted access to all documents and personnel. This is because the independence of internal auditors has a significant influence on the effectiveness of internal auditors.

The management should focus towards improvement of the county existing internal control systems by ensuring that there is accurate, complete and reliable documentation. Financial systems should be automated and internal audit staff should be rotated on regular basis. This is because internal control systems significantly influence the effectiveness of internal auditors. The county government should conduct capacity building to all internal auditors in the county so as equip them with necessary skills to perform their functions effectively.

Competence of internal auditors should be enhanced through continuous professional development, putting in place quality assurance program, attending seminars on audit frequently, training internal auditors on information technology,

human resource management, cash management, procurement audit and proper induction. Competence of internal auditors is very important as it has significance influence on internal auditor's effectiveness.

Senior management staff in the county government should fully support internal auditors. They should respond to audit recommendation on time. The internal audit function should be adequately staffed. All county staff should be sensitized on internal audit function to benefit fully on the function. Management support to internal auditors is critical for the success of the county as it has a significance influence on internal auditor's effectiveness.

### 5.5. Suggestion for Further Studies

Further research need also to be conducted on institutional constraints and effectiveness of internal auditors in other Counties, National government ministries and private sectors in Kenya. The studies will enable to identify whether the institutional factors facing Isiolo County affect other counties, national government and internal audit functions in private sectors. Legal framework and internal audit charter should also be included as independent variables

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## 7. Abbreviation and Acronyms

<b>AIE</b>	Authority to Incur Expenditure
<b>CAE</b>	Chief Audit Executive
<b>COSO</b>	Committee of Sponsoring Organization
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GOK</b>	Government of Kenya
<b>HRM</b>	Human Resource Management
<b>IA</b>	Internal Auditor
<b>IAASB</b>	International Auditing and Assurance Standards board
<b>IFA</b>	International Federation of Accountants
<b>IFMIS</b>	Integrated Financial Management System
<b>IIA</b>	Institute of Internal Auditors
<b>ISPPIA</b>	International Standards for the Professional Practice of Internal Auditing
<b>PFM</b>	Public Finance Management
<b>PFMR</b>	Public Finance Management Regulation
<b>RSC</b>	Regulatory State Corporations

## 8. Operational Definition of Terms

<b>Adverse audit opinion</b>	This is an opinion issued by the auditor when audit matters are so material and pervasive to conclude the financial statements are misleading or incomplete.
<b>Assurance services</b>	An objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance process.
<b>Confidentiality</b>	This is the ability to safeguard information. Not all information obtained should be disclosed to a third party without the consent of the auditee unless where there is legal professional requirement to do so.
<b>Control mechanisms</b>	These are those processes set up to monitor and to direct, promote or restrain the various activities of an enterprise for the purpose of ensuring that the enterprises objectives are achieved.
<b>Effectiveness of internal auditors</b>	Ability of internal auditors to offer objective assurance and consulting services, which add value to the organization by improving risk management, controls and governance, processes.
<b>Institutional constraints</b>	These are factors within the organization which may hinder internal auditors to achieve audit objectives.
<b>Objectivity</b>	This is a state of mind that has regard to all considerations relevant to the activity or process being examined without being unduly influenced by personal interests or the views of others.
<b>Risk Mitigation</b>	This is the act of preventing a risk to recur again in future.



<b>Risk</b>	This is the probability of occurrence of an event which may adversely affect the organization.
<b>Stakeholders</b>	These are auditee in Isiolo County who comprise of accountants, revenue officers, AIE holders and finance officers.

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## APPENDIX 1

## QUESTIONNAIRE

Dear respondent,

The researcher is collecting data to enable him meet the requirement for the award of degree of master of Business Administration (Finance) of Kenyatta University. The information provided shall be treated with confidence and shall not be used for any other purpose other than for academic purpose. To assist me achieve the above objectives please proceed to answer the questions below: -

**SECTION A – GENERAL INFORMATION**

Please tick one of the following below:

1. What is your gender? Male  Female
2. Kindly indicate the job description category under which you fall.
  - a) AIE Holders
  - b) Internal Auditor
  - c) Accountant
  - d) Budget officer
  - e) Revenue officer
3. How long have you worked in Isiolo County government?
  - (i) 0-5 years
  - (ii) 6-10 years
  - (iii) Over 10 years
4. Have you ever interacted with Internal Auditors for the period you have worked in the county government?  
Yes  No
5. At what level have you interacted with the internal Auditors?
  - a) Supplying audit information
  - b) Answering audit queries
  - c) Implementing audit recommendations
  - d) All the above
  - e) None of the above

**SECTION B**

Please indicate your response to the questions below where **SA** is strongly agree, **A** is agree, **U** is undecided, **D** is disagree and **SD** is strongly disagree.

<b>Effectiveness of internal auditors</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>
1.	The internal auditors in Isiolo county government cover all audit assignment as indicated in their annual audit work plan.					
2.	Internal audit work plans in Isiolo county are prepared on risk based and clearly shows the risk profiling of each audit activity planned.					
3.	Internal audit recommendations are acted upon by Management in Isiolo county government within the timeframe stipulated in the audit report.					
4.	Internal auditors perform monitoring review to ensure that audit recommendations are acted upon.					
5.	The presence of internal auditors in Isiolo County has resulted to proper financial management in the County government which have resulted to reduction in fund misappropriation and better safeguard of the entity assets					
6.	Isiolo county government risk management index have significantly reduced because of internal audit function.					
<b>Internal auditors independence</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>
1.	Internal auditors do not perform management functions like development of procedures, preparation of records or any other activity, which they would also review.					
2.	In your view, internal audit reports are addressed to senior management for action.					
3.	The way in which auditors assigned is determined is appropriate.					
5.	Internal auditor has right to access all information to enable him/her make his/her opinion.					
6.	Audit committee is in place and operational in Isiolo county Government to enable internal auditors perform their work without undue influence from management.					

<b>Existing internal Control System</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>
1.	There are accurate, complete and reliable documentation in your department.					
2.	There are checks and balances in Isiolo County Government.					
3.	Financial systems in the organizations are fully automated.					
4.	Staffs are rotated frequently to enhance control system.					


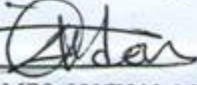
<b>Competence of internal auditors</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>
1.	There are suitable program me in place for continuous professional education for all internal auditors in Isiolo county Government.					
2.	The Chief Audit Executive maintains a quality assurance and improvement program me covering all aspects of the internal audit function.					
3.	Internal Auditors in Isiolo county government attend seminars on auditing frequently.					
4.	All internal audit staffs are taken through induction when employed before undertaking actual audit work.					
5.	Based on the work being performed by internal auditors in Isiolo county government, it appears they have the right staff mix and competencies in specialized areas e.g. IT, risk assessment, cash management, human resource audit and procurement audit.					

<b>Top Management Support</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>
1.	Management responds to audit reports immediately and act as per recommendations.					
2.	The internal audit department in Isiolo county government has adequate staff size.					
3.	Resources meant for auditing work is sufficient to enable auditors execute their audit work plan.					
4.	Top management frequently makes follow-up on audit recommendations to ensure they are acted upon.					
5.	Audit functions are clearly known to all members of Isiolo County Government.					
6.	Audit activity is perceived to be a value adding function in the organization.					

**THANK YOU**


**APPENDIX 2**  
**RESEARCH AUTHORISATION**

Below is the research authorization the author used in administration of the research instruments.

	
<b>KENYATTA UNIVERSITY GRADUATE SCHOOL</b>	
E-mail: <a href="mailto:dean-graduate@ku.ac.ke">dean-graduate@ku.ac.ke</a>	P.O. Box 43844, 00100 NAIROBI, KENYA
Website: <a href="http://www.ku.ac.ke">www.ku.ac.ke</a>	Tel. 8710901 Ext. 57530
<hr/>	
Our Ref: D53/OL/EMB/26926/2014	DATE: 23 <sup>rd</sup> May, 2017
Director General, National Commission for Science, Technology and Innovation P.O. Box 30623-00100 <b>NAIROBI</b>	
Dear Sir/Madam,	
<b><u>RE: RESEARCH AUTHORIZATION FOR NJOKA DAVID MUURI – REG. NO. D53/OL/EMB/26926/2014.</u></b>	
I write to introduce Mr. Njoka David Muuri who is a Postgraduate Student of this University. He is registered for M.B.A degree programme in the Department of Accounting and Finance.	
Mr. Njoka intends to conduct research for a M.B.A Project Proposal entitled, “Institutions Constraints and Effectiveness of Internal Auditors in County Governments. A Case of Isiolo County, Kenya”.	
Any assistance given will be highly appreciated.	
Yours faithfully,	
	
✓ MRS. LUCY N. MBAABU FOR: DEAN, GRADUATE SCHOOL	

## APPENDIX 3

## RESEARCH PERMIT



**NATIONAL COMMISSION FOR SCIENCE,  
TECHNOLOGY AND INNOVATION**

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Ref. No. **NACOSTI/P/17/60694/17748** Date **6<sup>th</sup> July, 2017**


David Muiri Njoka  
Kenyatta University  
P.O. Box 43844-00100  
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on *“Institutional constraints and effectiveness of internal auditors in county governments, A case of Isiolo County, Kenya.”* I am pleased to inform you that you have been authorized to undertake research in **Isiolo County** for the period ending **6<sup>th</sup> July, 2018.**

You are advised to report to **the County Commissioner and the County Director of Education, Isiolo County** before embarking on the research project.

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

  
**GODFREY P. KALERWA MSc., MBA, MKIM**  
**FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioner  
Isiolo County.

The County Director of Education  
Isiolo County.

National Commission for Science, Technology and Innovation is ISO9001:2008 Certified